NIRS Inaugural Policy Conference Report

# Raising the Bar:

## Policy Solutions for Improving Retirement Security

Washington, DC | February 2, 2010

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

## A few media quotes from speakers following the National Institute on Retirement Security policy conference:

"We have a crisis of confidence regarding retirement. …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."

-- Phyllis Borzi, Assistant Secretary of Labor, Employee Benefits Security Administration
*Retirement Income Journal*, February 3, 2010

"What we're really after is retirement security and how to achieve it in a sustainable way. A holistic retirement system would combine the best practices of defined benefit and defined contribution plans."

-- Roger Ferguson, CEO, TIAA-CREF
*Benefits Canada*, February 4, 2010

"Americans know we need to transition our country away from debt and leverage, moving toward a greater reliance on savings, investment, and new business formation to reboot sustainable economic growth. Creating a robust, resilient and truly secure public and private retirement system should be at the heart of that effort."

-- Robert Reynolds, CEO, Putnam Investments
*Boston Globe*, February 2, 2010

We look to the best of traditional pensions—required employer contributions, money locked in until retirement, pooled professional investment and lifetime payouts—along with the best of 401(k) plans, like portability."

-- Richard Trumka, President, AFL-CIO
*States News Service*, February 2, 2010

The National Institute on Retirement Security is a non-profit organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy. Located in Washington, DC, NIRS fulfills this mission by conducting national research and education programs.

# Letter from the Executive Director

Inaction on retirement policy is no longer an option. That was the cross-cutting message delivered by thought leaders at the National Institute on Retirement Security's inaugural policy conference, "Raising the Bar: Policy Solutions for Improving Retirement Security," held in the nation's capital on February 2, 2010.

Policymaking in Washington often is rife with division and partisan politics. This conference, instead, was designed to identify what is working and where common ground exists. Our hope was that such a dialogue could help spur action on pragmatic retirement policy solutions.

The event couldn't have been more timely. Recent turmoil in financial markets, economic weakness, and shrinking budgets have created unprecedented pressure on the nation's retirement infrastructure. Traditional pensions and defined contribution plans alike are facing new challenges for plan sponsors and participants.

From conference speakers and participants, there was no shortage of ideas on what works, what doesn't, and the paths forward. We learned varied approaches from the private and public sectors, and heard the perspectives of employers and employees. Policy experts from "both sides of the aisle" from Capitol Hill, the Obama Administration, and think tanks weighed in on various proposals. Academia shared data illustrating the depth of the crisis. The financial services industry provided insight on retirement products and emerging trends.

Conference participants seeking "intel" on policymakers' strategies and program priorities got their fill. Indeed, many of the ideas discussed at the conference have seen action in the months since. The Request for Information on lifetime income streams, announced by the Departments of Labor and Treasury at the conference, prompted a broad response from stakeholders across the nation. The House of Representatives passed 401(k) fee legislation in May, and the Department of Labor released an interim final rule on fee disclosures in July. In June, a defined benefit funding relief bill was signed into law by President Obama to give employers "breathing room" to fill funding gaps in the wake of the historic stock market crash.

We extend our deepest appreciation to our speakers and panelists. Their involvement enabled us to provide a solutions-focused conference that explored a range of proposals to improve Americans' retirement prospects: strengthening existing pensions and encouraging new ones, retooling defined contribution plans, and even implementing entirely new retirement programs.

And to the NIRS Board of Directors, Founding Members, Educational Sustainers, and Associate and Charter Members—thank you. Your steadfast support of this conference is just one example of how you've enabled NIRS to contribute substantively to the national retirement policy debate.

See you in Washington on March 7 and 8, 2011, for our second annual conference!

Beth Almeida
Executive Director

# Executive Summary

The National Institute on Retirement Security held its inaugural policy conference, Raising the Bar: Policy Solutions for Improving Retirement Security, on February 2, 2010, in Washington, DC. The conference convened thought leaders from across the retirement industry and policy spectrum—retirement plan service providers, regulators and policymakers, plan sponsors and administrators, representatives of employees and retirees, academics and policy experts. The goal of the conference was to identify policy solutions aimed at improving Americans' retirement prospects that have 1) broad support, 2) practical appeal, and 3) a good chance to be taken up by policymakers in Washington. The expert speakers did not disappoint, offering up a wide range of proposals that touched on virtually every aspect of the United States retirement system: pension plans, individual retirement savings, Social Security, and retiree healthcare. Moreover, many of the policy proposals at the center of discussion have since been enacted.

