

Covering^{the} Uncovered

COMMON GROUND RECOMMENDATIONS TO EXPAND
RETIREMENT SAVINGS FOR AMERICAN WORKERS

WORKING REPORT

CONVERSATION

on

COVERAGE

Introduction

The private sector retirement system in the United States is in many ways a great success story, providing much-needed benefits for millions of older Americans. But millions of others, who will be equally in need of a supplement to Social Security, are left out of the system

Although there has been tremendous growth in the number of workplace retirement plans, the number of people covered by retirement plans, and the dollars invested for retirement, the percentage of American workers participating in a pension plan has remained at roughly 50 percent of private sector workers for the past two decades. With changes in the workplace and pressures of globalization, the task of increasing coverage has become even more complex and challenging.

The Conversation on Coverage is addressing this challenge. Working Group members of this initiative – experts on various areas of retirement policy – came together over a year-long period to develop creative approaches to increasing coverage. Working Group members set out to determine what policies have worked, where improvements can enhance coverage, what existing ideas have merit and should be promoted and what new ideas should be considered and further developed. These ambitious efforts, a veritable beehive of intellectual activity, led to the creation of a broad framework of exciting new ideas to expand coverage, including proposals for new types of retirement plans.

The Conversation on Coverage has sought throughout its work to develop and recommend proposals that would enjoy a broad appeal among all stakeholders in the private pension system. It has organized and facilitated conversations among people from a broad spectrum of competing interests and divergent views on how best to secure retirement income for working Americans, especially those with low and moderate incomes. The gratifying result of this effort to find common ground is that the second stage of the Conversation has produced initial drafts of proposals that enjoy wide support and which – when further

refined and developed – can potentially advance coverage among a greater share of the working population.

Background: The Work Place and Retirement Benefits

The Working Groups began with the notion that, in order to expand coverage, one must first identify the segments of the working population where the biggest coverage gaps exist. In 2004, 59 percent of all full-time and part-time private sector American workers had access to a pension plan sponsored by the company where they worked, according to the Department of Labor. However, only about 50 percent, or 51.6 million workers, actually participated in these corporate pension plans out of a private sector workforce of 102.3 million.

The likelihood that a worker is covered by a workplace retirement plan varies according to income and age. Today, as was the case in the early 1980s, higher income workers and older employees with job tenure are likely to work at a company with a retirement benefit. However, low to moderate-income people and younger employees are less likely to have a retirement benefit. There is also a big gap in coverage rates between full-time and part-time workers. In 2004, full-time workers had a 60 percent coverage rate while part-time workers had only a 20 percent coverage rate according to the Department of Labor.

The likelihood that a worker will be covered by a retirement plan also varies by the size of the company at which he or she works. Companies with more than 500 workers are most likely to have a retirement plan. In medium and large companies, a good employee benefits package is seen as key to attracting and retaining skilled workers.

On the other hand, smaller companies are where there are the most workers without retirement benefits. For example, the participation rate for workers at small businesses – those with 99 or fewer workers – was only

37 percent in 2004, compared to 67 percent for workers at companies with 100 or more workers. 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.

A higher level of part-time workers at small businesses also tends to reduce retirement coverage rates. Among the smallest businesses – those with less 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 increases with age.

Overview of the Conversation on Coverage's Working Group Reports

The Conversation on Coverage began to tackle the issue of expanding coverage in its first gathering in July 2001. That event produced a number of innovative concepts, and a passionate commitment among the diverse constituencies that care about pension issues to find ways to work together to improve pension coverage.

The second stage of the Conversation on Coverage began in early 2003 with the establishment of a Steering Committee and the creation of three Working Groups, each with its own assignment, and each with members representing a broad range of views and expertise in retirement issues. Members of these groups met for an intensive series of day-long meetings during the period from May 2003 through February 2004. The groups each had five or six full sessions, numerous subgroup meetings, and extensive further communications by telephone and e-mail.

The 45 experts on the three Working Groups represented a wide diversity of viewpoints. They came from businesses large and small, from academia, from the legal and actuarial professions, from the union movement, from retiree and women's organizations, and from insurance and investment companies. They worked together many hours to find common ground. Starting

from different points on the ideological spectrum, they ultimately came together to reach consensus.

The starting point for most members of the Working Groups was a belief in perpetuating the voluntary private retirement system while finding ways to expand it to include more workers. Even so, during the Working Group conversations, some members said they strongly preferred new mandates. In the end, however, the Working Groups concurred on the use of voluntary approaches.

The private, off-the record sessions gave the participants a chance to explore and debate different concepts without concern that they would suggest something that might meet with objection – whether practical, political or academic – before it had been more thoroughly vetted. It was a chance for the members of the Working Groups to let their intellectual hair down, explore ideas and share common understandings. Nothing was taken for granted. The general theme was to build on the successes of the existing system and to look for new ways to make the system work better and expand it to reach more workers.

The result of all these efforts is an impressive package of proposals that are likely to advance the coverage debate significantly. The Working Groups did not attempt to evaluate all retirement plan proposals. Instead, they chose to focus on the broad framework of new plans they designed together and which they felt had particular merit. Due to the broad diversity in the membership of each of the Working Groups, and the considerable time and energy devoted to the task, the ideas that have been recommended in this report emerge from this process with a stamp of approval that increases the odds they can eventually be perfected, piloted and adopted.

In the upcoming third stage of the Conversation on Coverage, the Working Groups will refine the proposals that were developed in the second stage. Where appropriate, Working Groups may develop a demonstration project for a given proposal. Following the approach in the second stage, the refinement process will bring together a diverse group of experts. The Working Groups intend to seek out research data on key points to help them flesh out the proposals they are continuing to develop and to move them closer to the point where they could become the basis for legislation, regulation, trial or implementation.

