# CONFRONTING THE RETIREMENT FUNDING CALAMITY:
## A CHRISTIAN PERSPECTIVE


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## ABSTRACT

Funding for retirement in the United States is provided by a variety of sources, including businesses, governments and individuals. The current state of this funding is precarious, and the future looks even more uncertain. These issues are receiving considerable attention, however, there has been little if any significant response from the Christian community. This paper outlines the beginning of a Christian perspective on the issue of retirement funding. There are several Biblical principles that are relevant to the provision of funding for retirement. The paper explores the implications of these principles and provides suggestions for governments, businesses, and individuals concerning the design of retirement funding in the United States.


## INTRODUCTION

It is likely that for many workers in the United States, more time is spent on thinking about how to improve their retirement than on how to improve their current work situation. With the aging of the baby boom generation, planning for retirement has become a growth industry, with thousands of available websites, books, and magazines. As Christians we are to view our work as a calling to serve the Lord, not just a period of time that we attempt to endure until we retire. At the same time, as stewards of the resources that God has given us, we need to plan responsibly for the time when we no longer work for financial remuneration. We also need to be concerned for the retirement possibilities of others as we attempt to love our neighbors as ourselves. The provision for retirement funds is not just an issue for individual concern, but also involves businesses, governments, and non-profit institutions.

According to John Bogle, founder of the Vanguard Group of mutual funds, and Warren Buffett, Chairman and CEO of Berkshire Hathaway, retirement funding in the United States is a disaster of epic proportions (Gimein, 2009). Olivia Mitchell, director of the Boettner Center on Pensions and Retirement Research at the Wharton School, warns that urgent efforts are needed to enhance risk management for public and private pension systems around the world (Blitzstein, Mitchell, and Utkus, 2006). A major contributing factor to this condition is massive pension deficits and the lack of flexibility to restructure these obligations, particularly in the public sector. The shift from defined benefit to defined contribution retirement plans is also a serious threat to retirement security and it is imperative that a fresh look is given to the alternatives to the traditional pension (Mackenzie, 2010). Two other factors are the fragile financial condition of social security, and the financial illiteracy of a large percentage of the population. These issues are receiving considerable attention in business, politics, and the media. However, there has been little if any significant response from the Christian community.

This paper will review the current situation with retirement funding and address several concerns. Although the focus will be on the current dilemma facing retirement funding in the United States, this is a global problem affecting developed nations around the world, and the ideas discussed in this paper could be applicable and helpful in other countries. The paper limits itself to funding for retirement income only, and does not address funding for healthcare, a significant cost during retirement. Medicare alone costs nearly $500 billion per year, accounts for 12 percent of the federal budget, and is estimated to be insolvent in 12 years (Pear, 2010). It will be shown that existing funds for retirement income are not adequate and most sources are in unsound condition. Only a select segment of the population is assured of receiving adequate income during retirement.

Whenever there are transfers of funds between institutions and individuals, there are issues of stewardship and justice to consider. Retirement funding and programs such as Social Security have a significant impact on the income distribution of the nation. How are we as Christians to view these programs? What are the obligations of both employers and employees? How should pensions be structured to meet the Biblical directives of stewardship and justice? We believe there has been little systematic consideration by Christians of these questions. To our knowledge, there has not been a *JBIB* article that focuses specifically on the subject of retirement funding, or that attempts to develop a Biblical perspective on this issue. Our hope is to begin a conversation among the members of the CBFA and like-minded scholars that examines this issue. We see this paper as a beginning point and a summary of the various questions that need to be addressed.

In this paper we attempt to outline the beginning of a Christian perspective on the issue of retirement funding. First, we will describe the sources of retirement funding and how they have developed in the American economy. Second, we will evaluate the current status of the various types of retirement funding. Third, we will examine several Biblical principles that we believe are relevant to the provision of funding for retirement. Finally, we will suggest the implications of these principles and provide some suggestions for governments, businesses, and individuals concerning the design of retirement funding in the United States.

## SOURCES OF RETIREMENT INCOME AND FUNDING

Sources of retirement income can be categorized by how they are funded, either by employers, the government, or individuals. Most people have some combination of retirement plans. Two retirement plans associated with work that are commonly offered by employers are defined benefit retirement plans (i.e., pensions) and defined contribution retirement plans (e.g., 401k, 403b). Funding for these retirement plans are usually made jointly by both the employer and the employee. Employer-provided pensions (i.e., defined benefit plans) are arguably the most generous source of retirement income, providing a guaranteed and possibly large annuity of income for life and often with favorable tax treatment—several states exclude all federal, state and local pension income from taxation (Retirement Living). In addition, all of the market risk involved with financing these plans falls on the employer. Yet these types of pensions are only available to certain individuals who have worked in select occupations and institutions.