The conference opened with a Keynote Address from the Honorable Phyllis Borzi, Assistant Secretary of Labor for the Employee Benefits Security Administration. A veteran of retirement policy, she set the stage by outlining the administration's vision and goals for retirement security. Assistant Secretary Borzi indicated that we are witnessing a national "crisis of confidence" about retirement against the backdrop of a changing private sector retirement landscape. The Assistant Secretary used the occasion to announce a joint Labor-and-Treasury Department Request for Information seeking input on lifetime income options for retirement plans, and welcomed input from conference attendees.

Next was an Executive Roundtable moderated by Jack Ehnes, Chief Executive Officer (CEO) of the California State Teachers' Retirement System (CalSTRS) and member of the NIRS Board of Directors. The Roundtable featured Nancy LeaMond, Executive Vice President of Social Impact at AARP, the nation's largest membership organization for those aged 50 and over; Robert Reynolds, CEO of Putnam Investments, a leading provider of financial services to individual and institutional investors; Mark Ugoretz, President of the ERISA Industry Committee, an organization representing the employee benefits interests of America's largest employers; and Anne Wagner, CEO of the Municipal Employees' Retirement System of Michigan (MERS), a nationally-recognized public retirement system that serves 700 municipalities and 75,000 employees and retirees across the state of Michigan. Each of these leaders shared their vision of America's retirement challenges and offered a full range of concrete policy solutions—from improving the performance of defined contribution plans, to supporting employers' efforts to maintain strong defined benefit plans, to innovative proposals for public-private partnerships.

The audience then gained insight from keynote addresses from two members of President Obama's Economic Recovery Advisory Board. Richard Trumka, newly-elected President of the AFL-CIO, shared the perspective of working Americans and the objectives of the U.S. labor movement vis a vis retirement security. Then, Roger Ferguson, CEO of TIAA-CREF—a leading provider of financial services to retirement plans in the academic, medical, cultural, and research arenas—shared his vision for a "holistic" retirement system to help employees better handle the risks inherent in preparing for retirement.


Phyllis Borzi
Asst. Secretary, US Labor Dept.


Roger Ferguson
CEO, TIAA-CREF


Jack Ehnes
CEO, CalSTRS

A bi-partisan Policy Roundtable followed, which was moderated by Regina Jefferson, Professor at the Columbus School of Law at Catholic University and member of the NIRS Academic Advisory Board. This diverse panel of experts included Gregory Dean, General Counsel for the minority at the U.S. Senate Committee on Health, Education, Labor and Pensions; Michael Ettlinger, Vice President of Economic Policy at the liberal Center for American Progress; David John, Senior Research Fellow at the conservative Heritage Foundation; and Debra Whitman, Majority Staff Director at the U.S. Senate Special Committee on Aging. The panelists combined expert analysis offered the "big picture" policy challenges and on-the-ground insights on the issues Congress and the Administration would be most likely to prioritize in the coming months. Perhaps the most surprising take-away from the panel was just how much common ground exists across party lines when it comes to retirement policy.

Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard University and Chair of the Congressional Oversight Panel for the Troubled Asset Relief Program wrapped up the conference with a lunch address that highlighted alarming data on the financial state of the American middle class. Professor Warren presented extensive evidence of the growing financial strain facing middle class families as well as the causes and consequences of the growth in household debt. She warned that one of the byproducts of increasing financial insecurity is greater difficulty in preparing for retirement, putting middle class Americans at greater economic risk in the future. Professor Warren called for improved consumer protections in the area of financial products (mortgages, consumer debt, etc.), highlighting the need for better disclosure and more transparency.

At its conclusion, it was clear that NIRS's inaugural policy conference achieved its objective. The event convened a diverse group of key industry and policy thought leaders to provide attendees with insight and knowledge on a full range of the potential policy options that might be in play to improve Americans' retirement security. Perhaps the most striking take-away was that despite the great diversity of perspectives represented in the room, there was broad consensus on both the scope of the challenge and at least some of the policy approaches. The common thread across speakers was that Americans feel less and less secure about their retirement prospects, and that the problem is not only one of perception. As a nation, improving retirement security is a real and serious challenge.

Importantly, there was a broad consensus that changes must be made to the U.S. retirement system—inaction is not an option. The various solutions offered ran the gamut: strengthening existing defined benefit pensions and encouraging the formation of new ones, retooling defined contribution plans to work better, and even implementing new retirement programs and approaches. The conference illustrated that we do not suffer from any shortage of ideas. Clearly, the more difficult, and necessary, task remains—translating these ideas into action in order to raise the bar on Americans' retirement security.

