**STATEMENT OF NORMAN P. STEIN
ON BEHALF OF THE
CONVERSATION ON COVERAGE
ON**

**"SECURING RETIREMENT COVERAGE
FOR FUTURE GENERATIONS"**

**BEFORE THE
HEALTH, EMPLOYMENT, LABOR AND PENSIONS SUBCOMMITTEE
OF THE COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES**

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Mr. Chairman, Members of the Subcommittee, thank you for giving me the opportunity to testify. I am Norman Stein, a professor at the University of Alabama School of Law, where I am privileged to hold the Douglas Arant Professorship. This semester, I am a visiting professor at Catholic University's Columbus School of Law here in Washington, D.C. Today I am testifying on behalf of and about the Conversation on Coverage, an unprecedented six-year national public policy initiative to develop innovative and detailed proposals to increase pensions and retirement savings – particularly among low- and moderate-income wage earners.

The Conversation is unlike any other initiative in the retirement arena in its composition, duration, focus and accomplishments. The Conversation on Coverage, convened by the Pension Rights Center, brought together experts from widely varying perspectives – from businesses and from unions, from financial institutions and from consumer organizations, from consulting firms and from retiree groups, from academics and from think tanks, from women's organizations and trade groups. These experts came together with a common goal and a common cause: to push pension coverage rates upward from the 50 percent rate at which they have been stalled for the past quarter-century. The animating focus was to put our creative shoulders to the wheel and create common ground solutions for the common good.

The supporters of the Conversation on Coverage include the Ford Foundation, the Annie E. Casey Foundation, the Atlantic Philanthropies, AARP, MetLife, Nationwide, Fidelity Investments, the U.S. Chamber of Commerce, the AFL-CIO, the Communication Workers of America, and many other organizations that are listed in the Conversation on Coverage's final report, *Covering the Uncovered* – which I respectfully request be submitted into the record of this hearing.

Today I will discuss the four detailed and innovative recommendations that were developed by the Conversation's three Working Groups whose more than 45 members spent collectively hundreds of hours in intensive discussions and whose final recommendations are detailed in *Covering the Uncovered*. The proposals include two new types of guaranteed pension plans; a proposal for a new clearinghouse structure to administer individual accounts; and a new proposal aimed at increasing coverage in the small-business sector. Each Working Group worked to develop achievable short-term solutions that are consistent with and complementary to the voluntary pension system, ensuring that the plans would not directly compete with already-existing pension plans.

Now, let me describe the four recommendations of the Conversation on Coverage.

Working Group I

Working Group I, which I co-chaired with Melissa Kahn, Vice President of Government and Industry Relations for MetLife, developed new approaches to encourage small and medium-sized businesses to adopt plans that have features of defined benefit plans – that is, plans that are employer funded and professionally invested, and which provide a guaranteed stream of benefits to employees and their spouses. The results of our collaboration were two model plans: the Plain Old Pension Plan (POPP) and the Guaranteed Account Plan (GAP).

In a nutshell, POPP, or Plain Old Pension Plan, is a simplified version of a traditional employer-sponsored defined benefit pension plan that is easy for companies to create, fund and administer.

- Employers who set up a POPP can pay employees and themselves a pension based on a percentage of their career average salaries, which can be as low as one percent multiplied by years of service.
- Employer contributions will be easy for employers to determine and budget for because they would be based on conservative tables published by the government and would allow a seven-year period to fund any shortfalls that did occur.
- POPP allows for a special "bonus benefit" meaning that employers can increase benefits in years when they have good financial performance and then go back to providing the plan's basic benefit in other years, without having to formally amend the plan and without the risk that the IRS would make the amendment permanent.
- Employers can provide a generous past service credit, which will make the plan attractive to many small firms.

- All benefits are paid as an annuity for employees and their spouses, except for very small benefits, which will be paid out in a lump sum distribution.

GAP is a hybrid pension plan that combines some of the features of traditional pension and 401(k) plans. The GAP can be looked at as a cash balance plan in reverse. Rather than start with a defined benefit plan that has notional accounts, the GAP adds employer guarantees to the regulatory framework of an individual account money purchase pension. Some of the GAP's key features include:

- Each participant's guaranteed account is credited with an annual contribution that is based on a percentage of pay.
- The GAP credits each employee's account with a guaranteed annual rate of return, which can be a fixed interest rate or a variable rate of return.
- Employers who sponsor a GAP will employ professional asset managers to invest plan assets.
- Employer contributions will be based on standardized conservative funding assumptions.
- The GAP can be designed to allow employees to invest additional pre-tax contributions in either the GAP or a traditional individual account plan.
- The normal form of benefit in a GAP is a joint and survivor annuity.
- The GAP permits employers to establish a unique side-car trust to increase funding flexibility and ensure security for the promised benefit.
- The GAP permits employers to use flexible non-discrimination testing methods in exchange for a gateway contribution of 6.5 percent for all employees.