Two groups of employees are the recipients of employer-provided defined benefit pensions: (1) most public sector employees and (2) a small and shrinking segment of private sector employees, typically those who work for large traditional corporations. There are around 16 million workers in the public sector, and approximately 90 percent of these workers are entitled to a defined benefit pension. This percentage has remained relatively steady throughout the years. Politicians have seemed content to make large promises for the future while caring relatively little about the burden on future generations that such promises imply. In the private sector, however, this number is considerably lower and continues to decrease with only about 10 percent of private employers providing defined benefit pensions. Historically, defined benefit pensions have had higher values than those from defined contribution plans. In 1985, around 112,000 private companies offered defined benefit pensions, but by 2005 the number had shrunk to less than 30,000 employers (Wirtz, 2006; Will, 2010). Among Fortune 100 companies the dramatic shift is evident. In 1985, 89 percent of Fortune 100 companies offered a defined benefit retirement plan to new employees, but by 2007 the percentage had dropped to only 28 percent (Geisel, 2008).

The alternative to defined benefit pensions at many places of work is a defined contribution retirement plan such as a 401k or a 403b (or no retirement plan at all). A 401k and 403b are similar; the primary difference is that the 401k is associated with for-profit organizations whereas a 403b is with not-for-profit tax exempt organizations. Both the 401k and 403b are defined contribution plans and unlike a defined benefit pension a fixed income is not guaranteed by the employer during retirement. Instead, contributions are made throughout working years by employees, and are often matched by employers up to a certain percentage of income. The accumulated wealth in the 401k or 403b at the point of retirement, whatever the amount, is then available for retirement income. Presently most individual defined contribution plans are woefully underfunded, averaging around $70,000 per worker, and are not sufficient to replace preretirement income. Yet, in aggregate, the total amount invested in all defined contribution retirement plans is significant, approximately $4.3 trillion (Salisbury, 2012). Defined contribution retirement plans have become more popular in the private sector with approximately 53 percent of these employees having access to a defined contribution plan. About 26 percent of private sector employees are offered no retirement plan at their place of employment (Wirtz, 2006).

It is for good reason that defined contribution retirement plans have surpassed the defined benefit pension as the most common in the private sector in the United States. Defined benefit pensions assure guaranteed income for life upon retirement. This is a tenuous promise, primarily because the future has many unknowns, with a significant one being the annual investment return on the defined benefit funds. From 2000 to 2010, the S&P 500 index had a negative return, wrecking havoc on all forms of retirement plans including both defined contribution plans and defined benefit pensions. Though negative returns can be consequential, the inherent flexibility of defined contribution plans allow for adjustments from original expectations. As a result of the market downturn, individuals with defined contribution plans will now have to work longer before retiring or live on less during retirement. Certainly this is an unpleasant consequence for millions with defined contribution plans, yet it is superior to the destructive consequences that can occur with defined benefit pensions under such circumstances. Given the rigidity of pensions, no adjustments can be made and institutions with pensions are still obligated to pay promised benefits. Though this seems ethically sound, it can cripple institutions, especially when obligations are overly generous. One such example is in Yonkers, New York where more than 100 retired police officers and firefighters receive pensions greater than their pay when they were working. Recently, 22 police officers retired and will receive pensions greater than $100,000 a year for the rest of their lives. Thirteen of these retiring officers were only forty years of age, and nine of the retiring officers were younger than forty (Walsh, 2010a). Unlike the private sector, the public sector has been slow in realizing the inevitable and necessary change of switching from defined benefit pensions to defined contribution retirement plans. However, as federal, state, and local governments continue to find themselves in financial difficulty, the switch from a defined benefit to defined contribution retirement plan is an unavoidable step, albeit met with great resistance, in helping to reduce deficits and balance budgets.

Exacerbating the retirement funding crisis is that the move from defined benefit pensions to defined contribution plans, though necessary, shifts the investing responsibility as well as the risk to individuals. As such, it is imperative that people have a thorough understanding of finance, particularly the fundamentals of investing. Unfortunately, financial illiteracy is endemic; approximately 25 percent of adults lack financial literacy skills and a much larger percentage is close to the threshold of being financially illiterate (Tatom, 2006). Young people, soon to enter the workforce and to be making retirement planning decisions, fare even worse. According to the nonprofit group Jump$tart Coalition for Personal Financial Literacy (which administers a bi-annual survey assessing a broad comprehension of basic financial principles), college freshmen were able to correctly answer only 59 percent of questions and high school seniors 48 percent of questions about basic personal finance and economics (Jump$tart). Federal Reserve Chairman, Ben Bernanke, recently said that it was more important than ever for people to become financially knowledgeable so they can make sound decisions after the losses of recent years (Reuters, 2010).

In contrast to private pension plans, Social Security is currently universally available and despite its defects is one of the most popular entitlement programs in the country. Almost 80 percent of people over the age of 65 consider Social Security to be one of the "very most important government programs" and 90 percent of young people, ages 18 to 29, deem Social Security as "important" (Span, 2010). Nearly all workers in the United States are required to contribute to the Social Security program[1] and "all citizens and those with legal alien status who work and pay contributions for the required number of quarters (forty quarters or ten years) are eligible for pension benefits when they reach the minimum retirement age" (The Social Security Network). Social Security is a federal government-managed program that is funded equally by taxes paid by employees and employers on the first $110,100 of income (as of 2012) and has characteristics of both defined benefit pension and defined contribution retirement plans.[2] Similar to defined benefit pensions, Social Security provides an annuity to retirees. Unlike pensions, but comparable to defined contribution plans, Social Security does not guarantee a specified future benefit. Benefits are calculated using several factors including working year contributions, age of retirement, marital status, and spouse's wages, but there is no legal obligation and benefits can be adjusted and reduced. Social Security benefits are calculated such that lower-income individuals receive a higher percentage of their "contributions" in return than those with higher incomes.