# Conference Synopsis

The American public is looking for leadership from Washington when it comes to retirement policy. Eight in ten Americans say retirement issues should be at the forefront of the Federal government's agenda, according to statistics presented by AARP's Nancy LeaMond in remarks to the National Institute on Retirement Security's inaugural policy conference. The more difficult question, "What specifically should policymakers in Washington do?" served as the touchstone for the conference discussion.

The industry and policy leaders who addressed the conference had no shortage of ideas, and were unanimous in the sentiment that inaction is not an option. Conference participants agreed that ensuring Americans have adequate retirement income is a critical policy issue facing the nation, and there are growing challenges against the economic downturn. The three-legged stool of retirement income—a traditional, defined benefit (DB) pension, Social Security, and individual savings in a defined contribution (DC) savings plan or IRA account—was called the "lifeline to retirement" by one panelist. But as Richard Trumka of the AFL-CIO noted, each of these three legs of the retirement stool are under strain. In a "retreat from paternalism," Mark Ugoretz, of the ERISA Industry Committee, indicated that private sector employers are less interested in offering traditional pensions. Americans' ability to save is being squeezed by stagnant incomes and rising debt burdens, a point driven home by Professor Elizabeth Warren of Harvard University. Moreover, as several speakers noted, employers have recently decreased or suspended their 401(k) matches as a result of the recession. Finally, Social Security, the major source of retirement income for most Americans, is already reducing benefits (in the form of a higher retirement age) and faces long-term financial challenges.

These trends have led to what Phyllis Borzi, Assistant Secretary of Labor for the Employee Benefits Security Administration, called a "crisis of confidence" in retirement systems. Perhaps not surprisingly, then, each speaker individually concluded that changes must be made to the U.S. retirement system. Speakers offered a broad array of policy proposals over the course of the day: strengthening and encouraging traditional DB pensions, improving DC plans and building new opportunities for individual retirement savings, and developing entirely new ways to deliver benefits.

## About This Synopsis

Our goal in convening a diverse group of experts for our inaugural retirement policy conference was to identify pragmatic, common sense policy solutions that could have a real impact on improving Americans' retirement prospects.

As a result, we opted for a synopsis of the event that teases out shared themes and common ground, instead of a transcript or chronological summary of each speaker's remarks. As such, this report should not be read as a comprehensive reporting, but rather a representative synthesis of the core substance of the event.

Dr. Debra Whitman
Majority Staff Director,
Senate Special Committee on Aging

Mark Ugoretz
President,
ERISA Industry Committee

## I. Defined Benefit Plans: Consensus that Breathing Room is Needed to Support Recovery

Regarding DB plans, the consensus among speakers was that traditional pensions greatly benefit employees. Mr. Trumka called traditional DB pension plans the "soundest vehicles for building and safeguarding retirement security," and stated that "for millions of Americans—teachers and bus drivers, factory workers and flight attendants, construction workers and nurses—reliable, employer-funded pensions made their lives immeasurably better." In fact, David John of the Heritage Foundation said that he wished he had a DB plan of his own.

Yet the state of DB plans is, by all accounts, challenging. Private sector employers have been drifting away from DB plans for some time because of a challenging regulatory climate. Assistant Secretary Borzi remarked that the challenge for policymakers is to keep the private-sector DB system vibrant and alive. The role for government officials, she said, is to not make it harder for plan sponsors to keep offering pensions. While the Assistant Secretary and several other speakers expressed hope that more employers over the long term would offer pensions, there was also a consensus that pension regulations, including those embodied in the Pension Protection Act (PPA) of 2006, have made it more difficult for many plan sponsors to continue their commitment to DBs. This is because the PPA increased funding volatility just as the economy and interest rates went in negative directions.

Several speakers discussed the need for Congress to provide pension sponsors with breathing room to recover from the extreme conditions in the economy and financial markets of the past two years. In his remarks, Gregory Dean of the U.S. Senate Committee on Health Education Labor and Pensions (HELP) observed that by 2007, private sector DB plans were nearly fully funded. Now, those same plans are less than 90% or even 80% funded because of the severe downturn in financial markets. As plans' assets have declined in value, employers face rapid escalation in required pension contributions under current regulations. DB funding relief would not eliminate the requirement to restore a fully funded position, but it would extend the timeframe that companies have to achieve full funding.

