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## Groups unite on pension reform

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A diverse coalition has proposed ways to expand employer-sponsored retirement benefits to the half of American workers who do not have it, with four suggestions targeting small businesses and low- and moderate-income employees.

The recommendations came out of a three-year-old "Conversation on Coverage" that involved 45 experts from business, financial services, academia, labor unions and consumer groups. The Pension Rights Center, a nonprofit group based in Washington, D.C., organized the group and tasked it with developing real-world solutions to the vexing problem of inadequate retirement coverage for American workers.

"It's the first initiative of its kind that has brought together different voices to have this kind of dialogue. It's unprecedented in its scope," said Karen D. Friedman, who directs the Conversation project for the Pension Rights Center.

The new proposals, outlined at a daylong meeting in July in Washington, D.C., are "works in progress," she added. Specific legislation and demonstration projects could emerge during the next year.

The four savings proposals would strengthen the $4 trillion defined-benefit and defined-contribution systems by, among other things, encouraging automatic enrollment and increasing contribution limits. Despite some calls to mandate certain design features, in the end the coalition supported a voluntary system, with tax credits, lower costs and other incentives to increase participation.

"We didn't want to throw the baby out with the bathwater," said Martha L. Hutzelman, a Washington, D.C., benefits attorney at Ice Miller who chairs the Conversation's steering committee.

The Conversation's proposals are intended to make saving for retirement more attractive and less expensive for employers by simplifying plan design and reducing plan sponsors' responsibilities and liabilities. Some plans would also expand eligibility to part-time, seasonal and other workers who rarely have access to employer plans now. (See details below.)

Suggestions to simplify plan design include reducing the number of investment options, including a lifestyle-fund default option and banning lump-sum distributions. Some changes could be implemented now. Others would need new laws or regulations.

The overall goal of the Conversation, and similar efforts, is to put and keep more money in the retirement system - and to stave off a long-term crisis triggered by the impending retirement of 77 million baby boomers, the erosion of defined-benefit plans and market uncertainty.

"Unless we make some changes, three decades from now we'll have a whole new class of impoverished retirees," Rep. Robert E. Andrews (D-N.J.) said at the July gathering at the National Press Club.

The gap between what retirees have and what they need to satisfy basic needs - now $28 billion to $35 billion - will reach at least $45 billion by 2030, estimates the Employee Benefit Research Institute. Best off are those covered by traditional pensions, shows a study by Hewitt Associates.

Although the total number of retirement plans has grown, the portion of private-sector employees who participate in them has been stuck at half for decades. Last year only 50.5 million, or 49%, of 103 million private-sector workers were enrolled in 401(k), defined-benefit and other plans, according to the U.S. Department of Labor.

Poor, young and part-time employees as well as those who work at small businesses are least likely to have coverage because their employers do not offer a retirement benefit or they cannot afford to contribute to an available plan. White-collar and unionized employees and those who work at companies with 100 or more workers are most likely to have coverage.

Some Conversation proposals go further than others. Most restrained is the Plain Old Pension Plan, which is "designed to provide a modest pension to a lot of workers ... to be somewhat meaningful in alleviating poverty in old age," said Deene Goodlaw, a retired partner in the law firm Pillsbury Winthrop L.L.P., who helped develop the proposal.

More radical ideas aim to lighten employers' administrative and financial loads, cited as chief barriers to offering retirement plans. The Retirement Investment Account Plan, for example, would route payroll contributions through the U.S. Treasury to a government-authorized central clearinghouse. Another plan, the Model T, would turn over almost all marketing, administrative and fiduciary responsibilities to banks, mutual funds and other financial institutions.

Research into safeguards, regulation and other details are needed before the Model T - and the Conversation's other recommendations - are finalized in a report to come out this fall, Friedman said. The three working groups will start working on "implementation strategies," Hutzelman added, coming up with possible test projects and legislative changes.

Any legislation would not emerge until 2005, after the presidential election, Rep. Rob J. Portman (R-Ohio) said at the Conversation meeting in July. He mentioned cash-balance reform and a permanent interest-rate calculation for defined-benefit plans as priorities.

Some Conversation members also want to extend and expand the Saver's Credit, which expires in 2007. It grants federal income tax credits of up to $1,000 to participants who earn $50,000 or less annually.

Whatever the results, employers will play a critical role in expanding retirement coverage for American workers, Hutzelman says: "It is still vitally important for employers to be involved. They are closest to employees."

**Let's talk: Proposals from the "Conversation on Coverage"**

**Guaranteed Account Plan**

* Hybrid based on money purchase plan

* Employer contributes percentage of pay, invests assets, guarantees

rate of return; employees can contribute on pretax basis

* Higher contribution limits

* Shorter vesting to enhance portability

* Benefit paid as annuity; optional lump sum

* Insured by Pension Benefit Guaranty Corp.

**Plain Old Pension Plan**

* Simplified, traditional defined-benefit plan

* Employer contributes 1% of pay, more if desired in any year

* Guaranteed modest benefit

* Benefit paid as annuity; no lump sums allowed

* Employer tax credits for immediate vesting, 100% employee coverage

**Retirement Investment Account Plan**

* Defined-contribution plan open to all workers, including part-time

and self-employed

* Government-authorized, privately run clearinghouse accepts

employee contributions through U.S. Treasury, manages accounts,

ensures portability; employer contributions possible

* Contribution limits below 401(k)s

* Minimal administrative and fiduciary duties for employers

* Simplified investment choices, with default balanced fund

**Model T Plan**

* Multiple-employer plan open to all workers, including seasonal and contingent

* Sold and administered by financial institutions

* Employers and employees contribute

* Three to five investment choices, with default investment mix

* Most fiduciary duties shift to financial institutions

See www.pensioncoverage.net for more details. - EBN

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