Introduction and Executive Summary

The Conversation on Coverage was launched in July 2001 when 75 retirement experts of varying perspectives came together at a two-day conference to address the pressing question: How do we expand pensions and savings for the millions of Americans, particularly low- and moderate wage-earners, who do not have income outside of Social Security to support them in retirement? With coverage rates stalled at approximately 50 percent for the last quarter-century, there was broad recognition that something needed to be done to address this critical issue. The event built a strong sense of camaraderie among participants and produced numerous promising initial concepts to increase coverage.

Spurred by the success of the first event, the Pension Rights Center, which convened this initiative, launched the Second Stage of the Conversation on Coverage in 2003. The Conversation established three Working Groups, with more than 45 experts of diverse backgrounds, who met intensively over an 18-month period to develop the first iterations of specific approaches to increase coverage. The Conversation on Coverage released these interim recommendations on July 22, 2004, at the National Policy Forum at the National Press Club (for more information, see www.conversationoncoverage.org).

In May 2005, the Conversation launched the Third Stage of its deliberations to refine the interim recommendations. The Working Groups were reconvened, with some new members, and they devoted collectively hundreds of hours in day-long meetings and telephone conferences to address an array of unresolved substantive issues and develop their detailed final recommendations. These ambitious efforts – a veritable beehive of intellectual activity – led to the development of four common ground proposals that are aimed at expanding guaranteed pensions, increasing retirement savings by individuals, and expanding coverage among small businesses. They all include elements that the Groups thought would be attractive to employers, financial institutions and employees. These proposals, completed in early 2007, are summarized below and described in detail in the three Working Group reports that follow.

Summary of the Final Working Group Recommendations

Four promising ideas for new types of retirement plans emerged from the Groups.

Working Group I

Working Group I's primary mission was to expand coverage by encouraging new forms of defined benefit plans or plans that have salient defined benefit features. To achieve this mission, the Group developed two plans:

The Guaranteed Account Plan (GAP)

GAP is a new hybrid plan that features individual accounts funded by employers with minimum guaranteed returns on employees' balances. In this plan, the employer credits a contribution to an individual's account based on a percentage of the employee's pay and then guarantees the return on the contributions. The employer assumes the risk of investing the money to obtain the promised rate of return. The basic benefit is paid as a lifetime annuity that begins at the time of retirement, with a guaranteed survivor annuity for spouses.

Key features of GAP:

- Under GAP, each participant's guaranteed account is credited with an annual contribution based on a percentage of pay.
- The GAP credits each employee's account with a guaranteed annual rate of return, which can be a fixed interest rate or a variable rate of return.
- The employer funds the benefits, based on standardized conservative funding assumptions.
- The sponsor of GAP will employ professional asset managers to invest plan assets.
- A GAP could be designed to permit additional voluntary pre-tax contributions by employees, either to the GAP account or to another type of individual account plan.
- Under GAP, the normal payment option is an annuity (joint and survivor annuity for married participants). The employer can, however, design a GAP to offer alternative forms of benefits, including lump-sum payments.
- GAP has a unique Side-Car Trust to increase funding flexibility while insuring security for the promised benefits.
- The Pension Benefit Guaranty Corporation (PBGC)[i] would insure GAP accounts.
- The GAP will be subject to a lower PBGC premium than other defined benefit plans, reflecting the requirement that the employer fund the GAP on the basis of mandated conservative assumptions.
- The GAP permits generous past-service credits, which should appeal to small-business owners.

The Plain Old Pension Plan (POPP)

POPP is a new and simplified version of a basic traditional defined benefit pension plan that is easy for employers to create, fund, and administer. This is an employer-funded plan that starts with a modest guaranteed benefit to allay employer concerns about committing to large future pension funding obligations. The basic benefit is based on a percentage of an employee's career-average pay and is paid to the employee as an annuity with a guaranteed survivor annuity for spouses of married participants. One important feature of the plan enables companies to provide bonus benefits in good years and to scale back to the basic benefit formula in leaner years.