In addition to retirement programs managed and funded by places of employment and the federal government, individuals may also have personal retirement savings, often through traditional or Roth IRAs (Individual Retirement Account). Both traditional IRAs and Roth IRAs are similar in that they may reduce taxable income; however, they differ on the timing of the reduction. A traditional IRA reduces taxable income in the year contributions are made and allows funds to grow tax free. Original contributions and growth are taxed when withdrawn, typically during retirement. In contrast, contributions to Roth IRAs do not reduce taxable income and are fully taxable in the year contributions are made. However, earnings and growth are not taxed and all withdrawals taken during retirement, including the original contributions, are not taxed. The U.S. government establishes maximum limits on the amount that can be contributed to each fund that are subject to change from year to year. This limit can be higher for people in certain age groups and those exercising "catch-up" provisions. Traditional IRAs require minimum distributions starting at age 70½, and both traditional IRAs and Roth IRAs may be subject to early withdrawal penalties prior to the age of 59½.

## CURRENT STATE OF RETIREMENT FUNDING

The current state of funding for retirement provision in the United States is seriously deficient; all of the different financial sources of retirement are underfunded. Defined benefit employer provided pensions in both the public and private sector have significant deficits. According to Boston College's Center for Retirement Research, public pensions in the U.S. have total liabilities of \$2.9 trillion while their total assets are less than \$1.9 trillion—they are underfunded by more than \$1 trillion (Evans, 2009). Others suggest the situation is even grimmer. Orin Kramer, former chairman of the New Jersey pension fund, puts the U.S. public pension shortfall at closer to \$2.5 trillion (Bullock, 2011). California alone is facing a half trillion dollar shortfall for its three major public pension funds (Walsh, 2010b). One example of the looming public pension crisis is the Pennsylvania public school teacher pension fund. In 2009 one school district contributed \$900,000 to the state's teacher pension fund. In 2012, the district is projected to pay out approximately \$7 million—an increase of over 675 percent (Wills, 2009). Ballooning pension obligations are contributing to fiscal crises for states and municipalities throughout the country.

The funding shortfall of pensions has severe consequences, but interestingly it may have little impact on those employees currently receiving pensions, particularly those in the public sector. Unlike private corporations that are able to declare bankruptcy and restructure pension obligations, most states currently do not have this recourse and are barred from seeking protection in federal bankruptcy court. Many state constitutions include provisions that public employee pensions cannot be reduced for any reason, even financial hardship. This provides public workers unprecedented financial security guaranteeing pension income for life. Although there is some discussion at the national level of modifying this prohibition and allowing states to seek bankruptcy, it is unlikely to happen because states are considered sovereign (Walsh, 2011a).

Powerful public employee unions also make it very difficult to make changes and rein in costs. When Republican Governor Scott Walker of Wisconsin, facing a \$3.6 billion dollar deficit, proposed reducing public sector benefits to bring them more in line with the private sector, he was met with massive resistance from unionized public employees. Up to 20,000 public workers protested at the Wisconsin state capital, and the Madison school district (and several others) was forced to close as a result of 40 percent of its 2,600 union-covered employees calling in sick in an act of protest (Bauer, 2011; Davey, 2011). In January 2012 Democrats, with the strong support of unions, turned in over one million signatures calling for the recall of the Governor Walker. The gubernatorial recall election in Wisconsin, only the third in U.S. history, is evidence that reining in the costs of bloated public sector pensions is difficult and a highly contentious issue (Belkin, 2012).

Faced with massive deficits, yet required by law to pay pensions, some states feel forced to take innovative, but irrational measures. Illinois has attempted to sell \$3.7 billion in pension bonds with the proceeds simply paying one year's contribution to its pension fund. This desperate action has been likened to "Americans taking out home equity loans to pay for cars and vacations before the housing bust" (Walsh, 2011b). Most states, however, are not taking such extreme actions and see very few alternatives other than to increase taxes or reduce funding to other programs, often impacting the most vulnerable citizens (Bullock, 2011).

