RETIREMENT USA

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

Statement of Karen Friedman, Pension Rights Center,
on behalf of Retirement USA
at a Retirement Income Roundtable
convened by members of the Commission on Fiscal Responsibility

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Good afternoon. I am Karen Friedman, Executive Vice President and Policy Director of the Pension Rights Center, a consumer organization committed to promoting retirement security for workers, retirees and their families. With me is Nancy Altman, the Chair of the Center's Board of Directors and an expert on pensions and Social Security issues.

The Pension Rights Center is one of five conveners of Retirement USA, a national campaign working for a 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 other conveners of Retirement USA are 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 21 other supporting organizations. I am appearing today on behalf of Retirement USA.

We are not here today to address the long-term federal deficit facing the country. We are here today to discuss another kind of deficit – the massive and growing retirement income deficit facing millions of Americans. The retirement income deficit is the gap between what people need for retirement and what they actually have. This deficit is the result of the stress placed on private pension plans by the financial crisis, the failings of 401(k) plans, and the overall low coverage rates in employer-sponsored plans. It is this deficit that Retirement USA was created to address.

We applaud you for convening this roundtable and are pleased to be included in this dialogue on the need for a comprehensive approach to promoting adequate retirement security.

Before turning to a discussion of the retirement income deficit and how we think it should be addressed, I would like to make three important points.

First, Retirement USA is not yet advancing any specific proposal. What we have done is develop 12 principles, which we view as the fundamental building blocks for a new retirement system that, together with Social Security, will ensure a secure and adequate system for all American workers. The Retirement USA principles have already spurred a range of new and creative proposals, and I will share some of them with you.

Second, all of the organizations participating in Retirement USA are committed to strengthening current worker protections in 401(k) plans, encouraging and stabilizing defined benefit pension plans, and increasing retirement savings for today's workers.

Third, all of the participants in Retirement USA are committed to protecting and improving Social Security. Social Security is the economic lifeline that millions of Americans rely on to survive. It is doing an unparalleled job of providing a basic foundation of income for retirees. Cutting Social Security benefits – for example, by increasing the statutory retirement age or changing Social Security's indexing – would increase the retirement income deficit that millions of Americans are already facing.

In other words, Retirement USA is committed to working for a new private retirement income system that would supplement the solid foundation provided by Social Security. We unequivocally oppose any effort to reduce this critical social insurance program.

As I mentioned, Retirement USA is committed to working for a secure and adequate private retirement income system that will cover all workers and, in combination with Social Security, provide future retirees with sufficient income to maintain a reasonable standard of living. Today's private retirement system falls far short of these objectives. It is not universal. It is not secure. And it is not adequate.

A threshold problem is that the retirement plan participation rate for private-sector workers has remained at around 50 percent for more than a quarter century. And now, as a result of the recession, all indications are that even fewer companies are offering retirement plans fewer people are saving for themselves.

Also, all too many companies are freezing, terminating, and otherwise cutting back benefits in traditional private pension plans that promise secure, employer-paid, guaranteed lifetime pensions. Currently, only one out five private sector workers participate in these plans. These may be the only workers in America who can sleep soundly at night, knowing they can count on a secure monthly check.

Today, most private-sector retirement plan participants are in 401(k) plans. The problem is that, even in the best of circumstances, these plans only work if people are able to set aside a lot of money, make the correct investment choices, keep the money locked in until retirement, and then figure out how to make the money last for the rest of their lives.

And as you all know, that is a lot of risk and responsibility for individuals to shoulder. For some people, typically higher-paid employees, this do-it-yourself style of saving may work adequately, but for the majority of workers, it has failed spectacularly. The statistics say it all. Even before the recession, retirement savings were low. In 2007, half of all families with 401(k)-type plans or IRA accounts had less than $45,000 saved in these accounts. For families that are headed by older workers, the median account balance was just $98,000.

But this debate is not merely about statistics. It's about real workers and their families from all across this great country who are struggling mightily in this economy just to keep their jobs and their houses. It is unrealistic to expect workers who can barely make meet today's expenses to shoulder alone the burden of saving for tomorrow.

It is against this backdrop of the inefficiencies and shortcomings of the private retirement system that we can appreciate just how important Social Security is for workers and how it provides a rock of stability in today's chaotic financial world. Whether you have a pension or a 401(k), or no plan at all, virtually everyone gets Social Security, income they cannot outlive, with built-in protection against inflation

These benefits are critical. Fully two-thirds of the elderly receive more than one-half of their income from Social Security, and one in five have no other income but Social Security.

