

## **“The Failure of the 401(k)” Briefing November 10, 2010**

### **Statement by Karen Friedman Executive Vice President and Policy Director**

Good afternoon. I'm delighted to be here today to speak about a campaign called Retirement USA.

Robert just gave a terrific overview of the problems of the private retirement system. Retirement USA is about developing creative and comprehensive solutions for the retirement income crisis. This campaign is working toward a new universal, secure, and adequate retirement income system that -- in conjunction with Social Security -- will provide future generations of workers with sufficient income for retirement.

The Pension Rights Center is one of five conveners of Retirement USA, along with the AFL-CIO, the Economic Policy Institute, the National Committee to Preserve Social Security and Medicare, and the Service Employees International Union, as well as 23 other supporting organizations, including Dēmos and our trusty advisers at SCEPA.

Over the past few months, we've heard a lot of talk from politicians about the federal deficit. But today I am discussing another kind of deficit that policymakers must address -- and address soon. That is, the massive and growing retirement income deficit facing millions of Americans.

The retirement income deficit is the gap between the pension and retirement and savings that American households have today and what they should have saved for retirement by today to maintain their standard of living in retirement.

This deficit is the result of factors discussed by Robbie: the decline of good private pension plans, the failings of 401(k) plans, and the overall low coverage rates in employer-sponsored plans.

The retirement income deficit number was calculated by the Center for Retirement Research at Boston College on behalf of Retirement USA. And the number comes out to \$6.6 trillion dollars. That is a big gap. So you can see why we're having this briefing today on solutions,

Before I get into the meat of Retirement USA principles, I want to make two important points. All of the organizations in R-USA, while working for long-term reforms, are separately also working to do everything possible in the short term to improve the current system by working to encourage and preserve defined benefit plans, strengthen protection in 401(k) plans, and increase coverage

I also want to emphasize that Retirement USA is committed to working for a new private retirement income system that would supplement the solid foundation provided by Social Security. We oppose any cuts to Social Security, which would only serve to increase the retirement income deficit that millions of Americans are already facing.

Having said that, we launched Retirement USA to start a national campaign and discussion on the need to develop a better retirement system to supplement Social Security.

We studied systems and proposals here and in other countries and developed 12 principles that combine the best features of defined benefit plans, 401(k)s as well as additional elements.

We have three overarching principles that we believe should guide the reshaping of a 21<sup>st</sup> century retirement system:

- (1) Universal Coverage. *Every worker should be covered by a retirement plan.* A new retirement system that supplements Social Security should include all workers...unless they already are in plans that provide equally secure and adequate benefits.
- (2) Secure Retirement. *Retirement shouldn't be a gamble.* Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.
- (3) Adequate Income. *Everyone should be able to have an adequate retirement income after a lifetime of work.* The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

Here are additional principles:

- Retirement should be the shared responsibility of employers, employees and the government meaning that:
  - Employers and employees should be required to contribute and the government should subsidize the contributions of lower-income workers.
  - Contributions to the system should be pooled and professionally managed to minimize costs and financial risks.

Also, there should be:

- Payouts should only be made at retirement and benefits should be paid out for life.
- Benefits should be portable.
- Additional voluntary contributions should be permitted,
- Lastly, the system should have efficient administration and effective oversight.

Retirement USA is not supporting any one proposal at this time. Instead, we are looking at many possible designs.

All of the groups in our initiative agree that the most efficient way of strengthening workers' retirement security would be to increase Social Security. However, our groups recognize that America's retirement income programs have historically been a mix of public and private systems. For that reason, our focus is on principles that must underlie any new private system to supplement Social Security.

Here are a sampling of proposals and programs that meet most or all of our principles, showing that creating a new system is feasible.

- TIAA-CREF, which was started for university professors, is portable, allows for employer contributions, pools investments, and the money is generally paid out as annuities.
- Monique will talk about the GRA, the Guaranteed Retirement Account.

- The ERISA Industry Committee has proposed a Guaranteed Benefit Plan. This plan would be run by independent administrators, contributions would be pooled, the principal is guaranteed, and benefits would be paid as annuities.
- The Netherlands has a system of defined contribution plans, in which employees and retirees collectively share the risk of investment loss.
- In Australia, all employers contribute nine percent of their employees' pay into a mix of private nonprofit and for-profit funds that administer retirement accounts.

The systems described above differ from proposals to modify existing 401(k) plans or IRAs because

- they require contributions to be pooled and paid out only at retirement in the form of lifetime payments;
- they eliminate or minimize the amount of risk shouldered by individuals; and,
- they try to achieve a level of adequacy.

While the Pension Rights Center is committed to doing everything possible to improve the current system, the evidence is clear that workers need more than just more patches on our already-patchwork system of retirement plans and individual accounts. We need comprehensive reform.

Thank you.