Key features of POPP:

- POPP is a simple, easy-to-understand traditional defined benefit plan that provides a modest basic benefit (as low as one percent of average compensation per year).
- Employer contributions are based on published government tables that will make it easier for employers to know how much money they will need to contribute and help reduce some of the funding volatility.

- POPP's vesting rules are more generous to employees than rules governing traditional defined benefit plans.
- POPP allows employers to fund special bonus benefits in any given year, which will raise employees' final pension benefits. This means that employers can increase benefits in years when they have good financial performance and provide only the basic benefit in years when the company does not perform as well.
- Employers can design plans to permit a generous past-service credit, which should be attractive to many small business owners.
- All benefits from the plan would be paid in the form of an annuity. Lump-sum distributions would not be permitted (except for very small amounts).

Both GAP and POPP incorporate funding rules that should substantially reduce the fluctuation from year to year in the employer's annual contribution to the plan and should, thus, make the plans more attractive to employers than currently available defined benefit plans.

See the Working Group I report for a full description of the building blocks of the GAP and POPP plans and other recommendations of the Group.

Working Group II

The mission of Working Group II was to develop new incentives and proposals to encourage more individual workers in the private sector to save – not only those who do not have an employer plan, but also those who may not be eligible for their employer's plan or who may not have chosen to participate. The Group focused on expanding coverage for low- and moderate-income workers who are least likely to have access to a plan. The Group had a short-term track to recommend incremental steps to encourage more individuals to participate in existing 401(k) plans and a long-term track to develop a proposal for a new clearinghouse to administer lifetime portable accounts.

The Retirement Investment Account (RIA)

The Group's primary achievement was the development of a proposal for a new plan, the Retirement Investment Account:

The RIA establishes a new national clearinghouse structure to administer portable lifetime individual accounts. This proposed structure is designed to provide an easy and efficient way for workers who are not covered by a plan to save for retirement and enable them to keep their account whenever they change jobs and lack employer plan coverage.

Key features of the RIA plan:

- The plan establishes a government-sponsored central Clearinghouse that would contract out the investments of funds to the private sector, in an approach such as that taken by the Thrift Savings Plan.[ii]

- The Clearinghouse would be set up to receive contributions from employees through payroll deductions facilitated by the employer in amounts indicated by employees.
- All eligible workers will be automatically enrolled unless they opt out.
- Self-employed individuals and contract workers can contribute when they file their quarterly taxes.
- All workers not covered or eligible to contribute to an employer-sponsored retirement savings plan, in which employees contribute, would be eligible for the RIA.
- Participant contributions will automatically be placed in a default investment.
- Participants who opt out of the automatic investment will have a limited choice of investment options.
- The RIA would be portable so that workers can maintain their RIA as they move from one employer to another and transfer amounts to and from 401(k) or IRA accounts.
- Tax credits could be added to the plan to encourage incentives for low- and moderate income wage earners.

See the Working Group II report for a full description of the building blocks of the plan and other recommendations of the Group.

Working Group III

Working Group III's mission was to create new approaches to increase pension coverage among small businesses where the coverage rates are lowest. To achieve this mission, the Group developed a new plan, the Model T, a simple plan that is meant to be attractive to small businesses and their employees.

The Model T Plan

The Model T is a simplified multiple employer payroll deduction plan offered by financial institutions to small businesses.

Key features of the Model T plan:

- A third-party financial institution runs the plan and takes on many of the administrative functions.
- Once an employer signs up with a financial institution, both the employer and employees will be able to make contributions to the plan.
- All employees – full-time and part-time – are eligible to participate. The self-employed and independent contractors can contribute on their own.
- Employees contribute through payroll deduction provided by participating employers.
- Employer contributions are voluntary but innovations in the plan design are aimed at encouraging employers to contribute on behalf of all employees in the plan.
- Funds are invested in simplified investment options that are consistent with the U.S. Department of Labor's default investment regulations.
- A recommended "Standardized Performance Report," produced annually by financial institutions that offer the plan, will help employers (and employees) compare fees, services, and investment performance of the plan on an apples-to-apples basis.