- The GAP will be subject to a lower PBGC premium than other defined benefit plans because of the requirement that the employer fund the GAP on the basis of mandated conservative assumptions.

Both the GAP and POPP incorporate conservative funding rules that should substantially reduce the year-to-year fluctuation in the employer's annual contribution. From a marketing perspective, this should make both plans more attractive than those that are currently available.

Working Group II

Working Group II's mission was to encourage more individuals to save. To accomplish this goal, the Working Group developed a proposal for an all-new portable Retirement Investment Account plan (RIA), which would be administered by a new national government-authorized clearinghouse.

The key features of the RIA plan are:

- A Central Clearinghouse that would contract out the investment of funds to the private sector. This is similar to the approach used by the Federal Thrift Savings Plan.
- All workers – whether full-time, part-time or self-employed – could contribute to their accounts through payroll deduction.
- Employers are required to provide access to the RIA to all employees who are not covered by an employer-sponsored savings plan.
- Individuals who don't have access to payroll deduction from their employer can contribute directly to the plan when they file their quarterly income taxes.
- Contribution limits will be set at an amount that is less than the limits for employer-sponsored plans, but higher than the limits for Individual Retirement Accounts.

- Contributions would be automatically placed in an appropriate default investment unless employees choose another of three investments. These investments include a bond index fund, Treasury Inflation-Protected Securities, and at least one investment choice that is low risk and preserves the principal.
- The broad contours of a tax credit were designed by the Group and could be added to the RIA to provide incentives for low- and moderate-income wage earners.

Working Group III

Working Group III designed the Model T – named after Henry Ford's basic, yet functional, car, which was designed for a mass audience. The Model T is a low-cost, simplified multiple employer plan that would be sold by financial institutions to small employers. Because it was designed as a multiple employer plan, it would be an efficient way of reaching numerous businesses at once.

Our hope is that if the Model T were effectively marketed, potentially in a demonstration project in a particular region of the country, it could help to significantly increase coverage among small businesses and their employees.

Key features of the Model T include:

- The Model T is a simplified plan that would be marketed by financial institutions to small employers.
- The Model T is a souped-up SIMPLE IRA with a few additional elements from the 401(k) world.
- The administrative features of the plan are simple and handled mostly by financial institutions.

- All employees – full-time and part-time – can participate. Self-employed individuals will also be able to contribute.
- Employee contributions are made through payroll deduction.
- While employer contributions are voluntary, the Group designed a unique two-tiered contribution scheme that encourages employers to contribute on behalf of employees.
- Funds are placed in simplified investment options that are consistent with the U.S. Department of Labor's default investment regulations.
- The Model T features a recommended "Standardized Performance Report," that will be produced by the financial institutions offering the plan. This report will help employers compare fees, services and investment performance of the plan on an apples-to-apples basis.

Conclusion

The Conversation on Coverage has created innovative and workable proposals. However, these recommendations should be viewed as "living proposals," an array of well-developed detailed proposals that hold the promise of truly increasing coverage but that still have room to grow in the public policy process. The proposals are substantive and well-conceived, and, by virtue of the fact they were created in a compromise process, they are good approaches – not necessarily perfect products. In addition, the Conversation on Coverage proposals were developed separately by each Working Group and are meant to significantly increase coverage, but not achieve universal coverage. However, because these proposals were created in a common ground process, they already have the input and stamp of approval of more than 45 individuals from all sides of the issue.

The Conversation on Coverage is now forming Implementation Task Forces that we hope will be able to move all the proposals forward. For example, we are preparing surveys of pension plan advisors on the potential appeal of both the GAP and POPP. The survey is being conducted by the Employee Benefit Research Institute and will be sent to the membership of the American Society of Pension Professionals and Actuaries. The results of this survey will help determine whether employers have an interest in the GAP and POPP and what the likely impact on both coverage and eventual retirement income would be if these plans were introduced in the marketplace. We look forward to sharing the results of this survey with this Subcommittee.

As the surveys are completed, the Conversation on Coverage and Working Group members will seek to promote GAP and POPP, which have features that are not available under current law. In addition, the Conversation on Coverage will continue to promote the Retirement Investment Account framework. We are closely monitoring how RIA-type plans are being adopted by states. These states can serve as laboratories to test how clearinghouse approaches for individual accounts might work. With the Model T plan, our hope is to partner with a financial institution to launch a demonstration project, marketing the plan to employers in a specific regional market.

We look forward to working with the Subcommittee in further developing these proposals, in whole or in part. And we are hoping to explore ways of potentially enabling the Conversation on Coverage to test some of its ideas by establishing permanent demonstration projects – possibly for POPP, the GAP and the Model T – which would allow us to evaluate how these proposals might expand coverage for employers and their employees.

Thank you. I look forward to your comments and questions.