New Organization Seeks 401(k) Reform and Much More

By Editor Test *Wed, Mar 31, 2010*

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Five different groups in Washington, D.C., have created a new public policy organization, Retirement USA, to identify and promote a new kind of national retirement savings plans that would supplement 401(k) plans.

The five organizations include two labor unions, the AFL-CIO and th e Service Employees International Union, and three pension research or advocacy groups, the Economic Policy Institute, the National Committee to Preserve Social Security and Medicare, and the Pension Rights Center.

"So far we've been raising awareness of the crisis in retirement income," said Nancy Hwa, a spokesperson for Retirement USA. "We had a conference last October, we've looked at proposals for new kinds of systems, and we've looked at what's happening in the Netherlands and Australia on this issue.

"There are two tracks we're working on, a short-term and a long-term track. We want to improve the current system, but things like [the Obama Administration's proposed] Auto-IRA are just short-term fixes. The group's real focus is long-term. But even in the future, we're not saying we have to scrap what we have now and go for something entirely different."

The group solicited proposals for a new kind of retirement system last fall and has selected five of those proposals for further consideration. The proposals and their authors, in parentheses, are:

Guaranteed Retirement Account Plan (Teresa Ghilarducci). The GRA proposal mandates a contribution of 5% of earnings (up to the Social Security wage base) for all workers, evenly divided between employer and employee.

The employee's share of the contribution would be offset by a $600 refundable tax credit, which offset contributions by those with incomes below $24,000. The contributions of husbands and wives would be combined and divided equally between their individual accounts.

The plan would guarantee a real 3% annual rate of return. Surpluses would be distributed to participants. A balancing fund would be maintained to ride out periods of low investment returns.

Account balances would be converted to inflation-adjusted annuities upon retirement, with a partial (10%) lump sum available. A full-time worker who contributes into the plan for 40 years and retires at age 65 can be expected to receive income equal to roughly 25% of pre-retirement income.

The plan would also provide a death benefit of one-half the account balance for participants who die before retiring. Those who die after retirement could bequeath to their heirs half their final account balance less the total of benefits received.

Guaranteed Benefit Plan (Mark Ugoretz). The proposal is based on the ERISA Industry Committee's Guaranteed Benefit Plan, which is part of a larger proposal titled the New Benefit Platform for Life Security.

One of the benefits proposed for the new Lifetime Security Plan is a Guaranteed Benefit Plan (GBP), which would provide a single source of retirement income. The GBP is a hybrid arrangement, similar to a cash balance plan.

The GBP would, at a minimum, guarantee the principal that employers and employees contribute to the plan, so that employees would be protected from a net loss. In addition the GBP would establish a minimum investment credit that would apply to the balance of each individual account.

Distributions from the GBP would be paid out at retirement only as a stream of payments or in annuity form. Because each benefit administrator is expected to enroll very large numbers of employees, this large pool should help bring down the cost of annuities, making them significantly more affordable to retirees. Further, the GBP would be guaranteed by the Pension Benefit Guaranty Corporation (PBGC).

These programs would be voluntary for the employer, although the program could be combined with a requirement that individuals whose employer does not offer a plan make minimum contributions to either a pension or retirement savings plan.

The New Benefit Platform calls for competitive independent benefit administrators to administer health and retirement plans. Benefit administrators would be liable for contractual and other common-law obligations (similar to existing ERISA fiduciary responsibilities).

Guaranteed Pension and Community Investment Plan (Glenn Beamer).

Workers would contribute 5% of their wages to locally-based funds and receive fully guaranteed lifetime annuities at retirement.

Workers, employers, unions and governments would be encouraged to contribute an additional 5% to 10% of wages. An 80% refundable tax credit would offset $560 of workers' first $700 in contributions and replace the current deduction allowed for 401(k) plan contributions.

This tax credit would be deficit neutral or would decrease the deficit. The contribution structure would be progressive, and accounts would be fully portable. Full benefits would be payable when the participant's age and service equals 100.