Albeit not as secure as in the public sector, private sector employees with defined benefit pensions are also reasonably secure because of backing by the Pension Benefit Guarantee Corporation (PBGC), a federal agency (created by the Employee Retirement Security Act of 1974) that guarantees private sector pensions. If a pension plan is terminated in the private sector (e.g., because of bankruptcy) the PBGC insurance program will pay benefits stipulated by the pension plan up to limits set by law. The maximum guaranteed amount is based, in part, on age of the recipient, the termination date of the plan, and if the benefit provides payments to a survivor. For example, plans terminated in 2011 have a maximum straight-life pension benefit amount of $4,500 per month. According to the PBGC website, since pension benefits are normally less than the PBGC limits, most pension benefits are not reduced because of a company bankruptcy (Pension Benefit Guarantee Corporation). There are instances, however, that PBGC payments are less than promised pension benefits, such as the case for pilots of United Airlines. In the year 2002, when discussions of pension termination occurred, about 500 active pilots had worked enough years to earn pensions of more than $100,000 a year; sixty-four of them had earned pensions of $150,000 a year (Walsh, 2002). Although the PBGC is an insurance fund that is designed to be financed through employer premiums, the PBGC is currently on shaky financial ground. It has an estimated funding deficit of at least $11.2 billion (Halonen, 2009) and the situation will likely worsen due to the recent recession that has resulted in more companies filing for bankruptcy. One of the most visible companies that has sought financial protections is General Motors, with an estimated pension shortfall of $17.1 billion in the United States and $29.4 billion globally (Rogers, 2011).

Even Social Security, the bedrock of all retirement funding sources, is in difficult shape. In December 2008, almost 51 million people received Social Security benefits. As the nation's nearly 80 million baby boomers retire, Social Security will become even more strained. Calculations project that the Social Security trust fund will be exhausted in 2037 (Farnam, 2009) and it is estimated that over the next seventy years Social Security and Medicare will cost $103.2 trillion, yet dedicated taxes and premiums will only be $57.4 trillion—a total shortfall of $45.8 trillion over the seventy year span, or roughly $611 billion per year (values in today's dollars) (Samuelson, 2009). According to a 2010 Gallup survey of Americans who have not yet retired, 60 percent believe they will receive no Social Security benefits when they retire, the highest level since Gallup began asking this question in 1989 (Newport, 2010).

Other retirement funding sources are also in perilous condition. According to John Bogle, founder of the Vanguard group of mutual funds, the median IRA has only $55,000 and the median 401(k) has only $15,000. According to his calculations, that is sufficient to provide a steady income of just $2800 per year or about $254 per month. Bogle warns that "Our nation's system of retirement security is imperiled, headed for a serious train wreck. That wreck is not merely waiting to happen; we are running on a dangerous track that is leading directly to a serious crash that will disable major parts of our retirement system" (Gimein, 2009).

## BIBLICAL PRINCIPLES

What direction do the Scriptures give us in terms of how we should view the subject of pensions and retirement funding? There is an extensive literature interpreting the guidance that scriptural principles provide for economic life. Leading books include Richard Chewning's *Biblical Principles and Public Policy: The Practice*, Victor Claar and Robin Klay's *Economics in Christian Perspective* and Ron Sider's *Rich Christians in an Age of Hunger*, and there are many others. Although few of these books directly speak to the issue of pensions, there are several core concepts which appear in many of the books that have important implications for the design and implementation of retirement plans. These and our own reading of the Bible have led us to suggest seven Biblical principles relevant to retirement design and provision which can apply to businesses, individuals and governments.

A foundational Biblical principle that applies to all institutions is that of stewardship. All resources that we have belong to God and are placed in our trust to use for serving God and our neighbors as well as ourselves. The principle of stewardship has been written about in a large variety of places and is viewed by many Christians to be a central organizing principle for our economic and business activity. Psalm 24:1-2 states: "The earth is the Lord's, and everything in it, the world, and all who live in it; for he founded it upon the seas and established it upon the waters." From the very beginning, humankind was given the responsibility to take care of God's creation. Throughout the Bible humans are given many directives as to how to take care of God's earth and how to treat others, and are also instructed that we will be held accountable for our behavior. Claar and Klay suggest that "the responsibility of stewards is to manage resources, over which each has been given oversight, in the best interest of the owner (in this case, God) and in service to others (Claar and Klay, 2007, p. 22)."

A second Biblical principle that also applies to both individuals and institutions is that planning for the future is seen as a positive and necessary activity. The story of Joseph in the book of Genesis records the very positive results of his activity in storing up grain for future years of famine and drought. His foresight not only benefited the people of Egypt and helped insure the future of the Israelites and of his father and brothers; it earned him a position of great authority and influence. Proverbs twice extols the behavior of ants (Proverbs 6:6-8; Proverbs 30:24-25) as creatures who are extremely wise specifically because they store food away now for use in the future.

A third Biblical principle is the command to conduct business in a fair and honest manner. Leviticus 25:14 describes conditions for the buying and selling of land: "If you sell land to one of your countrymen or buy any from him, do not take advantage of each other." The book of Proverbs has many verses that command ethical business behavior. For example, Proverbs 11:1 notes that "the Lord abhors dishonest scales, but accurate weights are his delight." In the New Testament, Jesus says the second greatest commandment is to "love your neighbor as yourself (Matthew 22.39)." Pope John XXIII, in *Mater et Magistra,* asserts that while using one's private property to conduct business one "must take into account not only his own welfare but that of others as well (quoted in Hardy, 1990, p. 70)."

