

ERISA Advisory Council

Approaches for Retirement Security in the United States

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September 17, 2009

Good afternoon.

I'm here to speak on behalf of SEIU and our 2 million members.

Our members are primarily service workers, including janitors, security guards and food service workers in institutional settings, healthcare workers in hospitals and nursing homes, home care workers and workers in state, county and local government.

About a quarter of our members, or about half a million workers, are covered by private sector defined benefit plans, primarily multi-employer but also single employer plans.

Just short of a million members, participate in state, county and municipal government defined benefit plans.

Of the remaining half a million, some are covered by defined contribution plans but most of them have no coverage at all.

I think it is safe to say that the vast majority of our defined benefit plans were in good shape before the financial crisis of 2008.

We followed the advice of our actuaries, our investment consultants, our lawyers, and of portfolio theory academics, just like ERISA prescribed.

We were fully diversified across all asset classes and we rebalanced as needed. We monitored our investment managers, we fired poorly performing one and we hired new managers accordingly.

Yet, in spite of our fiduciary correctness, because of a huge mismanagement of risk by some of the largest financial firms in our country and because of the failure of regulatory oversight and enforcement, when the leverage and housing bubbles finally burst, all financial markets and all asset classes took a huge dive in 2008 and we now find ourselves in deep trouble.

Our funds, our participants and our sponsoring employers who pay the contributions are going to pay a heavy price for the misdeeds of others and there is no TARP, TALF, PIPP or other program to come to the rescue.

This is the new version of trickle down economics and our members, many of them low-wage janitors, homecare workers, nursing home workers and food service workers will bear the brunt of the greed that fed the leverage and the housing bubble of the last decade.

I want to convey to you the frustration, outrage and anger that we hear every day from workers all around the country. They are dumbfounded that at the very moment our whole financial system was at risk, our economy and our pension funds were on the edge of a complete meltdown, when taxpayers were bailing out AIG and when Bank of America and Merrill Lynch were engineering a merger with taxpayer guarantees, all “for the good of the country”, in the back room the conversation was about preserving billions of dollars in bonuses for AIG executives and billions in bonuses for Merrill Lynch executives.

We haven't heard the last of this anger and you will see a lot more of it. There is a growing determination to fix our financial system as we start debating how to reregulate the financial markets.

Whatever the construct that we come up with to provide retirement security for the current and future generations of America's workers, nothing that we do will succeed unless we can trust in the integrity, the steadiness and the long-term sustainability of our economy and our financial markets.

In the meantime we have a duty to preserve to the best of our ability the retirement security of the people we represent.

Based on preliminary data from our actuaries, we believe that around 60% of multiemployer defined benefit plans are in the red or yellow zones, up from 17% before the financial crisis of 2008.

Without any change in the current Pension Protection Act, all of these funds are likely to be in the red zone by next year as they continue to absorb the losses of 2008 and we expect additional plans will slip into the yellow zone.

We also think that around 60% of single employer DB plans are now under 80% funded, up from 7% in one year.

In the immediate, we have to grapple with Rehabilitation plans and Funding Improvement plans for our multi-employer funds and we will work with our single-employer plan sponsors to address their funding deficiencies as well.

To that end, on August 26, Congressman Earl Pomeroy put forward a discussion draft of proposals that will make these plans both practical and workable. I would like to highlight a few key proposals that apply to multiemployer plans. They would:

- Provide a longer amortization schedules for investment losses incurred in 2008 and 2009.

- Extend the period for Rehabilitation and Funding Improvement Plans by a few years;
- Allow trustees of a multiemployer plan in endangered or critical status to elect to treat any schedule of benefits and contributions adopted under their Rehabilitation or Funding Improvement Plan as the Default Schedule once it has been approved in collective bargaining agreements that cover at least 75% of the plan's active participants.
- Modify the rules to facilitate plan mergers.
- Allow new ways to partition a plan to minimize the effects of specific employers that have gone bankrupt or out of business and are dragging down an otherwise healthy plan because they are no longer contributing;

So fixing our injured DB plans is a top priority.

But we need to recognize that the retirement system of the United States as a whole is in crisis and we need to seize this moment to do something about it.

The financial crisis hit defined contribution plan assets hard also. In most defined contribution plans, participants have no power to bargain, demand or even plead with their employers to help make up the losses they have incurred. If anything employers are cutting back on their matching contributions.

The median assets in a 401k account for an individual between 55 and 64 now stands at around \$42,000. I am sure that no one in this room believes that you can safely retire on that sum. The defined contribution system has proven to be totally inadequate in building retirement security.

The reasons are numerous and well documented.

