RETIREMENT USA

Working for a ***Universal***, ***Secure***, and ***Adequate*** Retirement System

Proposals for a New Retirement System

Panel One Proposals:

Guaranteed Retirement Account Plan, presented by Teresa Ghilarducci. The GRA proposal mandates a contribution of five percent of earnings (up to the Social Security wage base) for all workers – evenly divided between employer and employee. The employee's share of the contribution would be offset by a $600 refundable tax credit, which would completely cover the contribution obligation of an employee with income up to $24,000. The contributions of husbands and wives would be combined and divided equally between their individual accounts.

The plan would provide for a guaranteed real three percent annual rate of return adjusted for inflation. If actual investment returns are consistently higher than three percent inflation-adjusted over a number of years, the trustees of the plan could distribute a surplus to GRA participants. A balancing fund would be maintained to ride out periods of low investment returns.

Account balances would be converted to inflation-adjusted annuities upon retirement, with a partial (10%) lump sum available. A full-time worker who contributes into the plan for 40 years and retires at age 65 can be expected to receive income equal to roughly 25 percent of pre-retirement income. The plan would also provide a death benefit of one-half the account balance for participants who die before retiring. Those who die after retirement could bequeath to their heirs half their final account balance less the total of benefits received.

Guaranteed Benefit Plan, presented by Mark Ugoretz. The proposal is based on the ERISA Industry Committee's Guaranteed Benefit Plan, which is part of a larger proposal titled the New Benefit Platform for Life Security. The New Benefit Platform calls for competitive independent benefit administrators to administer health and retirement plans. Benefit administrators would be liable for contractual and other common-law obligations (similar to existing ERISA fiduciary responsibilities). These programs would be voluntary for the employer, although the program could be combined with a requirement that individuals whose employer does not offer a plan make minimum contributions to either a pension or retirement savings plan.

One of the benefits proposed for the new Lifetime Security Plan is a Guaranteed Benefit Plan (GBP), which would provide a single source of retirement income. The GBP is a hybrid arrangement, similar to a cash balance plan. The GBP would, at a minimum, guarantee the principal that employers and employees contribute to the plan, so that employees would be protected from a net loss. In addition the GBP would establish a minimum investment credit that would apply to the balance of each individual account.

Distributions from the GBP would be paid out at retirement only as a stream of payments or in annuity form. Because each benefit administrator is expected to enroll very large numbers of employees, this large pool should help bring down the cost of annuities, making them significantly more affordable to retirees. Further, the GBP would be designed so that it would be guaranteed by the Pension Benefit Guaranty Corporation (PBGC).

Guaranteed Pension and Community Investment Plan, presented by Glenn Beamer. Workers would contribute five percent of their wages to locally-based funds and receive fully guaranteed lifetime annuities at retirement. Workers, employers, unions and governments would be encouraged to contribute an additional five to ten percent of wages. An eighty percent refundable tax credit would offset $560 of workers' first $700 in contributions and replace the current deduction allowed for 401(k) plan contributions. This tax credit would be deficit neutral or would decrease the deficit. The contribution structure would be progressive, and accounts would be fully portable. Full benefits would be payable when the participant's age and service equals 100.

Seventy percent of a worker's account would be invested in a balance-guaranteed account and the remaining 30 percent would be invested in community development. The plan would be administered by a locally elected board of trustees.

CPCI Community Investment programs would be determined and adopted locally. A federal agency similar to the Pension Benefit Guaranty Corporation will regulate CPCI plans.

Panel Two Proposals:

Retirement-USA Plus Plan, presented by Nancy Altman. The proposal would establish a defined benefit plan sponsored and administered by the federal government. Plan participants would consist of all workers in employment covered by Social Security. Benefits would equal 20% of currently scheduled Social Security benefits. Retirement benefits would be paid automatically in the form of 100 percent Joint and Survivor Annuities. Additional benefits would be paid directly to divorced spouses who were divorced after at least 10 years of marriage, dependent spouses, parents, children, and grandchildren. The Plan would provide group life and disability insurance, as well. All benefits would be fully protected against inflation. In addition, all participants would have the option to convert tax-favored and other savings into a supplemental annuity purchased through the Social Security Administration.

On the date of adoption, plan benefits would immediately vest in all workers who were insured for purposes of receiving Social Security benefits and would be immediately payable to all Social Security beneficiaries. Workers not then vested would become so when they became insured for purposes of receipt of Social Security benefits.

The plan includes two alternative financing mechanisms. The second would leave the plan in long-range actuarial balance; the first, in long-range surplus. The first alternative consists of (1) employer and employee contributions on earnings in excess of Social Security's maximum, (2) revenue from requiring consistent tax treatment of employee contributions to salary reduction plans, (3) revenue from a dedicated federal estate tax, and (4) investment income on Plan reserves. The alternative method is to require contributions by employers and employees of 1.5% each on wages insured by Social Security and to expand the Earned Income Tax Credit, in order to offset the cost for lower-income workers.

Insured Retirement Accounts, presented by Regina Jefferson. The proposal would provide insured retirement accounts for individuals not covered by individual employer-sponsored plans. The accounts would be jointly funded by the employer and employee, each providing a contribution of 3% of wages up to the Social Security wage base. The contributions of low and moderate income wage earners would receive a public subsidy, which would be gradually phased out. Contributions would be made to either a clearinghouse established by the Social Security Administration (or to another entity such as the Pension Benefit Guaranty Corporation). Investment assets would be pooled by the entity receiving them, and the investment function could be contracted out to investment professionals. As described below, the pooled investment portfolios would be subject to some portfolio design parameters, which would reduce the risk of investment loss. Benefits would be paid as life annuities commencing at retirement age; disability benefits would also be available.

The insurance program and portfolio parameters are the innovative aspect of this proposal and are based on previous work suggesting an optional defined contribution insurance program for private sector plans. The primary idea of the insurance proposal is to protect participants from severe losses that occur close to their retirement. The insurance would do this by providing that each year's contribution would earn over an employee's career no less than the average annual rate of return on a model portfolio that conformed to the investment parameters.

Variable Defined Benefit Plan, presented by Gene Kalwarski. This proposal, developed by the United Food and Commercial Workers International Union, creates a new type of defined benefit plan, removes significant levels of risk inherent in today's traditional defined benefit plan. The VDB plan might be described as a floor-elevator plan. Each participant would receive an annual floor benefit, which would be stated in the form of a uniform retirement annuity. (The benefit could be either a flat benefit or a percentage of pay, in which case the floor benefit would look like a career average defined benefit.) The floor benefit would be actuarially determined from the plan's contribution base for all participants in the plan as a uniform benefit, but using a very conservative interest assumption.

The floor benefit would also be converted into investment units in the plan's collective assets, which would be professionally managed. (For example, a $100 floor benefit would purchase $100 of investment units.) These investment units would fluctuate in value annually, increasing in value in a year in which the plan's investment return exceeded the conservative interest assumption (plus a reserve factor) and declining in value in a year in which the plan's investment return fell below the assumption. At retirement, employees would receive the greater of the sum of their floor benefits or the sum of their investment units. Benefits would be paid only in annuity form, although a plan could be structured to provide for death, disability, post-retirement inflation protection, and/or early retirement.

The VDBP was conceived as a collectively bargained plan, but could be made the backbone of a universal retirement system by creating a series of such plans for different groups of participants. Such plans might be structured around industries, might be regional, or might be offered to employers for their employees by governmentally chartered entities. The plans would be jointly managed by employee and employer representatives. The plan could be funded by employer, or employee, with public subsidies for lower and moderate income workers.