A fourth Biblical principle speaks to how businesses are to compensate their employees. Malachi 3:5 states that the Lord will be quick to judge those who defraud laborers of their wages, and James 5:4 warns businesses that "the wages you failed to pay the workmen who mowed your fields are crying out against you. The cries of the harvesters have reached the ears of the Lord Almighty." Deuteronomy 24:15 implores employers to pay a worker "each day before sunset, because he is poor and is counting on it. Otherwise he may cry to the LORD against you, and you will be guilty of sin." Throughout the Bible, God commands that fair and timely compensation is an important obligation for all employers. Eric Beversluis suggests that businesses must be concerned with justice and that justice "requires a range of 'formal structures' that define clearly and ahead of time the rights of employees and other parties (Beversluis, 1998)." We believe that these structures include any arrangements made for employee pensions.

A fifth Biblical principle applies primarily to individuals and has important implications for retirement provision. Individuals are commanded to provide for their families as best as they can. 1 Timothy 5:8 states: "If anyone does not provide for his relatives, and especially for his immediate family, he has denied the faith and is worse than an unbeliever." 2 Corinthians 12:14 suggests that parents should be saving money for their children, and not children for their parents. Proverbs 13:22 states that "a good man leaves an inheritance for his children's children." This provision for one's own family does not, of course, preclude help for other families who are in need.

A sixth Biblical principle suggests that we should not overemphasize the provision of material goods for ourselves and our families. Anytime we note that the Bible views positively the act of planning for the future, we must also realize that this activity is not to be the major focus of our lives. Jesus, in the Sermon on the Mount, confronts us with this statement: "Therefore I tell you, do not worry about your life, what you will eat or drink; or about your body, what you will wear. Is not life more important than food, and the body more important than clothes (Matthew 6:25)?" But instead, we are to "seek first his kingdom and his righteousness, and all these things will be given to you as well (Matthew 6:33)." Ron Sider expresses this strongly when he states: "Jesus calls his followers to a joyful life of carefree unconcern for possessions. . . (Sider, 1977, p. 117)." Although some have interpreted these commands as a directive toward non-engagement with the world or even asceticism, we interpret this as a command to give our plans for the future the proper perspective, and not as an instruction to neglect the future.

A seventh Biblical principle is also important for individuals as we consider the subject of retirement funding. The Bible reminds us in Colossians 3:23-24 that when we work, we should "work at it with all your heart, as working for the Lord, not for men, since you know that you will receive an inheritance from the Lord as a reward. It is the Lord Christ you are serving." We need to consider our work a calling and vocation in service to God. In the creation story, God gives humankind work to do, and it is considered good. Even with the fall of humans, work is still the task of humanity, even though it has been made more difficult. We are not to view retirement as the goal of our lives, counting down the days or years until we can be free from our work. Mark Ward suggests that "our approach to work should be one that incorporates the sense of privilege and meaning that we derive from work (Ward, 1996)." We realize that this is much easier for one whose work offers stimulation and flexibility and who is valued by the organization and society, yet all work can potentially be glorifying to God.

Lisa Surdyk suggests that "Christians are to follow the basic Biblical principles taught in the Old and New Testaments but not necessarily the specific details (Surdyk, 1995)." We believe the principles outlined above are representative of the entire Biblical message, being drawn from both the Old and New Testaments. In addition, we believe that there is a substantial amount of agreement in terms of the relevance of these principles for our current economic lives. All of the above principles can help us organize our thoughts on funding for retirement; we now turn to the implications of these Biblical principles for businesses in their design and implementation of pension plans.

## IMPLICATIONS FOR BUSINESS

Based on the principles noted above, we believe that businesses are not obligated to provide pensions to their workers. While the fourth principle above notes that fair compensation is required, there are no Biblical passages that suggest that business owners are required to help with workers' planning for the future. Instead, the second principle above suggests that individuals are responsible (perhaps with help from the church, community or government) for their own future provision of resources. Businesses can voluntarily partner with employees if they both so choose.

However, when they do provide pensions, they should be designed to be as fair as possible to workers. Businesses are called to be good stewards of the resources that they have, and are also obligated to compensate their employees in a fair and timely manner. Pensions can be part of a worker's overall compensation, and we realize that workers will want different mixes of wages and salaries, pensions, and other fringe benefits such as medical insurance. Different firms have varying abilities to offer pensions, and workers also make differential contributions to the output of their firm due to their training and experience. Market conditions for the product also impact the ability of firms to offer contributions.

If pension plans are to be offered, we believe that in most cases defined contribution pensions are more in line with the Biblical principles noted above than defined benefit pension plans. First of all, defined contribution plans make it easier for both firms and employees to exercise stewardship. With such plans, firms only need to add money to a plan at regular intervals, and they are not able (or tempted) to remove money or renege on their obligations as is possible with defined benefit plans. At the same time, since employees usually have some control of the funds in their defined contribution plans, they have the opportunity to manage their retirement funds. If the firm does offer defined contribution plans, it is important that they provide a number of different choices, including some that do not invest only in the company itself. Both the firm and the worker will have an incentive to work together in order to help the worker make wise choices with the worker's retirement funds. Firms can both encourage individual workers to make extra contributions to their retirement plan and help educate them to develop the financial literacy necessary to manage such plans.