Key Recommendations of the Working Groups

Four ideas for new types of retirement plans emerged from the Working Groups. They are summarized below.

Working Group I

The mission of this Working Group was to explore the development of new types of plans with a defined guaranteed benefit that would be attractive to employers who do not now sponsor a defined benefit plan. The group developed models for two such plans.

- **The Guaranteed Annuity Plan (GAP)** takes an employer-funded defined contribution plan (the money purchase plan) and adds a new twist: the employer guarantees the rate of return on hypothetical account balances of workers. The money purchase plan is a retirement savings plan financed by the employer through regular contributions based on a percentage of the compensation of each worker. GAP also could provide higher contribution limits. The normal form of GAP's final benefit is an annuity, although employers can offer lump sums.
- **The Plain Old Pension Plan (POPP)** is a new variation on the traditional defined benefit plan that starts with a modest guaranteed benefit that employers can boost for any year and then reduce back to the basic benefit in future years. The POPP also has features to make an employer's funding obligation predictable than under current law. The normal form of the final benefit is an annuity and no lump sums are permitted.

Working Group II

The mission of this Working Group was to devise ways to increase the portion of the work force that is eligible to participate in a defined contribution plan and, where employees are eligible to participate, to increase the level of participation and the overall level of savings. Along with a number of ways to improve coverage in existing types of defined contribution plans, the group came up with the idea of a central clearinghouse plan, described below, to reach more workers.

- **The Retirement Investment Account (RIA) Plan** proposes the creation of a government-authorized,

privately-run central clearinghouse to accept worker contributions to retirement savings accounts. These savings accounts would be designed for saving for an additional benefit above and beyond Social Security. This plan is aimed at providing more individual workers who do not now have a plan with access to a payroll-deduction retirement savings plan through their workplace. Employers who do not now offer plans can provide access to their workers for this plan without significant new burdens, since they will not have to administer the plan or take fiduciary responsibility for the investment choices of their employees.

Working Group III

The mission of this Working Group was to find ways, through new institutions and structures, to further the goal of increasing coverage and retirement savings. The group devised a new plan to be sponsored by financial institutions and that would be aimed at small businesses, where coverage rates are low.

- **The Model T Plan** is a proposed multiple-employer plan that can be offered by financial institutions, such as banks, insurance companies, brokerage firms and mutual fund companies. The institutions would administer the plan and assume fiduciary liability for a simplified array of plan investment choices. The Model T would expand coverage by encouraging more small businesses to offer a plan to their workers.

The Working Group proposals have several common elements. They reduce and/or transfer administration costs and potential liabilities away from employers and reduce employer worries about annual required costs of funding plans. They expand the number of workers eligible to participate in a plan. They also provide more opportunities to provide benefits – and in some instances – to increase the level of benefits for low- and moderate-income workers. In addition, the proposals create approaches that aim to be more appealing to the small and medium-sized businesses where coverage is the lowest.

Despite their common elements, the Working Groups came up with their proposals independently of one another and without consultation among the groups. Prior to July 22, 2004, when the proposals were

unveiled, none of the members of any of the Working Groups had seen the recommendations of the other Working Groups. In the third stage of the Conversation on Coverage, members of each Working Group will have the opportunity to offer ideas and suggestions about the proposals of the other two Working Groups.

This Working Report contains a detailed discussion of each of the proposals and other recommendations that emerged from the Working Groups on July 22, 2004, preceded by an Executive Summary of each of the Working Group reports.

Understanding the Language in the Working Group Reports

In the individual reports that follow, the reader will encounter the frequent use of the term “generally agreed.” It will help in understanding the recommendations that have been made to know how that term is defined when this report describes the outcome of the discussions within the Working Groups. The goal of each Working Group was to try to reach consensus. “Consensus” did not necessarily mean having 100 percent agreement by all members in each group at all times. There was an understanding by the Working Groups that if nearly all members agreed on something, then it would be fair to say that the group “generally agreed” on that point. By that, it is meant that there was only token opposition from a few members.

You will also note that there are other areas with varying degrees of agreement beyond the category of “general agreement.” It was decided from the beginning that there would be no vote *per se*, as voting was seen as working against agreement and could be polarizing. The meetings were covered by officially-designated reporters, and the Co-Chairs frequently polled members for their views. The range of views, in fact, often did not fall into simple “for” or “against” categories. As people were making compromises, they might be “for” with a caveat, or “against” but with some reservation. And sometimes Working Group members compromised on one item if they thought it was for the greater goal of moving the proposal forward and possibly getting something else in return on another point or provision. Sometimes, rather than getting bogged down in contentious issues, the Working Group members

agreed to list a range of options and to come back later to the issue if there were more time.

There are times in the report when it helps to know what level of agreement existed, since there is a fairly large range of possible levels of agreement between “no agreement” and “general agreement.” Thus, the reader will encounter such descriptions as “the majority” favored a given view. Or, “most” members supported an approach. When views were more evenly divided – or diverged in ways that were difficult to tally—the text is likely to state that “the group was divided” on this issue.

The reports of the Working Groups include minority views, especially when they are strongly expressed or held. So, even when there may be “general agreement” on a point, the reader might find that “a few” or “some” members held a different point of view. Sometimes, when there was disagreement, the report offers suggestions by members for addressing the issue at hand.

It is important to understand the context in which the proposals of the Working Group are being offered. They are not considered finished concepts, but initial recommendations. It is hoped that these proposals will prompt a host of constructive suggestions for improving them and perhaps new ideas for expanding coverage.

Lastly, these reports also contain comments and suggestions about the recommendations voiced by participants in the Conversation on Coverage’s July 2004 National Policy Forum.

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