
Sen. Hatch hatches a retirement overhaul proposal

By Editor Test *Wed, Jul 10, 2013*

Under the Utah Republican's new proposal, state and local governments could use private annuity issuers as pension providers, small employers could sponsor low-maintenance "Starter 401(k)s" and the DoL would not be able to enact a fiduciary rule for plan advisors.

A new proposal that if enacted could lead to vast changes in the current retirement plan system in the U.S., was described by Sen. Orrin Hatch (R-UT), the ranking member of the Senate Finance Committee, in a [speech](#) on the Senate floor Tuesday.

The "[Secure Annuities for Employee \(SAFE\) Retirement Act of 2013](#)," as Hatch described it, would have deep implications for the public and private retirement systems. So far, Hatch hasn't introduced a bill, even at the committee level. An informal document released by Sen. Hatch's office said the bill would:

- Allow state and local governments to privatize their pensions by buying annuities from insurance companies.
- Allow small employers without retirement plans to sponsor "Starter 401(k)s" with simplified operating requirements.
- Stop the Department of Labor from creating a fiduciary standard for plan advisors by consolidating all fiduciary rulemaking for 401(k) plans and IRAs at the Treasury Department.

A July 9 report by the Wall Street Journal's *Washington Wire* said, "MetLife Inc. and other insurers, which could gain significant business, and major business groups including the U.S. Chamber of Commerce have written letters endorsing Mr. Hatch's concept. It's less clear if the bill will catch on with unions or their allies in a Democratic-controlled Senate. Mr. Hatch plans to introduce the bill and then work to gather congressional supporters."

No Senate co-sponsors have been named. A spokesperson at the Employee Benefit Research Institute said he had not heard anything about the bill until he read a press report on Tuesday. In a press release, the American Society of Pension Professionals and Actuaries said that the bill reflects many of ASPPA's positions, as described in this [document](#).

Support for the bill, according to a release by Sen. Hatch's office, has come from the U.S. Chamber of Commerce, Americans for Tax Reform (ATR), MetLife, the Small Business Council of America (SBCA), American Council of Life Insurers (ACLI), National Association for Fixed Annuities (NAFA), National Association of Insurance Commissioners (NAIC), and the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA), among others.

The National Association of Insurance Commissioners, which Sen. Hatch's office lists as a provider of support for the proposal, said that it has no position on it. A Treasury Department official said his group was about to begin studying it.

Impact on state and local governments and private insurers

Title I of the bill proposes to attack the public pension underfunding problem by allowing state and local governments to adopt “SAFE Retirement Plans.” The governments would buy life annuities from insurance companies. Using the plans would be optional.

The National Council on Public Employees Retirement Systems reacted negatively to Hatch’s bill. “Contracting out a non-profit enterprise to a for-profit insurance company makes absolutely no sense. Public pension plans are already in the business of providing their retirees with annuities. We self-annuitize – at a cost of 50 to 76 basis points, certainly a lower cost than a for-profit insurance company could offer,” said Hank Kim, executive director of NCPERS.

Impact on small employers

Title II of the bill would expand access to workplace retirement savings plans by allowing small employers to create Starter 401(k)s that, according to Sen. Hatch’s website, allows employees to “save up to \$8,000 per year, more than in an IRA, but does not involve the administrative burden or expense of a traditional 401(k) plan.” The release did not mention the Treasury Department’s proposed “Auto-IRA” for small employers, which also addresses lack of retirement plan access in the U.S.

Implications for the DoL’s fiduciary rule

Title III of the proposed bill would shift all authority over prohibited transaction rules to the Treasury Department and away from the Labor Department, where the Assistant Secretary of Labor and director of the Employee Benefit Security Administration, Phyllis Borzi, is preparing to re-issue a proposal for a fiduciary standard for plan advisors. Borzi’s first proposal, opposed by industry, could limit the ability of plan advisors to market retail services to participants in the plans they advise.

In an unsigned comment to the *Washington Wire* report cited above, a reader wrote that state and local government pensions would become much more expensive—or the benefits would shrink dramatically—if governments purchased annuities from private companies.

“The annuity writers will ‘price’ their products very conservatively to minimize the risk that they will be assuming,” the commenter wrote. “In other words, the cost to taxpayers to fund the same level of pensions currently promised will skyrocket. Essentially the 7%-8% assumptions for earnings growth currently used by all public-sector pension plans will drop to the 2.5%-4% level used by the annuity writers.”