Secondly, defined contribution plans make it easier for businesses to plan for the future. With these plans, obligations are known quite exactly, and there is no need to worry about making up for underfunded pension plans some time in the future. For workers, a defined contribution plan offers certitude that the money being set aside is an obligation already met rather than a promise that may not be completely fulfilled. Naturally, the total future value of a defined contribution plan is uncertain given that rates of return on the investment are unknown. Though defined benefit plans offer the comfort of a known salary for life, and are guaranteed by the PBGC for private sector employees (virtually all government pensions have been paid), there is still an element of uncertainty. The defined benefit plan may change or, for some, the benefit might be reduced by the PBGC (the PBGC has maximum limits and does not guarantee health care benefits).

Third, we believe that defined contribution plans more easily allow businesses both to conduct themselves in a fair and ethical manner and to meet their obligations to provide timely and fair compensation to their employees. When businesses provide these types of pension plans, potential investors can know more exactly the obligations the firm has, and workers have no chance of losing the money that employers have already contributed (although they, of course, bear market risk). Given this design, workers can also better provide for the needs of their families in the future (one of the principles noted above).

If workers are more secure in their financial future, they can focus on the important tasks of serving God and neighbor in their work. When both employers and employees have settled the area of retirement provision so that employees are confident that their retirement funding will be there in the future, this allows the possibility for firms and workers to collaborate on issues of work design and other issues that can bring about a healthier attitude toward current work. We do acknowledge that there can be possible dangers when workers manage their own money, as workers may become obsessed with increasing monetary returns and spend an inordinate amount of time on this project (for example, organizing their lives around the next showing of "Mad Money" or the Suze Orman program). Firms and workers need to strive together to create job environments where employees are fulfilled in all aspects and are not overly focused on retirement; this places obligations on both parties.

## DEFINED CONTRIBUTION VS. DEFINED BENEFIT PLANS—PRACTICAL CONSIDERATIONS

As described above, we believe that defined contribution plans are more in line with the Biblical principles outlined in an earlier section of the paper. In today's economic climate, defined benefit plans are also problematic for a number of practical reasons. A defined benefit pension promises future benefits, but it is a promise that is not always viable. Foremost, a private business does not even know if it will exist in the future. In the year 2005 alone, there were over 39,000 business bankruptcies in the United States, none of which were planned when these businesses were begun (U.S. Courts). No firm, no matter how large or successful now, is necessarily immortal. Promises made now, even those made with the best intentions, may not survive a rapidly changing business and political environment.

When defined benefit plans are poorly designed, this can have a negative impact on the future economic wellbeing of a company. Even if a firm thrives, earlier decisions on pension design can make fulfilling a defined benefit pension promise difficult. When organizations do have defined benefit pension plans, they are required to set aside funds that will fulfill a pension's promise. However, it can be very difficult to know how much money needs to be allocated for future pension benefits; a number of variables need to be considered in the decision. How long will a person live? What will be the rate of inflation and cost of health insurance? What rate of return will the funds set aside earn? Though actuaries can estimate these amounts, there is no certainty. When there is uncertainty, there is a temptation to be overly optimistic (e.g., health care costs will increase only modestly yet the return on investments will be high, etc.), resulting in plans that are not adequately funded.

Although defined contribution plans seem to transfer the risk of retirement provision from employers to employees, it is important to remember that defined benefit pensions themselves are not without risk. Many workers in both the private and public sectors have lost defined benefit pensions or have seen pensions reduced as a result of irresponsible actions by their employers. Although defined contribution pension schemes have market risk for employees, these employees also have greater concern for their individual futures than do their employers, and greater incentive to be good stewards. Defined contribution plans can also allow for workers to conduct a program of investing that they believe is more ethical than those of their employers.

In addition, research indicates that when managed appropriately with regular deposits, defined contribution plans, combined with social security, are a viable means of funding retirement. On at least one measure, these plans are favorable to lower income workers. An extensive research model, tracking several variables such as amounts contributed and asset allocation, found that workers in the lowest income quartile who remain in a defined contribution retirement plan for their entire careers will replace about half of their preretirement salary if they reach 65 between the years 2030-2039; replacement would be about two-thirds for those in the highest income quartile. When supplemented with Social Security the lowest quartile workers could receive over 100 percent of their preretirement income, while the highest quartile retirees would receive approximately 80 percent (Blitzstein, Mitchell, & Utkus, 2006).

## IMPLICATIONS FOR GOVERNMENT

What is the role of government in the provision of retirement funds? The Biblical mandate for governments is to provide justice for the population and to be excellent stewards of their resources. The Social Security system is the major way that the government provides funds for retirement and is arguably the strongest and most central component of income for many retirees. Social Security covers over 97 percent of working individuals and "provides more than half of retirement income to one third of retirees and over two thirds of retirement income to (another) one third of retirees" (Ghilarducci and Weller, 2007). However, the current situation with the underfunding of Social Security causes a great deal of uncertainty in the population, As noted above, much of the younger population remains uncertain as to whether they will ever receive benefits, while older Americans become more and more intent on holding on to the benefits they currently have. It is imperative that our politicians find a way to make Social Security actuarially sound for this century. This will allow individuals to plan for their individual retirements more confidently.