Particularly interesting was the broad agreement by representatives of corporate America and the labor movement on the necessity of funding relief, even if there may be differences with respect to the specific details. Speaking on behalf of corporate employers, Mr. Ugoretz observed that employers do want to fund their plans, but they simply need some time and breathing room during the recession and recovery. Mr. Trumka, speaking on behalf of working Americans, also made a strong case in favor of pension funding relief. He noted that funding regulations set out in the PPA are causing even healthy companies to freeze their pensions. Absent relief, he claimed, more and more plan sponsors may have no alternative but to freeze viable pension plans, cutting retirement income just when the U.S. economy is most vulnerable to demand-side shocks.

There was a general consensus that while Congress may act to provide temporary funding relief for DB plan sponsors, the current Congress has no plans to revisit the core elements of the PPA. Mr. Dean's insights were particularly relevant on this point. He reported that Congress is considering relief measures to give employers more time to get back to full funding. Mr. Dean stated that the goal should be to better balance how to have companies contribute to their pensions in good times so that they can "level out the trough" in the down times. He reported that Senator Enzi, ranking member on the HELP Committee, wants to encourage employers back into the DB arena, but this would require specific policy proposals.

## II. Individual Retirement Savings: Consensus to Retool DC Plans to Incorporate "DB-Like" Features

Much of the conference discussions focused on changes that can be made to strengthen individual retirement savings in the United States. The reason for this, Mr. John remarked, is most likely twofold. First, incremental changes to defined contribution plans are easier to accomplish than more drastic overhauls to entire retirement systems. Second, there seems to be support on Capitol Hill—even bipartisan support—for many of the changes under consideration.

Speakers discussed the need for better access to lifetime income streams, automatic enrollment, automatic escalation, fee disclosure, addressing the leakage of retirement savings, and financial education and advice. Each of these challenges seems somewhat unique to individual retirement savings plans—DB plans either inherently provide for each of these aspects, or they are not a problem, due to the nature of the DB system. As Assistant Secretary Borzi remarked, "something curious" is happening. That is, with coverage under DB plans waning, we are witnessing greater interest in grafting DB-like features onto DC plans.

Richard Trumka
President, AFL-CIO


Gregory Dean
Minority Counsel, Senate HELP Committee


Regina Jefferson
Professor, CUA Columbus School of Law



## Lifetime Income

Nearly all of the speakers noted the importance of having a lifetime income stream in retirement. Dr. Debra Whitman of the Senate Special Committee on Aging staff succinctly captured the essence of the problem. She observed that retirement savings is not necessarily the same thing as retirement income. Anne Wagner of the Municipal Employees Retirement System of Michigan noted that often times Americans mistakenly expect to receive a lifetime monthly payment in retirement although they do not have a DB plan and have not purchased an annuity.

Throughout the course of the event, several speakers noted that despite the benefits that derive from having a regular "paycheck" in retirement, there seem to be stubborn obstacles to more widespread use of lifetime annuities in retirement. One challenge seems to be a basic lack of understanding of annuities, or there may be other problems in the market for annuities. Many speakers agreed that policy can play a constructive role in helping Americans better navigate the "decumulation" phase of retirement planning. Indeed, Roger Ferguson of TIAA-CREF noted that President Obama included a mention of lifetime income streams in his State of the Union address, indicating the importance of this issue to policymakers.

Assistant Secretary Borzi took the conference as an opportunity to publicly announce a joint effort with the Treasury Department to examine the issue of obtaining lifetime income from retirement plans, beginning with a Request for Information (RFI) regarding lifetime income streams. Containing 39 questions, the RFI is intended to start a national dialogue—addressing the current annuities marketplace, plan sponsors, participants, and proposed solutions—as a first step in improving retirement security through greater access to lifetime income streams.

Mr. John hailed the RFI as "crucial," as most people underestimate how long they will live by 20%, which can put them at greater risk of outliving their retirement savings absent a lifetime income stream. Mr. John and other speakers explored whether partial, gradual, or trial annuitization options would encourage greater comfort with annuities.

Robert Reynolds of Putnam Investments offered an innovative proposal, suggesting the establishment of a Lifetime Income Security Administration to oversee qualified income products and vet income solutions. This agency would administer a national insurance pool funded by the insurance industry itself—in a similar fashion as the Federal Deposit Insurance Corporation—to ensure that lifetime solutions deliver benefits to participants. Mr. Reynolds also expressed his view that DC plan sponsors should consider offering participants a voluntary option to choose an assured lifetime income solution—either annuity or non-annuity version—as they enter retirement.

