Retirement Plan Proposals Abound

During the past few months, a number of coalitions have come up with their own proposals for new and improved defined-benefit and defined-contribution plans.

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As many employers assess the details of last year's pension legislation, a number of coalitions are coming out with proposals for new kinds of defined-benefit and defined-contribution plans.

The Pension Protection Act resolved a lot of issues about how employers could fund defined-benefit plans and how they could safely put 401(k) plans on autopilot, but the legislation didn't solve the bigger problem of making sure that all employees have enough savings for retirement, observers say.

"The issue is that there is no such thing as doing enough when you are talking about getting employees to have enough savings for retirement," says Dallas Salisbury, president and CEO of the Employee Benefit Research Institute.

For this reason, groups of employers, actuaries, academics and industry experts have come together to introduce new plan designs that address many of the elements that the Pension Protection Act left out. Many of these proposals seek to maintain the viability of defined-benefit plans, while including within them many features inherent in 401(k) plans.

In April, the Society of Actuaries published "Building the Foundations for New Retirement Systems," which discusses how designing retirement plans differently could mitigate the risk currently taken on by employers in defined-benefit plans and by employees in defined-contribution plans.

In May, the Conversation on Coverage, an initiative launched by the Pension Rights Center in 2001, came out with proposals for retirement plan designs that include new types of defined-benefit and defined-contribution offerings.

Also in June, the ERISA Industry Committee, an association of large employers, launched its own proposal. Titled the New Benefit Platform for Life Security, the program would let benefits administrators provide health care and retirement benefits to employers through a new platform.

While all of these proposals would require legislation to become reality, experts say employers should pay attention to them now. They could affect how they design their benefits down the road.

"Nothing is going to happen next month, but employers should be paying attention to these proposals because in the long term they might allow them to offer a much more competitive benefits plan to employees," says Anna Rappaport, president of Anna Rappaport Consulting, a Chicago-based retirement benefits company.

Specifically, the proposals could help employers who are looking for ways to keep their defined-benefit plans, she says. "These new proposed plans could ultimately help companies attract and retain talent, which is going to be a bigger issue in years to come," she says.

What’s on the table

The Society of Actuaries’ Retirement 20/20 Initiative is the most general of all of the ideas being floated, experts say. While the Conversation on Coverage and the ERISA Industry Committee have come up with specific proposals for new kinds of retirement plans, the Retirement 20/20 Initiative is more focused on issues that policy-makers and employers should be discussing when creating new plan designs.

The problem with the current retirement plan designs is that the defined-benefit plan puts all the risk on the employer, while the 401(k) puts all the risk on employees, says Emily Kessler, staff fellow with the Society of Actuaries and author of "Building the Foundations for New Retirement Systems."

"As actuaries, we saw there are a lot of ways to produce the benefits of defined-benefit plans without putting the same kind of burdens on employers," she says.

At the same time, the group realizes that 401(k) plans don’t necessarily protect employees from retirement risks, Kessler says. "Autopilot and all of those features assume that employees retire at a certain period, but what if the employee gets sick or if their company shuts down?"

Among its proposals, the Retirement 20/20 Initiative suggests that companies consider greater flexibility in designing their retirement plans so they better cater to specific workforces. Workers today are living longer and their family structures are changing. Retirement plans reflect these changes, Kessler says.

The paper also suggests that financial markets could be used more effectively to hedge the risks that employers take on when offering defined-benefit plans.

"These are some of the solutions we plan to examine further, where risks can be shared among different stakeholders," Kessler says. The group plans to meet again on September 24 to discuss ideas further.

The Conversation on Coverage, which is made up of employers, lobbyists and executives at financial services companies, has been meeting for the past four years to come up with nonpartisan proposals for retirement plans that could gain traction on Capitol Hill, says Karen Friedman, policy director of the Pension Rights Center and director of the initiative.

"The Pension Protection Act has features that help to increase coverage, but it doesn’t even come close to giving all individuals coverage," she says.

The group has come up with four proposed plan designs: the Plain Old Pension Plan, the Guaranteed Account Plan, the Retirement Investment Account and the Model T Plan.

The Plain Old Pension plan essentially is a simplified defined-benefit plan that would be easier for companies to administer because their contributions would be based on published government tables, thus doing away with the unpredictability of the current system, says Norman Stein, a law professor at the University of Alabama School of Law and a member of the Conversation on Coverage.

The Guaranteed Account Plan is a hybrid of a 401(k) and a defined-benefit plan. Participants’ accounts would be credited with an annual contribution equal to a percentage of their pay. The plan would provide a guaranteed annual return for employees and be insured by the Pension Benefit Guaranty Corp.

The Retirement Investment Account is designed to reach individuals whose employers don’t offer retirement benefits or who aren’t eligible for their employer-sponsored plan, Freidman says.

With this account, employees would automatically have a payroll deduction deposited into a central clearinghouse, which would be a government entity that contracts out to private sector firms to invest the funds. Employees could take the account from job to job.

Finally, the Model T Plan would help small employers offer pensions through a multi-employer payroll deduction.

After formulating the plans for the past several months, the Conversation on Coverage is now ready to put them in place, Friedman says. "We will have meetings over the next few months about what needs to be done to implement these plans," she says.

The most recent proposal to be introduced was the ERISA Industry Committee’s plan. The committee last month proposed a platform that would let benefits administrators offer different types of benefit plans to employers.

The proposal is a the result of two years of work by a task force made up of large employers, including General Motors, IBM and Tyco International. Through the plan, employers could stick with their existing benefit structure or participate in this platform.

On the retirement side, the benefits platform would offer employers a choice of a Guaranteed Benefit Plan, which is similar to a defined-benefit plan; a Retirement Savings Plan, which is similar to a 401(k) plan; and a Short-Term Security Account, which is a tax-deferred savings account. Each plan is portable, meaning that employees could take them from job to job, spokesman Ted Godbout says.

Like the Conversation on Coverage, the ERISA Industry Committee is ready to focus on how to implement its proposals.

"The next step is to talk to all of the stakeholders and to Congress to see if we can build support for it," Godbout says. "But we don’t anticipate anything to happen until after the next presidential election."

While many employers might rather take a wait-and-see approach with any of these proposals, experts advise companies to start paying attention.

If for no other reason, companies should read up on these proposals to see what their competitors are thinking, says Lynn Dudley, senior vice president of retirement policy at the American Benefits Council in Washington.

"These proposals signal a trend and give companies a heads-up to where other companies are going," she says.