Currently the government also provides insurance for private defined benefit pensions. Unfortunately, in many cases, the insurance rates are too low and the government ends up "holding the bag" when companies go bankrupt. With a move to more defined contribution style pensions, the government can take less of a role in this area. Governments can instead move toward helping individuals make wise decisions in the investment of their retirement funds and helping businesses design retirement programs that are the most beneficial to workers given their financial constraints. The government can also continue to regulate the design of retirement programs to protect both employees and employers.

Public organizations, in contrast to private corporations, are much more likely to have defined benefit pension plans. Ninety percent of state and local government employees have a defined benefit pension plan, compared with 21 percent of the private sector. Governments and municipalities do not face the same threat of bankruptcy given their power to tax citizens; in some sense governments are more "immortal" than private corporations. Public organizations also face less incentive to keep costs down because they do not face competition in the sense that private corporations do. Politicians often focus on short-term issues in an attempt to maximize reelection possibilities; therefore it is easy for them to make promises for payments in the future when they no longer plan to be in office. As a result, government pensions are underfunded by several trillion dollars. When it comes to public sector pensions, all levels of government must become more responsible in terms of their funding. Future pension liabilities must be recognized and prefunded as much as possible. Negotiations with groups of workers must be as transparent as possible concerning the future financial obligations that taxpayers will have to fund.

When private corporations do declare bankruptcy, the PBGC guarantees the defined benefit pension. Since the PBGC is currently underfunded as a result of inadequate premiums charged to employers, some of this burden ultimately will be passed on to taxpayers. When public organizations promise future benefits but do not set aside funds for these promises, the obligations again fall on future taxpayers. We believe that it is poor stewardship for governments and businesses to design pension plans that in many cases cause obligations to be met by third parties. Because of this, we also believe that it is improper for employees and unions to ask for such plans.

## IMPLICATIONS FOR INDIVIDUALS

Given all of the uncertainties concerning the future of retirement funding, and the likelihood of major changes in how pensions are designed, individuals attempting to prepare for retirement have a number of challenges ahead. At the same time, given the recent financial crisis and extended weakness of the labor market, individuals seem to be more financially unprepared than ever. What might we expect to see in the future?

First of all, people will likely have to work longer, and for most this will be unwelcome news. The age to receive full Social Security benefits has already been increased to 67 for those who were born in 1960 or later, and it is possible that this age will be increased even higher in the future. This will be an especially difficult reality for those whose jobs require physical exertion. This increase in age also makes the importance of vocation and calling even greater for workers as they find it necessary to work longer.

Secondly, people will have to save a greater amount (i.e., a larger percentage of their income) and begin saving earlier for their retirements. Social Security has already gone into a negative financial position with outlays greater than current tax revenue, and this condition is expected to become permanent by the end of this decade. It is likely that benefits will be reduced in some fashion, whether through a lower adjustment for the impact of inflation, means testing for benefits, or the above mentioned delay in the beginning of benefits.

Third, individuals will have to depend more on their own funds, as companies and governments are almost certain to provide less. As a result, individuals will need to become more adept in the area of personal finance, and begin this education at an earlier age. Three lessons are especially imperative: (1) begin saving early in life; (2) save a larger amount; and (3) anticipate future market returns to be lower than historical returns. This necessity to be financially literate provides a real opportunity for churches to help educate their members concerning a Christian perspective on personal finance.

Fourth, many individuals will find themselves involved in the conflict between people with defined benefit pensions (primarily government workers) and those who are trying to replace these pensions with more sustainable alternatives (e.g., defined contribution plans). This dispute needs to be resolved with care, and Christians on both sides of the issue can assist and offer compassion and understanding. Those people with defined benefit pensions must be less absolute about retaining their generous pensions that they have long enjoyed. They need to realize the cost of funding their pensions is crippling government budgets and is placing an undue hardship on others. On the other hand, those people pushing to eliminate defined benefit pensions need to be empathetic and understand that promises are being broken.

Finally, families will need to make difficult decisions about the balance of saving for their children's college education versus saving for retirement. Most financial planners agree that both are critical, but that saving for retirement should take priority over saving for their children's college expenses. Throughout most of history, a substantial part of the responsibility for funding the retirement years of individuals fell upon their children, as part of an informal intergenerational compact. This situation is still the case in many areas of the world. Given the likelihood of reduced funding from outside agencies like government and business, there may be a return to this type of situation. This could engender a significant revision on how many Americans view family ties and responsibilities.