Understanding the Working Groups and the Process

The Conversation's Steering Committee (see Appendix A) and staff developed ground rules that have underpinned the deliberations of the Working Groups. Members were asked to participate as individuals, not as representatives of their organizations. They were asked to transcend, as much as possible, their personal and professional ideologies in the name of finding common ground solutions. Likewise, the Pension Rights Center cast aside its traditional advocacy role and served as a neutral facilitator in the process. All of the Conversation's deliberations were off the record and individuals were asked not to discuss the deliberations outside of the meetings, enabling participants to express their views freely. Working Group members were instructed to focus on where they agreed rather than where they disagreed. They were also asked to focus only on ways of increasing private retirement savings – not to address related issues such as Social Security, Supplemental Security Income, Medicare, and Medicaid.

To help facilitate the process in the Third Stage of the initiative, the Conversation on Coverage staff prepared elaborate Discussion Guides that the Co-Chairs used to ensure there was identifiable progress made at each of their day-long meetings and telephone conferences. These Discussion Guides summarized what had been accomplished at previous meetings and outlined key unresolved issues and ways of addressing them. The starting point for most members in their deliberations was a belief in perpetuating the voluntary retirement system, while finding ways of expanding it to include new workers and trying to ensure that any new proposals would complement, not undermine, the existing system.

Before the release of this report, members of the three Working Groups previewed their draft recommendations to one another so that all members would have a chance to hear about the details of proposals from the other Groups and make comments and suggestions. The Group also previewed their recommendations at off-the-record briefings with congressional committee and government agency staff in late 2006 and early 2007 to answer questions and hear responses and suggestions regarding the plans. Some of their comments will be taken into consideration in the implementation phase. (See Appendix B for some of the questions and comments that were made by congressional committee and government agency staff.)

Throughout the process, the Conversation has sought to develop and recommend proposals that would enjoy a broad appeal among all stakeholders in the private system. These proposals were shaped by hard work and passion in a give-and-take process that produced proposals and concepts that took into account a broad spectrum of views. Due to this broad diversity in the membership of the Working Groups and considerable time and energy devoted to this task, the ideas that have been recommended in this Final Report emerge from this process with increased odds that they can be adopted and implemented, advancing the coverage debate significantly.

Understanding the Language in the Report

The goal of each Working Group was to reach consensus on the design elements of the various proposals. However, by "consensus" we did not mean that 100 percent of the members all agreed on a particular issue.

There was an understanding by each Group that if nearly all the members agreed on something then it would be termed in the report as "general agreement." When views were mixed, that is indicated as well, and often the minority view is discussed in the rationale. It was decided at the beginning of the process that there would be no voting, per se, as this was seen as being potentially polarizing. When there were sticking points, the Working Group members either tried to reach resolution or provide options that could be decided later in the public policy process.

Understanding the Coverage Issue

The Working Groups began with the notion that, in order to expand coverage and participation, one must first identify the segments of the working population where the biggest coverage gaps exist. To that end, the Working Groups collected the statistical data set forth in this section. In addition to the data described in this section, the Working Groups also relied on data and findings from several studies that shed light on the coverage issue and that were written for the Conversation on Coverage.[iii]

The Department of Labor's National Compensation Survey – which surveys more than 10,000 private-sector employers,[iv] reveals that in 2006, 60 percent of all full-time and part-time private-sector American workers had access to a retirement plan sponsored by the company where they worked. However, only 51 percent, or 53.6 million workers out of 110 million private-sector workers, participated in these corporate retirement plans.