## Other DC Fixes Proposed

Speakers noted additional ways in which DC plans could be made to look more like DB plans. They are briefly noted below.

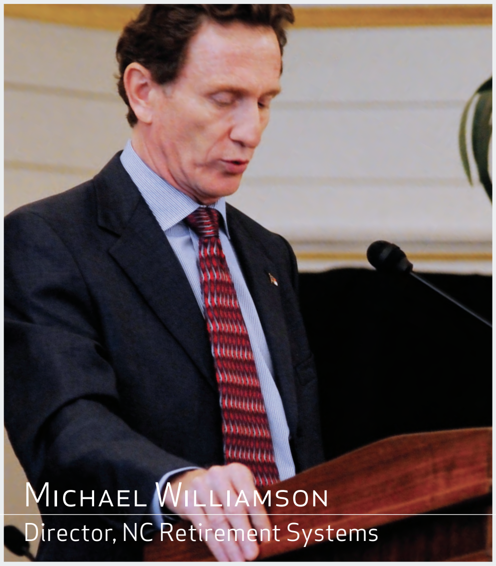
**Automatic Enrollment:** With the passage of the PPA in 2006, more employers are now automatically enrolling their participants. In other words, instead of having to actively choose to open a DC account, workers under automatic enrollment must actively choose not to enroll in the program. There was a general sense among speakers that automatic enrollment is a common-sense approach to increasing retirement savings and that it should be encouraged and expanded.

**Automatic Escalation:** The idea behind automatic escalation is that as an individual's income increases, their retirement savings should increase as well. For example, some automatic escalation programs may be set up to increase the amount withheld from one's paycheck by an additional 1% of payroll every 5 years. Automatic escalation features could increase retirement savings for many Americans.

**Fee Disclosure:** Congress has recently conducted hearings on the fees paid by employees and plan sponsors in 401(k) and other retirement savings plans. Specifically, there are concerns that current reporting and disclosure may be inadequate and that fees may be excessive. Ms. LeaMond believes that 401(k) fee disclosure is an important issue, as more clarity would enable participants to make better investment decisions for themselves. Dr. Whitman stated that 401(k) fee disclosure is the best way to increase retirement security without costing employees, employers, or the government any money at all.

**Leakage:** DC plans are commonly associated with "leakage" problems, which occurs when a participant takes a loan or hardship withdrawal out of a DC plan, or when a participant fails to roll over a DC account balance from a previous job. Several speakers agreed that retirement assets should be used for retirement, and not other purposes; so rollovers between accounts should be encouraged, and loans and pre-retirement withdrawals should be discouraged.

Elizabeth Warren
Professor of Law, Harvard University



Michael Williamson
Director, NC Retirement Systems

Phyllis Borzi
Asst. Secretary, US Labor Dept.


## Financial Advice and Consumer Protections

Many speakers noted the fact that, because of greater emphasis on individual retirement savings, participants need to be better educated about their specific benefit programs, asset allocation strategies, and draw down options. The challenges are formidable. Ms. Wagner observed that even after having implemented a strategic, targeted participant education program, many individuals with a DC plan in MERS were still confused about what exactly to do with their money.

Throughout the day, speakers offered a range of proposals to improve Americans' financial literacy. For example, Mr. Dean remarked that the federal government could do more to promote financial literacy. He advocated for better use of technology, including websites, to connect Americans with information and advice. Messrs Reynolds and Ferguson, speaking from the perspective of service providers, emphasized the need for financial advice and offered practical ways to ensure that participants receive objective, quality advice.

Finally, while not specifically addressing financial advice in retirement plans, the remarks of Professor Warren were germane. Having documented the growing financial strain middle class families have been feeling in recent years, her remarks focused on the causes and consequences of the explosive growth in household debt. She noted that one of the byproducts of increasing financial insecurity is greater difficulty in preparing for retirement, putting middle class Americans at greater economic risk today and in the future. Professor Warren presented data illustrating that today, more and more elderly households are declaring bankruptcy than any time in recent decades, and noted this signifies the emerging flaws within our retirement system. Professor Warren called for improved consumer protections in the area of financial products (mortgages, consumer debt, etc.), highlighting the need for better disclosure and more transparency. Clearly, there are many parallels between preparing for retirement and other major financial decisions (like purchasing a house). Better access to objective information and advice pays dividends in many contexts.

