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Author's Response to Comments by Cynthia J. Levering

By Ken Beckman

This is not a response to a specific question, but I noticed in a couple of places Ms. Levering states "the benefits aren't portable." To be clear, no benefits are lost when someone changes from one plan sponsor to another. The contributions always stay with the plan sponsor where they were originally made, but the retirement income projections (and subsequent benefit payments) from all plan sponsors that an individual may have used are automatically combined by the clearinghouse.

- **Will lower-paid employees be able to participate, even at a modest level?**

One of the primary benefits of the SERIOUS system is to make a retirement system available to all employees, regardless of income. Currently, only 43% of employees in the bottom wage quartile are even eligible for an employer-sponsored retirement plan (p.10). Additionally, in order for employers to qualify for tax incentives they are required to contribute 1.5%—even for employees who do not contribute themselves (p. 10). This should increase the participation among lower-paid employees significantly.

- **Who monitors or regulates the information provided to individuals? Would employees be given enough standardized information to be able to compare the various plan sponsors?**

The governing board of the SERIOUS system would monitor (p.15). The primary information used to compare the plan sponsors will be the interface showing the annual income amounts at various contribution rates and retirement ages (p.11), However, it may also be appropriate to include some type of standardized qualitative information about the plan sponsors.

- **Will competition for participants drive up advertising/administration costs?**

This is certainly a possibility, but the intent is for participants to primarily rely on the interface (p.11) showing annual income amounts at various contribution rates and retirement ages rather than be influenced by expensive marketing campaigns.

- **Are the assumptions used to produce a 40 percent replacement rate reasonable?**

The 40% replacement rate is based on 6% employee and 3% employer contributions at a 3.5% interest rate and Annuity 2000 mortality table (p.9). While it may be true that a significant number of employees and employers will never contribute at these rates, for those that do, I believe these underlying assumptions to reach the 40% replacement rate are reasonable.

- **How sensitive are the benefits to modest changes in assumptions?**

The table included in the paper (p.22) does indicate that benefits are sensitive to the assumed guaranteed interest rate, but it is also stated that even with a 0% interest rate assumption for all years and modest employee and employer contributions, a 25% replacement rate can be achieved at retirement age 67.

- **Do these plans function as insurers or trusts?**

I would leave this detail to the SERIOUS board to determine.

- **How will the clearinghouse be funded?**

By the participating plan sponsors (p. 5).

- **What safeguards could be used to prevent large plan sponsors from abusing their authority?**

The SERIOUS board will establish certain safeguards against abusive practices. In addition to regulation, continuing education/communication coordinated by the board would let participants know they can change plan sponsors at any time without penalty, which also serves as a safeguard.

- **Since existing plans could coexist with SERIOUS, how would the transition from the current system be encouraged or incentivized besides using tax incentives?**

One option (p. 21) is to allow rollovers from existing DC plans into SERIOUS.

- **What could be done to minimize the cost of the system and feasibility of providing guarantees?**

A concern highlighted in the paper (p. 19) is the need for an increased supply of inflation-linked securities. An increased supply of these instruments would likely be most helpful in minimizing the cost of providing guarantees.

- **What happens if plan sponsors take on excessive risks?**

The risk measurement system and capital requirements (p. 16) required for each plan sponsor with oversight by the SERIOUS board would mitigate this possibility.

- **Since the underlying investments are more geared to fixed income than equity, what impact will this have on the capital markets?**

Clearly, the demand for fixed income, especially inflation-linked instruments, should increase under the SERIOUS system, but I don't have any estimates on what the impact will be to the capital markets overall.

- **Could a similar system work in the Canadian context?**

The SERIOUS system was designed specifically for the U.S. market, but it does have the potential to be implemented in other countries (p. 21), although I do not have sufficient knowledge of Canadian or other markets to comment further.