Another study called the Current Population Survey[v] has found a declining trend in coverage and participation rates. In 2005, for example, the survey found that only 55 percent of full-time and part-time private sector workers worked at firms that sponsored a retirement plan. Of those, only 45 percent participated in an employer-sponsored plan.[vi] This compares with a 60 percent employer sponsorship rate and 50 percent employee participation rate in 2000.[vii]

While the divergence in coverage and participation rates found in government statistics raises some questions about which numbers are correct, both surveys remain consistent with past findings that half the private-sector work force is not participating in a private retirement plan.[viii]

The likelihood that a worker will be covered by a workplace retirement plan varies according to income and age. Today, higher income workers and older employees with job tenure are more likely to work at a company with a retirement benefit. However, low- to moderate-income workers and younger employees are less likely to have a retirement plan. For example, while 58 percent of workers aged 55 to 64 participated in a retirement plan in 2005, only 42 percent of workers aged 25 to 34 participated, according to a Congressional Research Service analysis of the Current Population Survey.[ix] And, while 70 percent of the highest earnings quartile participated in a retirement plan, only 28 percent of the lowest earnings quartile participated in a plan.[x]

There is also a big gap in coverage rates between full-time and part-time workers. In 2005, 52 percent of full-time workers participated in a retirement plan, while only 24 percent of part-time workers participated, according to CRS analysis of the Current Population Survey.[xi]

The likelihood that a worker will participate in a retirement plan also varies by the size of the company. Companies with more than 100 workers are more likely to have a retirement plan. In these medium and large companies, a good employee benefits package is seen as key to attracting and retaining skilled workers.

On the other hand, one finds the largest share of workers without retirement benefits at smaller companies. The participation rate for full-time workers at businesses with 100 or more workers was 65 percent in 2005, while it was 45 percent at firms with 25 to 99 workers and only 25 percent at firms with fewer than 25 employees.[xii] One of the reasons coverage is lower among small businesses is that they have a higher worker turnover rate. In work places with high labor turnover there is usually lower employer and worker interest in benefits with a long-term horizon.

The data also suggests that a higher level of part-time workers at small businesses also reduces overall retirement participation rates, since part-time workers as a group have lower coverage rates. Among the smallest businesses – those with fewer than 10 workers, 41 percent of the workers are part-time, according to the U.S. Census Bureau. By comparison, in slightly larger companies – those with 10 to 24 workers – the proportion of part-timers drops to 33 percent.

It is important to note that an overall coverage rate of 50 percent at any one time does not mean that half the work force *never* has coverage. The likelihood that a single individual will be covered by a retirement plan increases with age.

Coverage and Participation Rates at Firms with Retirement Plans

There is considerable potential to raise participation rates even at firms that currently offer workers the opportunity to save for retirement in a 401(k) plan. One study found that only 66 percent of workers who are eligible participate in 401(k) plans.[xiii] The study also found that when these firms adopt automatic enrollment, participation rises to 92 percent of eligible employees.[xiv] Automatic enrollment occurs when employers automatically enroll into a retirement saving plan all new hires and existing eligible employees who are not participating. Employees have to choose to opt out of participation under automatic enrollment.

In September 2005 the Department of Labor calculated the impact of automatic enrollment in its proposed rule on default investment options.[xv] In 2002 only five percent of employers had adopted automatic enrollment. The Department of Labor estimated that in the near future 35 to 45 percent of employers will adopt automatic enrollment. The department estimated in its proposed rule that plans that adopt automatic enrollment raise participation rates to a level between 70 percent to 90 percent and that if one-third or more of employers adopt automatic enrollment, it will raise overall 401(k) participation rates from 72 percent to between 75 and 77 percent.[xvi] Higher employee contributions are also likely to raise overall employer matching contributions.[xvii]

There is also room to add coverage and participation by targeting the groups of workers at companies that sponsor plans who are not eligible to participate in those plans. This includes workers who have not been employed long enough to be eligible, as well as those who do not work enough hours to be eligible, as well as other categories of workers that the employer chooses to exclude.

The Conversation on Coverage proposals in this Final Report offer a variety of ways to expand pensions and retirement savings to more workers and can, when implemented, go a long way toward reducing the coverage gap.