Retirement USA was launched last year by unions, retiree groups, and progressive research organizations to start a national discussion on the need to develop a better retirement system to supplement Social Security. We studied systems in other countries and proposals and programs here in the United States and developed 12 principles that borrow from the best parts of defined benefit pension plans and 401(k) savings plans, and include some additional features.

We have three overarching principles that we believe should guide the reshaping of our pension system for future generations of workers. These are:

(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.

Other principles include

- **Shared Responsibility.** Retirement should be the shared responsibility of employers, employees, and the government.
- **Required Contributions**. Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower-income workers.
- **Pooled Assets.** Contributions to the system should be pooled and professionally managed to minimize costs and financial risks

- **Payouts Only at Retirement.** No withdrawals or loans should be permitted before retirement, except for permanent disability.
- **Lifetime Payouts.** Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.
- **Portable Benefits.** Benefits should be portable when workers change jobs.
- **Voluntary Savings**. Additional voluntary contributions should be permitted, with reasonable limits for tax-favored contributions.
- **Efficient and Transparent Administration.** The system should be administered by a governmental agency or by private, non-profit institutions that are efficient, transparent, and governed by boards of trustees that include employer, employee, and retiree representatives.
- **Effective Oversight.** Oversight of the new system should be by a single government regulator dedicated solely to promoting retirement security.

In March of last year we issued a call for proposals. We received 25 proposals that meet some or all of our principles. Six of these were featured at a Retirement USA conference in October.

It must be said at the outset: Social Security meets all of the core Retirement USA principles other than “adequacy.” Social Security benefits for the average retiree are just under $14,000 a year – less than the federal minimum wage. They are only $11,000 for women.

All of the organizations participating in Retirement USA believe that if there were the political will to do so, expanding Social Security so that it could provide an adequate level of income would be the most efficient and effective way of strengthening workers’ retirement security.

But our groups recognize that our tradition of providing retirement security in America has been a mix of public and private systems. For that reason, our principles focus on features that we believe must be part of a new private system to supplement Social Security.

Here are an array of interesting proposals and existing programs that meet many or all of our principles (longer descriptions are available):

- **TIAA-CREF**: TIAA, the plan set up by Andrew Carnegie for college teachers is portable – meaning people can take their pensions with them from job to job, is employer-paid, uses pooled investments, and generally pays benefits out as lifetime annuities.
- **Guaranteed Retirement Accounts**: Developed by Teresa Ghilarducci and the Economic Policy Institute, the GRA proposal mandates a 5 percent of earnings contribution split between workers and employers, with the employee’s share reduced by a refundable tax credit to cover the cost of the contribution for lower-income workers. The plan would guarantee a minimum 3 percent annual return adjusted for inflation, and the amount would be paid out as an annuity.
- As you will hear, the ERISA Industry Committee has proposed a **Guaranteed Benefit Plan**. This is a plan in which workplace contributions would be pooled; the principal would be guaranteed, protecting employees from net loss; and benefits would be paid as annuities. Independent administrators would administer these plans, and benefits would be payable only at retirement as annuities.

- **Retirement USA Plus Plan**: This is a plan developed by Nancy Altman, which envisions the establishment of federal government-sponsored defined benefit plan, which would add a pension on top of Social Security that would equal 20 percent of all of Social Security's benefits – old age, survivors, and disability. Both employees and employers would contribute, with the benefit paid out as an annuity. A 1.5 percent contribution by employees, matched by their employers, would allow not only all future beneficiaries of Social Security to receive the supplement, but all current beneficiaries as well.
- We also examined systems in other countries. A growing number of companies in the Netherlands are adopting what they call **Collective Defined Contribution Plans**, in which contributions are pooled, professionally invested, and paid out only at retirement as inflation-adjusted annuities. The unique feature of these plans is that the employees and retirees collectively share the risk of investment loss and the costs of longevity gains.
- In the **Australian Superannuation System**, all employers contribute 9 percent of their employees' pay to a financial intermediary, which can be either a for-profit or non-profit institution, which invest and administer the funds. As in the Netherlands and most other countries with private retirement plans, the boards of trustees of the institutions include both employees and employers.

What differentiates most of the systems described above from proposals to modify existing 401(k) plans or IRAs is that the former require contributions to be pooled and paid out only at retirement in the form of lifetime payments. These systems eliminate or minimize the amount of investment and mortality risk shouldered by individual workers. They also all try in some way to achieve a measure of adequacy.

While all of our groups remain 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. It is time to recognize that tinkering around the edges is not enough. We need a system that shares risks and responsibilities. We need a system that takes the best of 401(k) plans – portability and simplicity – and combines that with the best of pension plans – security and lifetime payments.

Thank you for addressing this important issue. We look forward to working with you.