## III. New Approaches: Consensus that new path to retirement is needed

Assistant Secretary Borzi's opening remarks noted the innovation in retirement system design with the enactment of the Employee Retirement Income Security Act in 1974. This approach created a landscape where pensions were pervasive and provided an adequate, monthly retirement income for workers, or "Plan A." The recent dramatic shift from group pensions to individual defined contribution accounts, "Plan B," has left large numbers of Americans with insufficient retirement income. Assistant Secretary Borzi said that we now find ourselves in need of a "Plan C" to ensure Americans have an adequate stream of income in retirement. This "Plan C" would combine DB and DC ideas; it would ideally protect participants while not overly burdening plan sponsors. It has not yet happened, she said.

Over the course of the day, other speakers similarly supported some form of a new "hybrid" retirement system, incorporating some features of DB plans and some from DC accounts—or in the words of one speaker, the "best of both worlds." A few speakers offered comprehensive proposals of new hybrid systems; however, each differed somewhat on the specific details.

## A "Holistic Retirement System"

Mr. Ferguson's remarks focused on retirement system risk, noting that DB plans currently place too much risk on the employer, while DC plans place too much risk on participants. He recommended a "holistic" system that would share risks more equitably by incorporating the inclusivity and lifetime income stream characteristics of DB plans, but also the portability and employee contribution aspects prevalent in the DC system.

The inclusivity aspect of Mr. Ferguson's plan would ensure full participation. To achieve sufficient funding, he suggests a total employer and employee contribution rate of 10-14% of gross income—about double today's typical contribution—as these contribution rates are needed in order to achieve financial security in retirement. The system would help employees manage risk by offering a menu of investment options with sufficient diversification but not an overwhelming number of choices; specifically, Mr. Ferguson believes that investment options should be limited to 15-20 total, which would provide diversification without overwhelming participants. He further stated that, ideally, participants would be given investment options beyond traditional stocks and bonds—they should be offered appropriately managed commodities, private equity, and other alternatives in order to protect against with inflation risk.

In addition, the program would give workers financial education and objective, non-commissioned advice to help build a portfolio that reflects their goals and risk-tolerance levels. The system would also provide opportunities and incentives to save for retirement medical expenses, and would provide lifetime income via monthly payments, which Mr. Ferguson believes should include payout options that would continue for the life of the retiree and any eligible survivors.

## ERIC's New Benefits Platform

Mr. Ugoretz asked: if we could step back and think about how to set up a retirement infrastructure with a blank slate, what would it look like? He believes it would resemble the ERISA Industry Committee's "New Benefits Platform for Lifetime Security" proposal.

Shaun O'Brien
SVP, AARP

Mark Iwry
Dep. Asst. Secretary, US Treasury Dept.

Beth Almeida
NIRS Exec. Director

Joseph Cameron
*National Journal*

Ann Yerger
Exec. Director, Council of Institutional Investors


This system consists of three components: a modified DB plan, labeled a "guaranteed benefit plan," into which both employers and employees would contribute; a 401(k)-type savings element; and a long-term savings plan, which could be used to finance retiree health benefits, but could also be used for hardship loans or withdrawals in an emergency. The system would be administered by a third-party benefits administrator, with regional exchanges possible, and would be open to both large and small employers in the public and private sectors. It would be governed by rules set by the Federal government.

Mr. Ugoretz explained that the platform provides a new approach that complements the current voluntary employee benefit system while also meeting employers' needs for flexibility and employees' desire for portable, quality benefits. The system would offer other advantages as well, such as the economies of scale associated with the pooling of assets, as well as complete portability—the money stays where it is with the benefits administrator, he explained, even as workers move from employer to employer.

Mr. Ugoretz believes that such a system would be highly competitive in the marketplace, as it would include a variety of vendors to develop programs that give both employers and employees choice. He believes that such market competition is good, as it tends to control costs and can result in efficiencies and innovation.

Some aspects of the "Benefits Platform" resembled elements of retirement arrangements in other countries. For example, Mr. John offered in his remarks the example of the Netherlands, where companies group together to offer plans; this not only serves to make benefits more affordable, but it offers risk mitigation as well.

## DB/DC Hybrid Plan in the Public Sector

Offering an example of public sector innovation, Ms. Wagner remarked that MERS already has a hybrid option, which incorporates both a DB and DC component within the same retirement system. In developing the system, MERS was interested in having the cooperation of both the employers and employees in achieving retirement security. In this plan, the DB portion is collectively bargained while the DC is not. Reducing costs in the DC plan has been challenging, as investments tend to be more expensive in DC plans than in DBs. MERS has done significant work to control DC costs and create fair value in the DC plan. The DC portion, however, is more easily portable for those employees who may change jobs.