Robert Stowe England
Rapporteur and Writer, Conversation on Coverage

Endnotes for Introduction

[i]The Pension Benefit Guaranty Corporation was created by Congress in 1974 as part of the Employee Retirement Income Security Act (ERISA). It covers private sector defined benefit plans and is financed by premiums paid by employers. When plans are terminated, PBGC takes over the management of their assets and the payment of benefits to retirees.

[ii]The Thrift Savings Plan is a retirement savings plan for federal civilian employees.

[iii]Four papers have been completed to assist the efforts of the Conversation on Coverage and can be found at the following web site: www.conversationoncoverage.org. The four papers are as follows:

- "Private Pensions: Coverage and Benefit Trends," by Alicia H. Munnell and Annika Sundén with the assistance of Elisabeth Lidstone, Center for Retirement Research, Boston College, July 2001.
- "Working Paper on Multiple Employer Pension Plans," by Fiona M. Wright, 2003.
- "Confronting the Pension Coverage Challenge," by Leslie B. Kramerich, May 2003.
- "An Update on Employer Sponsored Pensions," by Alicia H. Munnell, Jamie Lee, and Kevin Meme, Center for Retirement Research, Boston College, July 2004.

[iv]*National Compensation Survey*, Bureau of Labor Statistics. Survey from March 2006 can be found at http://www.bls.gov/ncs/ebs/sp/ebsm0004.pdf.

[v]In recent years there has been a divergence in participation rates as reported by various agencies of the federal government. *The Current Population Survey*, jointly sponsored by the Census Bureau and the Bureau of Labor Statistics, has been showing a steady decline since 2000. At the same time, however, the *National Compensation Survey* of the Bureau of Labor Statistics has been showing an increase in participation from 49 percent in 2003 to 51 percent in 2006. The National Compensation Survey has been considered authoritative by some because the reporting is done by employers, who might be assumed to be better informed about coverage and participation. Yet, the trends in *the Current Population Survey* are consistent with the trends found in the Federal Reserve Board's *Survey of Consumer Finances*, which has reported that participation fell from 50 percent of workers in 2001 to 48 percent in 2004.

[vi]Patrick Purcell, "Pension Sponsorship and Participation: Summary of Recent Trends," (Washington, D.C.: Congressional Research Service, August 31, 2006), Table 2, page 6. The coverage data is based on a CRS analysis of the data from the Census Bureau's Survey Current Population Survey for the years 1990, 1995, and 2000 to 2005.

[vii]Ibid.

[viii]The Center for Retirement Research at Boston College has done several analyses of pension trends over time and has compared different data sets. Alicia H. Munnell and Pamela Perun ("An Update on Private Pensions," Issue in Brief Number 50, August 2006) document that pension participation rates have been essentially stuck at about 50 percent of the private-sector workforce for the past quarter-century. Geoffrey Sanzenbacher ("Estimating Pension Coverage Using Different Data Sets," Issue in Brief Number 51, August 2006) compares several major data sets and finds that the overall levels of participation and long-term trends are similar; again, they all show participation rates of roughly 50 percent.

[ix]Patrick Purcell, CRS, Ibid, Table 5, p. 11.

[x]Ibid, Table 7, p. 14.

[xi]Ibid, Table 2, p. 6.

[xii]Ibid, Table 3, p. 8.

[xiii]"The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Contributions at Retirement," Issue Brief No. 283, Employee Benefit Research Institute, Washington, D.C., 2005.

[xiv]Ibid.

[xv]Default Investment Alternatives Under Participant Directed Individual Account Plans; Proposed Rule, Employee Benefits Security Administration, Federal Register, September 17, 2006 (v. 71, no. 187), pp. 56806-56824.

[xvi]Ibid, p. 56819.

[xvii]Employer matching contributions could rise between $700 million and $1.3 billion annually under the default investment regulation. Ibid, p. 56820.