## DIRECTIONS FOR FUTURE RESEARCH

With this paper we hope to provoke further discussion and research concerning a Christian perspective on retirement funding. In addition to the discussion of relevant Biblical principles concerning funding issues, we believe there is a great need for empirical research that examines any differences between how Christians and non-Christians are preparing for retirement, as well as their attitudes toward it. For example, are there any statistically significant differences in the amount of money saved for retirement between those of different faiths? Among Christians, how does the knowledge of Christian principles concerning personal finance affect attitudes towards debt? As professors of management and economics at a Christian college, we also wonder how the requirement of a personal finance course would impact attitudes and practices involving preparation for retirement. As some institutions require this type of course while others do not, there is an opportunity to test whether there are differences in outcomes between students who have had these courses and those who have not.

The controversy surrounding the viability of defined benefit pensions (primarily in the public sector) offers an opportunity to examine the points of contention objectively and through the lens of faith. For example, are defined benefit pensions significantly more lucrative than defined contribution plans and, if they are, to what extent? Comparing several measures between the two plans would provide insight. On average, how much (calculated both in real dollars and percent of income) does a worker with a defined benefit pension save annually for retirement compared to a worker with a defined contribution plan? What is the average age of retirement for people with defined benefit pensions compared to people with defined contribution plans? What is the average benefit payout per year to a defined benefit pension retiree compared with a defined contribution plan retiree? Our hypotheses are that people with defined benefit pensions, as compared to people with defined contribution plans, do not need to save as much for retirement, retire at a younger age, and receive larger cash payouts during retirement.

Psychological, behavioral, and faith measurements could also be studied. Given that workers and retirees with defined benefit pensions have a guaranteed retirement income, do these people have less stress and are they happier than their counterparts with defined contribution plans? Do people with defined contribution plans suffer more from depression and do they experience greater anxiety during recessionary periods and bear markets? Conversely, during periods of economic growth and bull markets, are workers with defined contribution plans more exuberant? A testable hypothesis is that people with defined contribution plans, compared with people with defined benefit pensions, experience greater mood swings—including depression—that are associated with the economy and markets.

Interestingly, even a person's faith might be impacted by the particular retirement plan she or he has and this phenomenon could be explored. Is there a significant correlation between retirement plans, either defined benefit pension or defined contribution, and a person's strength of faith? The hypothesis for this question is uncertain. Perhaps people with defined benefit pensions would report a stronger faith, because they have less anxiety and are able to experience God's peace and grace more fully. On the other hand, people with defined contribution plans may report a stronger faith because their future is less certain and they must learn to live with less. Consequently, they are more trusting and needing of God's grace.

Research comparing people with defined benefit pensions and defined contribution plans is particularly pertinent to the CBFA given that its membership represents a variety of institutions, each having a unique retirement program. Those members from larger public (and some private) colleges and universities most likely have defined benefit pensions while members from smaller private colleges have defined contribution plans. Further, retirement plans are not identical, and there is a range of retirement plans among CBFA members, some being more (or less) generous than others.

Finally, another interesting area of possible research would be to examine differences in retirement provision for workers between owners of firms who identify themselves as Christians and those who do not. All of the above avenues of potential research require richer datasets than are available currently. We suggest that the CBFA take the lead in the development of resources that include data on financial outcomes and attitudes as well as information on religious affiliation and behavior.

## CONCLUSION

In this paper we have outlined a number of Biblical principles that we believe should impact the design and provision of retirement funding in a market economy. Working from these principles, we have concluded that, in most cases, defined contribution pensions will better meet the Biblical requirements of justice and stewardship. In both the private and public sectors, we believe that defined benefit pensions may in many cases provide an incentive to retire early or place an undue burden on others. Christians must maintain a unique balance of planning for the future (Proverbs 6:6-8; Proverbs 30:24-25), while not focusing too much on their future material wellbeing. A Christian should live for each day, and have faith that God will meet the needs of tomorrow (Matthew 6:25-34). However, in living this balance, a Christian should avoid being an imposition on others. Throughout the New Testament it is stressed that early Christians were conscious not to burden others in all ways, including materially (Acts 15:28, 2 Corinthians 11:9, 2 Corinthians 12:13-16, 1 Thessalonians 2:6-9, 2 Thessalonians 3:8).

Governments have a unique responsibility in that they regulate pension provision, ensure both private and public sector pensions, and also provide retirement income through Social Security. Their actions must balance the needs of both present and future retirees and taxpayers, and maximize opportunities for both individuals and businesses to exercise good stewardship. As the baby boom generation ages and reaches its time of retirement, concerns and questions about funding will become even more prominent in our society than they are now. To this point Christians seemed to have made few contributions to the debate on these issues. As Christians, however, we have an obligation to participate in discussions about economic matters, and bring salt and light to questions about retirement provision. As professors of economics and business students, we have a special opportunity to guide those individuals who will be the future designers of retirement programs in the United States.

## ENDNOTES

1. Social Security also includes payments to individuals who are disabled as well as survivors' benefits. State and local workers in several states are not required to participate in the Social Security program.
2. The economics of tax incidence would suggest that at least some portion of employer contributions to Social Security are paid for by workers in the form of lower wages.

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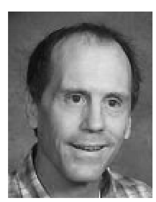

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