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Pension Reform

Pension Reformers Should Not Promise Freedom From Fiduciary Duties, Borzi Says

The success of private pension reform will depend on whether proponents can offer models that are more attractive to employers than those available within the current system of private pensions and retirement savings, a senior Department of Labor official said Feb. 22 at a pension event focused on innovation.

Unless pensions and retirement savings plans are more attractive to employers, efforts to expand coverage and participation will fall short of what is necessary, said Phyllis C. Borzi, assistant secretary of labor for the Employee Benefits Security Administration. Borzi cautioned, however, against offering relief from fiduciary responsibility as ''the selling point'' for making pension or retirement plan proposals attractive to employers.

Borzi also advised proponents of alternative plan designs to address the problem of ''leakage''—or premature withdrawals from defined contribution plans—in any new models that they propose.

She made her remarks at the event, titled Re-Imagining Pensions: Using Innovative Pension Plan Design to Reduce Risk and Increase Retirement Income, sponsored by the Pension Rights Center, Covington & Burling, and the Urban Institute.

Borzi said her greatest concern about proposals that depend for their success on people deciding to save for retirement is whether those proposals can produce adequate retirement income.

'Super Simple' Plan. Eight proposals were presented and critiqued at the Feb. 22 event. The ''Super Simple'' Plan, presented by Pamela Perun, retirement income consultant, would extend the use of the existing SIMPLE (savings incentive match plan for employees of small employers) design to employers of all sizes through a variety of incentives, including simplified nondiscrimination rules and higher contribution limits than those that now apply to tax code Section 401(k) plans.

Companies that sponsor cash balance pension plans or defined contribution plans with a minimum employer contribution might already qualify for the incentives that would be available to Super Simple Plan sponsors, Perun said. A full description of the Super Simple Plan is at http://www.urban.org/publications/411676.html.

Secure Choice Pension. The Secure Choice Pension, presented by Hank H. Kim, executive director and counsel at the National Conference on Public Employee Retirement Systems (NCPERS), would allow small private-sector employers to voluntarily participate in defined benefit plans administered through a public- and private-sector partnership. The partnership would require states to enact legislation establishing multiple employer hybrid defined benefit plans. A full description of the Secure Choice Pension is at http://www.retirementsecurityforall.org/.

Building Blocks. Six of the eight proposals presented at the event utilize similar ''building blocks'' that could easily be reassembled into other innovative proposals, said Norman P. Stein, professor of law at Drexel University. (For a discussion of four of the other proposals, see related report in this issue.)

Stein said proponents of pension reform should avoid letting ''a binary choice'' between defined benefit plans and defined contribution plans dictate retirement policy.

In re-imagining pensions, proponents of change should focus on pooling risk, keeping in mind that plans are subject to ordinary market risk and catastrophic market risk and that risk should be shared by employers and employees, Stein said.

For members of the baby boom generation, ''the clock is ticking,'' and it may be too late to reform the private retirement system in ways that will benefit them, said Richard C. Shea, partner at Covington & Burling in Washington, D.C.

Perhaps the best way to help members of the baby boom generation achieve retirement income security is to help them with strategies for withdrawing their retirement money, Shea said.

Improve Saleability? David Gustafson, director of the Policy, Research and Analysis Department at the Pension Benefit Guaranty Corporation, who was not a panelist but attended the event, asked panelists who offered pension proposals which regulatory rules, if suspended for a three-year period, would make their proposals more saleable to employers.

Responding, Stein said that pension innovation would benefit from a process in which employers could seek exemptions from certain rules so they would be freer to experiment with different pension or retirement plan models.

Karen D. Friedman, executive vice president and policy director at the Pension Rights Center, wrapped up the event by suggesting that, as a next step, representatives at the event form one or more task forces to develop concrete proposals.

Gregory Dean, chief counsel for the Senate Health, Education, Labor and Pensions Committee for Ranking Member Michael B. Enzi (R-Wyo.), said at the event that Enzi is developing a multiple employer plan proposal based on ''pooling'' Section 401(k) plans within industries to keep administrative costs down.

In that proposal, there is an opportunity ''to really broaden coverage,'' Dean said.

By Florence Olsen

The Super Simple Plan is described at http://www.urban.org/publications/411676.html. The Secure Choice Pension is described at http://www.retirementsecurityforall.org/ (click on Read the Plan).

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