
In Search of Plan C

By Kerry Pechter *Wed, Feb 3, 2010*

"We have a crisis of confidence regarding retirement," said assistant Secretary of Labor Phyllis C. Borzi at the NIRS conference in Washington, D.C. Tuesday.

WASHINGTON, D.C.—Yesterday was Groundhog Day, the day that supposedly repeats itself ad infinitum, so it was fitting to hear assistant Secretary of Labor Phyllis C. Borzi say something that has been said many times before: that America has a retirement income problem.

"We have a crisis of confidence regarding retirement," the Obama appointee and employee benefits expert said. She spoke at a half-day conference sponsored by the National Institute of Retirement Security, an advocacy group created by state and local defined benefit plan administrators about three years ago.

"Defined contribution plans used to be our Plan B, after defined benefit plans," she continued. "But the past two years have shown that DC plans weren't a silver bullet. We don't appear to have a Plan C, other than Social Security. Our job is to come up with a Plan C."

Borzi, who runs the DoL's Employee Benefits Security Administration, has jurisdiction over some 700,000 private-sector retirement plans and 2.5 million health plans. She was the featured speaker at the NIRS event, which was called "Raising the Bar: Policy Solutions for Improving Retirement Security."

The event drew a capacity crowd of some 250 people, most of whom work in public pensions, which are under siege because the recession has made it hard for states and taxpayers to fund them. The crowd came to hear speakers like Putnam Investments' CEO Robert Reynolds, Harvard Law professor Elizabeth Warren, AFL-CIO president Richard L. Trumka and Roger W. Ferguson Jr., the president and CEO of TIAA-CREF.

Nothing startlingly new was revealed at the conference, which was held in the ornate Columbus Club, a one-time "fancy soda fountain" whose walls and ceiling now feature hand-painted Pompeian flowers, inside Washington, D.C.'s restored Union Station. But the event suggested that the issue of retirement income is gaining traction in the nation's capitol.

Borzi's presence, and the fact that the Labor and Treasury Departments also chose yesterday to publish a request for 90 days of public input about workplace annuities, seemed to signal that the Obama Administration has officially picked up the retirement income torch.

Compared with retirement income conferences sponsored by the financial industry, this one was distinctly more liberal in tone and sentiment. It reflected the world-view in which government officials are problem-solvers, unions are forces of good, and the welfare of the embattled middle class, rather than the most affluent quintile, take priority.

Nonetheless, Borzi, an attorney who had a reputation as a "fiduciary hawk" during her career as an

academic and an ERISA lawyer, didn't seem to underestimate the challenges her department faces in trying to put lifetime income options in retirement plans.

Borzi ticked off the many "technical and policy" issues that make it difficult to introduce lifetime income options into retirement plans, including questions about spousal consent, around the conversion rates for projecting a plan participant's future income, or about public's stubborn resistance to annuitization even when it is offered.

She made a point of saying that reform would not come at the expense of strong oversight. "Some academics say that, if we waived the fiduciary rules, plan sponsors would offer annuities in their plans. I can assure you that the fiduciary rules won't be waived on my watch or on [Labor Secretary] Hilda Solis' watch, but we want to find out how we can make it easier," she said.

"Labor and Treasury are now looking at a lost feature of DB plans: the lifetime income stream. I use the phrase 'lifetime income stream' because I'm not hawking annuities. I don't work for the insurance companies," she was quick to point out, perhaps in recognition of the competition between the securities and insurance industries in the retirement market.

"But something has gone wrong, and we need to look for a means or a mechanism for people to enjoy retirement without fear," she continued. "The 401(k) plan isn't really a retirement system. You get money out when you change jobs. People either squander their lump sum payouts, or they treat it too conservatively because they're afraid of outliving their money."

In putting out a request for information, or RIF, yesterday, Borzi said, "We want to start a national dialogue or conversation to see if it's a good idea to allow people to take a lifetime income stream" from 401(k) plans. "We want to find out if there are things we can do—products, regulations, legislation—or if we need to do anything at all."

After the 90-day comment period, "We might have hearings. We might propose legislation. The administration is very interested in retirement security, so there may be administration initiatives," she said, noting mordantly, "If you don't know where you are going, any road will take you there."