MERS has also reached out to governmental tribal employers in Michigan, and has succeeded in launching a new plan to serve these employers. Ms. Wagner says these tribal groups now, for the first time, "dare to dream" about having a secure retirement.

## Public/Private Partnerships

Ms. Wagner also remarked that discussions regarding MERS' hybrid plan have led to conversations on establishing a public/private partnership within Michigan MERS. She believes a public/private partnership may make sense, because retirement security is a national problem that includes all Americans. Through MERS, private sector companies could offer a retirement plan to their employees without having to bear the responsibility and administrative cost of setting up an entirely new system. This could be a good way of attracting more employers and jobs back to the state of Michigan, which has experienced a large economic decline for the past several years.

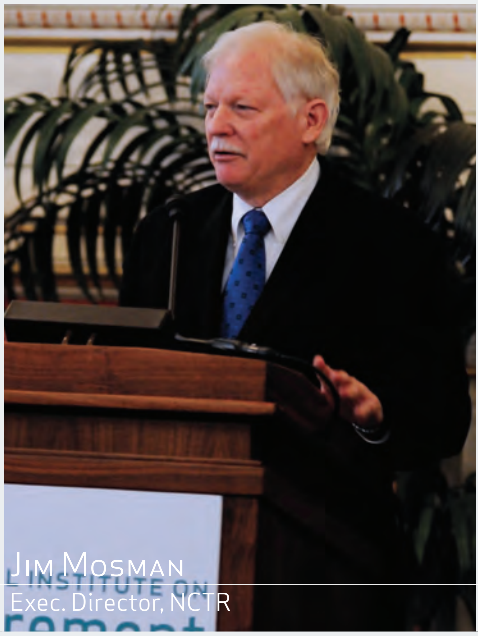
Still in development, the biggest challenge, thus far, has been educating the private sector that there are ways to control retirement costs within the DB system. Ms. Wagner believes that a DB plan can provide a cost-effective, yet modest benefit that still achieves the desired effect of providing for a secure retirement.

## Expanding Coverage through Automatic IRAs

The Automatic IRA, or auto IRA, is an employment-based individual retirement account (IRA) where workers use payroll deductions to save some of their own money for retirement. It is not an employer-sponsored retirement plan, and does not require employer contributions. Rather, the program is designed to make it easier for those workers whose employers do not offer a retirement plan save for retirement on their own.

Mr. John, a leading proponent of this proposal, noted that the Auto IRA currently has bipartisan support. It is designed for small businesses, whose employees are the currently the largest demographic without workplace retirement benefits. Thus the Auto IRA is meant to increase coverage; current estimates are that 89-90% of the workforce would be covered by a retirement plan if Auto IRA were implemented, as compared with just 50% of workers that are covered today. Mr. Dean concurred with this statement, stating that Auto IRAs have a lot of promise, but cautioned, however, that any mandatory retire-

Anne Wagner
CEO, Michigan MERS



Jim Mosman
Exec. Director, NCTR

Penny Lemov
*Governing*

Nancy LeaMond
Exec. VP, AARP


David John
Sr. Research Fellow, Heritage Foundation

Michael Ettlinger
VP, Center for American Progress

ment program must not place too much burden on small employers or individuals; it must be simple in design.

Mr. John believes the Auto IRA would not only benefit low-income workers and those not currently covered, but all Americans, because it is designed to be portable, following an employee as he or she changes jobs throughout a career. The program is also designed to be much more easily understood than IRAs are today. Perhaps as a result of these issues with the current IRA market, today only 10% of workers bother to open an IRA account.

Ms. LeaMond remarked that most Americans favor the Auto IRA proposal, and AARP supports it as well. Mr. Reynolds stated his belief that the Auto IRA will help Americans achieve a better retirement. Mr. Trumka disagreed, stating that Auto IRA does not go far enough and will not solve the core retirement security problems in the country. Dr. Whitman urged caution, stating that the Auto IRA offers promise in increasing the number of Americans covered by a retirement plan, but that the program must be designed so that markets are used efficiently, workers' retirement funds are secure, and that fees are low.