- For many workers, particularly low wage workers, they simply don't earn enough to make meaningful contributions. They will never build retirement security without a substantial minimum employer contribution.
- No amount of education is going to solve the problem of poor individual investment decisions by many workers. Numerous studies have demonstrated that average returns for DC plans underperform the returns of professionally managed DB plans.
- Participants draw down on their accounts for many reasons before they retire leaving insufficient assets for retirement.
- Most participants don't annuitize distributions after they retire and use up their assets too quickly.
- Administration and investment fees are too high.
- Most participants don't participate in the governance of their plans to ensure accountability and transparency in all decisions.

So we should not delude ourselves into thinking that we are solving the retirement security crisis of this country by automatically enrolling into 401k or IRA accounts the 50% of the workforce that does not have any coverage at all.

So in spite of the financial crisis, or maybe because of it, we now have a huge opportunity to come up with something new and different for everybody and not short-term steps that just encourage those who can afford it to participate.

I want to use the rest of my time to put forward a set of principles for a new retirement system. These principles were developed by a new coalition called Retirement USA.

This coalition was founded by the National Committee to Preserve Social Security and Medicare, the Economic Policy Institute, the Pension Rights Center and SEIU. We believe these principles can be the basis for a system that builds real retirement security.

Such a system would cover all working people during their complete work life, would help manage risk for both employees and employers, and would build the bedrock of patient investment capital required by our economy.

There are three broad principles and a set of subsidiary principles.

The three core principles are:

1. Every worker should be covered by a retirement plan, in addition to Social Security.
2. The system needs to be as secure as we can make it. We all understand the multiple risks associated with long-term work life, investment horizons and retirement horizons. The system needs to provide employers and employees ways to manage the risks within acceptable limits.
3. Finally everyone should be able to have an adequate retirement income after a lifetime of work. So that when paired with Social Security, an average worker will have sufficient income to match around 70% of pre-retirement income.

Underlying these core principles are 9 other principles.

I am not listing them in any order of priority. They really work as a package, so just satisfying one or two, or even 5 or 6 doesn't really meet the goal of a secure retirement.

1. First, it should be a shared responsibility between employers, employees and the government. And you will see how that shared responsibility manifests itself in several of the other principles.
2. That shared responsibility needs to be evident in making required contributions. I'd like to use SEIU members to illustrate the point.

In the last several years we have organized thousands of janitors and security guards in commercial office buildings, particularly in the South, including 5,000 in Houston. We have also organized hundreds of thousands of homecare workers all over the country.

With their relatively low wages there is absolutely no way that they can afford to save enough toward a secure retirement and still support their families without meaningful contributions from their employers.

3. All benefits need to be portable which means that the system will more than likely use individual accounts.

4. For investment purposes, all the academic studies show that individuals don't manage investment risk very well. On average 401k accounts underperform the pooled and professionally managed defined benefit plans. So we believe that a new system should still use a system of pooled assets for investment purposes. This provides much greater diversification, with access to alternative asset classes, professional investment management, and much lower investment fees.

5. The next two address a common problem and that is that individuals, if left to their own devices will tend to use up the assets in their account too quickly, whether for emergency expenses while still working or in the first few years after they retire. So a) we would prohibit withdrawals while a participant is still active and b) we would require a substantial annuitization of the account upon retirement.

6. The efficient and transparent administration of funds in this new retirement system is critical. This is another element where the shared responsibility between all stakeholders is important to the acceptance and durability of a new system.

Too many current plans, particularly single employer DB plans and DC plans are governed and administered by just one stakeholder, the employer. It is important that participating employees, retirees and sponsoring employers share in the governance of plans in this new hybrid system.

7. Finally the government needs to do its part in providing strong oversight that is dedicated solely to promoting retirement security.

Retirement USA was launched this spring and will hold a conference on building on new retirement system on October 21, 2009, here in Washington DC. You are all invited.

There is a final essential component to a viable and secure retirement system.

We absolutely need transparent, accountable and fair financial markets in which to invest our retirement assets.

In the traditional defined benefit system, investment returns account for about 70% of every dollar of pension benefits that is paid out.

If we can't trust the financial markets to provide steady gains over the long-term, somewhere around 7.5% per year, the whole mind set of our approach to retirement security is at risk.

This can be done but it requires financial markets that are structured and regulated to build long-term value and are not skewed by compensation schemes that encourage excessive short-term risks.

It requires financial markets that are regulated to protect against systemic risk and that encourage innovation to provide reliable and sustainable products rather than complex and opaque derivatives that extract huge gains from market inefficiencies for the benefit of a few and at the expense of the many.

This is what the fight to re-regulate the financial industry is going to be all about.

Anybody who is serious about fixing the retirement crisis should be on the side of strong and comprehensive regulation of all financial firms and of all financial products and for the effective enforcement of these rules.

Thank you.