A locally elected board of trustees would administer the plan and would invest 70% of a worker's account in a balance-guaranteed account and 30% in community development. CPCI Community Investment programs would be determined and adopted locally. A federal agency similar to the Pension Benefit Guaranty Corporation will regulate CPCI plans.

Retirement-USA Plus Plan (Nancy Altman). The proposal would establish a defined benefit plan sponsored and administered by the federal government.

Plan participants would consist of all workers in employment covered by Social Security. Benefits would equal 20% of currently scheduled Social Security benefits. Retirement benefits would be paid automatically in the form of 100% Joint and Survivor Annuities.

Additional benefits would be paid directly to divorced spouses who were divorced after at least 10 years of marriage, dependent spouses, parents, children, and grandchildren. The Plan would provide group life and disability insurance, as well.

All benefits would be fully protected against inflation. In addition, all participants would have the option to convert tax-favored and other savings into a supplemental annuity purchased through the Social Security Administration.

On the date of adoption, plan benefits would immediately vest in all workers who were insured for purposes of receiving Social Security benefits and would be immediately payable to all Social Security beneficiaries. Workers not then vested would become so when they became insured for purposes of receipt of Social Security benefits.

The plan includes two alternative financing mechanisms. The second would leave the plan in long-range actuarial balance; the first, in long-range surplus. The first alternative consists of (1) employer and employee contributions on earnings in excess of Social Security's maximum, (2) revenue from requiring consistent tax treatment of employee contributions to salary reduction plans, (3) revenue from a dedicated federal estate tax, and (4) investment income on Plan reserves.

The alternative method is to require contributions by employers and employees of 1.5% each on wages insured by Social Security and to expand the Earned Income Tax Credit, in order to offset the cost for lower-income workers.

Insured Retirement Accounts (Regina Jefferson). The proposal would provide insured retirement accounts for individuals not covered by individual employer-sponsored plans.

Employer and employee would each contribute 3% of wages up to the Social Security wage base to the accounts. The contributions of low and moderate income wage earners would receive a public subsidy, which would be gradually phased out.

Contributions would be made to either a clearinghouse established by the Social Security Administration (or to another entity such as the Pension Benefit Guaranty Corporation). Investment assets would be pooled by the entity receiving them, and the investment function could be contracted out to investment professionals.

As described below, the pooled investment portfolios would be subject to some portfolio design parameters, which would reduce the risk of investment loss. Benefits would be paid as life annuities commencing at retirement age; disability benefits would also be available.

The insurance program and portfolio parameters are the innovative aspect of this proposal and are based on previous work suggesting an optional defined contribution insurance program for private sector plans. The primary idea of the insurance proposal is to protect participants from severe losses that occur close to their retirement.

The insurance would do this by providing that each year's contribution would earn over an employee's career no less than the average annual rate of return on a model portfolio that conformed to the investment parameters.

Variable Defined Benefit Plan (Gene Kalwarski). This proposal, developed by the United Food and Commercial Workers International Union, creates a new type of defined benefit plan, removes significant levels of risk inherent in today's traditional defined benefit plan.

The VDB plan might be described as a floor-elevator plan. Each participant would receive an annual floor benefit, which would be stated in the form of a uniform retirement annuity. (The benefit could be either a flat benefit or a percentage of pay, in which case the floor benefit would look like a career average defined benefit.)

The floor benefit would be actuarially determined from the plan's contribution base for all participants in the plan as a uniform benefit, but using a very conservative interest assumption. The floor benefit would also be converted into investment units in the plan's collective assets, which would be professionally managed. For example, a $100 floor benefit would purchase $100 of investment units.

These investment units would fluctuate in value annually, increasing in value in a year in which the plan's investment return exceeded the conservative interest assumption (plus a reserve factor) and declining in value in a year in which the plan's investment return fell below the assumption.

At retirement, employees would receive the greater of the sum of their floor benefits or the sum of their investment units. Benefits would be paid only in annuity form, although a plan could be structured to provide for death, disability, post-retirement inflation protection, and/or early retirement.