## Tax Credits and Incentives

Several speakers at the conference spoke in favor of expanding the "Savers Credit" in order to encourage more low-income and middle class Americans to increase their retirement savings. The Savers Credit is a provision of the Federal tax code that encourages Americans to save in a retirement plan. Currently, workers whose incomes are low enough may receive a tax credit of up to $1,000, or $2,000 for those who are married and filing jointly, for saving in a DC plan, IRA, or other eligible retirement account.

Ms. LeaMond noted that most Americans favor expanding the Savers Credit. Michael Ettlinger of the Center for American Progress stated that while so much of the federal tax subsidies for retirement favor wealthy Americans, the Savers Credit goes a long way in helping middle class Americans. It should thus be expanded for the middle class, and the cap should be raised to include more middle income earners. Mr. Dean said that making the Savers Credit available to Auto IRA participants would encourage those in the program to save more; yet he thought that funding the program could be challenging, given the federal budget's current deficits. Mr. Trumka was less optimistic. He opined that expansion of the Savers Credit would do very little in solving the nation's core retirement security challenges.

Some speakers addressed the issue of tax incentives for retirement in a broader way. For instance, Roger Ferguson noted that public policies should ensure that existing retirement tax subsidies are enabling workers to achieve lifetime financial security. But, the average American family faces a savings gap of $250,000. "For $1.2 trillion in subsidies, we can see to it that the average American family won't be $250,000 short of what they'll need in retirement," he declared.

Both Roger Ferguson and Michael Ettlinger remarked that, considering the size of Federal subsidies for retirement savings (which rank second in cost only to the home mortgage interest deduction), we as a society, might be able to get a "better bang" for the taxpayer's buck.

For instance, Mr. Ettlinger noted that the current structure of tax deductions and exemptions gives the largest incentives to those who can most afford to save, because of the progressive structure of the income tax. He questioned the "upside down" nature of these incentives and posited that there may be other ways to structure incentives to save for retirement that would be more efficient from a tax policy perspective.

## Retiree Health Care Savings

A few speakers noted that retiree health care is also a challenge to be confronted, and that adequate health coverage is essential to a financially secure retirement. Mr. Ugoretz pointed out that the third tier of ERIC's New Benefit Platform will include a savings vehicle for health benefits in retirement as well as additional retiree benefits.

Mr. Ferguson remarked that health care is becoming more expensive for all Americans, and that any retirement security initiatives must include the ability to amass savings for health care purposes. He added that TIAA-CREF provides savings accounts specifically for retiree health care needs.

Mr. Dean, however, noted that when it comes to health care, we must look at the savings structure carefully; he pointed out that setting aside savings to be used solely for health care may actually create less of an incentive for workers to utilize such accounts, if the accounts are seen as too inflexible.

# Conclusions

At the conclusion of the event, it was clear that NIRS's inaugural policy conference achieved its objective. From the diverse group of industry and policy leaders, attendees learned about the range of the potential policy options that might be in play to improve Americans' retirement security.

Perhaps the most compelling conclusion was not that speakers expressed differing views on policy priorities—that is to be expected when there is a great diversity of perspectives represented in the room. Rather, the more striking take-away was the breadth of agreement on the basic issues. There was broad consensus that the current retirement system is not ideal and is falling short for too many Americans. There was also agreement that changes can and must be made—inaction is not an option. Also encouraging, there seemed to be more agreement than disagreement on the various proposals policymakers can consider to improve retirement security.

As one speaker noted, at one time, the elderly were the most impoverished demographic group in America—but the advent of Social Security and employer sponsored DB pension plans changed that. Now, with Social Security's scheduled benefit cuts and DB pensions on the decline in the private sector, these trends may be reversing. Professor Warren's dire statistics on the growth of bankruptcy among the elderly are a warning sign that policymakers should pay close attention to the issue of retirement security.

Although "bickering abounds" in Washington, among people from different ideological perspectives, backgrounds, and regions, the dialogue at the NIRS policy conference was proof that reasonable people can agree on common sense solutions, even if they are approaching the problem from diverse vantage points. The various solutions offered by the conference speakers ran the gamut: strengthening existing defined benefit pensions and encouraging the formation of new ones, retooling defined contribution plans to work better, and even implementing new retirement programs and approaches. The conference illustrated that our nation does not suffer from any shortage of ideas. Clearly, the more difficult, and necessary task remains—translating these ideas into action in order to raise the bar on Americans' retirement security.

# Members

*NIRS expresses appreciation to its members — a diverse group of some 100 organizations interested in retirement security issues — for making this inaugural policy conference possible.*

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Council of Institutional Investors
National Association of State Retirement Administrators
National Council on Teacher Retirement

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