

## **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.

This is because while there has been tremendous growth in the number of plans, the number of people covered by plans, and the dollars invested for retirement, the percentage of private sector American workers participating in a pension plan has remained at roughly 50 percent for the past two decades.

The coverage locomotive is stalled. For more than a decade, there has been a debate about how to improve coverage and many ideas have emerged. Suggestions have been put forward by Presidents, Members of Congress, business groups, employee advocates, pension specialists, and professors. A few new ideas and even new types of pension plans have made it into law. Some of these ideas have prompted employers who had not previously offered plans to do so. Yet, there remains a clear need for new ideas to increase coverage, especially those aimed at raising coverage rates among low- and moderate-income workers.

### **Background: The Work Place and Retirement Benefits Today**

In 2003, 57 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 49 percent of all workers actually participated in these corporate pension plans.

Total enrollment in the private sector plans was 50.5 million of the 103 million private sector workers employed in March of last year, the Department of Labor reports.

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 between full-time workers, which have a 53 percent coverage rate, and part-time workers, which have an 18 percent coverage rate, according to the Department of Labor.

Companies with more than 500 workers are most likely to have a pension plan. In medium and large companies, a good employee benefits package is seen as key to attracting and retaining skilled workers.

Small businesses (with 99 or fewer workers) often face a different workforce situation. With a high worker turnover rate, there may be less employer or worker interest in benefits with a long-term horizon. Smaller companies are where there are the most

workers without retirement benefits. Among firms with 100 or more workers, the participation rate in retirement plans was 65 percent, compared with 35 percent for employees at small businesses.

Some of the lower coverage rates among small businesses is due to the fact that small businesses are more likely to have part-time workers – and part-time workers, as noted, are more likely to be without retirement plan coverage. 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.

An overall coverage rate of 50 percent at any one time does not mean that half the work force *never* has coverage. The likelihood a single individual will be covered increases with age.

### **Overview of the Conversation on Coverage's Working Group Reports**

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

The second phase of the Conversation on Coverage began in May 2003 with the establishment of a Steering Committee and the creation of three Working Groups, each with its own assignment, and each with a collection of people who represented 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 July 2003 through May 2004. The groups each had five or six full sessions, numerous subgroup meetings, and extensive further communications by telephone and e-mail.

These Working Group reports that follow present the recommendations that emerged from all those meetings.

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 employee benefits 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 came together in the middle to reach agreement.

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. Along the way, some members said they preferred new mandates; but, the Working Groups in the end reached a consensus on voluntary approaches.

The private, off-the record sessions gave the participants a chance to explore and debate different concepts without fear 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 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 it work better and 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 synthesis of thinking among members of the group is now offered for consideration and deliberation by others, including workers, employers, members of Congress and the general public. 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 helped design 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.

### **Key Recommendations of the Working Groups**

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

- **The Guaranteed Annuity Plan (GAP)** takes an employer-funded defined contribution plan, the money purchase plan, and adds new twists: the employer guarantees the rate of return on account balances of workers. GAP also provides higher contribution limits. The normal form of GAP's final benefit is an annuity, although employers can offer lump sums. (Working Group I)
- **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 in any year and then reduce back to the basic benefit in future years. It makes an employer's funding obligation more predictable. The normal form of the final benefit is an annuity and no lump sums would be allowed. (Working Group I)
- **The Retirement Investment Account (RIA) Plan** proposes the creation of a government-authorized, privately-run central clearinghouse to accept contributions from all workers at all businesses. Employers will not have to administer the plan or take fiduciary responsibility for the investment choices of their employees. This plan is aimed at providing more individual workers with access to a payroll-deduction retirement saving plan through their workplace. (Working Group II)

- **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 will administer the plans and assume fiduciary liability for a simplified array of investment choices in the plan. This plan is likely to expand coverage by encouraging more small businesses to offer a plan to their workers. (Working Group III)

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

This report contains a detailed discussion of each of these proposals and other recommendations that emerged from the Working Groups, preceded by an Executive Summary for each of the Working Group reports.

### **Understanding the Language in the Working Group Reports**

In the individual reports that follow, the reader will come across 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 for purposes of this report. The goal of the group was to try to reach consensus. “Consensus” did not necessarily mean having 100 percent agreement by all parties 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 they group “generally agreed.” By that, it is meant that there was only token opposition from a few members, usually no more than two.

Beyond the area of “general agreement,” you will also note that other varying degrees of 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 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 product forward and getting something else in return on other ideas. Sometimes, rather than get bogged down in contentious issues, the Working Group members agreed to list a range of options and come back to the issue if there was more time.

Even where there was not “general agreement,” 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 say that “the group was divided” on this issue.

Efforts are made to 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 for addressing the issue at hand.

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

Lastly, these are not the final reports on the recommendations of the Working Groups. Comments and suggestions about the recommendations contained in these reports will be incorporated into an upcoming Final Conversation on Coverage National Policy Forum Report.

Robert Stowe England