Written Answers of John Adler, Service Employees International Union, To Questions Posed for the HELP Committee Pension Roundtable 9/20/12

Defined benefit pension plans have provided a secure retirement for millions of middle class Americans, but it is clear that the traditional pension system is in decline and that existing defined benefit pension models may not be well-suited for some of our 21st century workforces. What should our pension system look like to meet the challenges of the global economy and the need to provide retirement security for working Americans?

The biggest problem with our current retirement system for Americans who work in the private sector is that tens of millions of people have very limited prospects for a secure stream of income besides Social Security that lasts the rest of their lives. The three-legged stool of yore now exists only for the top quartile of American retirees. For the middle 50% of retirees, Social Security makes up 74% of their income, and Social Security comprises 87% of income for the bottom quartile. The replacement of the traditional pension system by defined contributions plans such as 401(k)s has failed to provide most working Americans with enough retirement income to maintain their standard of living in retirement. As Alicia H. Munnell, director of the Boston College Center for Retirement Research, said in the New York Times on September 12th, “No matter how much you try to spruce up the 401(k)’s, they’re never going to provide enough retirement income.”

We need a retirement system that diversifies the income available to American workers so that they can have a secure, adequate, lifelong stream of income to supplement Social Security. This system should be the shared responsibility of employees, employers, and the government, with each making contributions (in the form of tax deductions or credits in the case of the government), and with each having representatives on the governing board of the entity or entities with oversight of the plan. These contributions should be phased in to a mandatory minimum level that is adequate to provide for enough income replacement after a lifetime of work in combination with Social Security to maintain workers’ standard of living throughout their retirement. Employees and employers should be able to voluntarily contribute more than the required minimum, or increase contributions through collective bargaining, with reasonable limits on tax-advantaged contributions. The plan should be completely portable. The assets should be pooled and professionally managed to minimize costs and risk, and maximize economies of scale. Finally, the assets should not be subject to early withdrawal or loans, should be payable only at retirement or permanent disability, and should be annuitized.

What would make it easier and attractive for businesses – especially small businesses – to provide their employees with a traditional pension benefit? Would reducing the employers’ risk and plan complexity help?

Clearly, businesses of all sizes are seeking to minimize their exposure to risk when it comes to retirement benefits. The story of businesses freezing and shedding traditional pensions is by now old and well-known. SEIU continues to believe that well-managed defined benefit pension plans are the best way for workers who work for extended periods of time for one employer or one skilled industry to achieve retirement security. To that end, the funding rules of the Pension Protection Act (PPA) should be reformed in 2014 to enable existing defined benefit plans to recover from the investment losses of the financial crisis of 2008. At the same time, we recognize that many companies do not want to participate in defined benefit plans – be they single-employer or multi-employer – and many low wage workers change employers and industries several times over the course of their worklives. In addition, our own experience is that it has become nearly impossible since the 2008 financial crisis to convince new employers to agree to participate in defined benefit pension funds, both because of contribution rates that have skyrocketed in the wake of steep declines in investment values and PPA-driven rehabilitation plans, and concerns about potential withdrawal liability these employers would face. In the face of these concerns, we are interested in finding approaches that will both enable us to sustain our existing defined benefit plans while at the same time enable non-participating employers to provide their employees with a traditional pension benefit or something approximating such a benefit.

Undoubtedly, reducing employers' risk and plan complexity will make it easier and more attractive for them to provide such benefits. We believe that we need solutions that enable employers' contributions to be predictable and stable, without the volatility that has marked employers' contributions to DB plans in the wake of PPA and the 2008 market crash, while at the same time containing the investment and longevity risk for workers. We need a system that is easy to explain, with advantages that are easy to explain to employers as well as the public at large.

What do employees need from a pension plan to ensure that they will have a secure retirement?

SEIU represents 2.1 million members who work in healthcare, property services, and public services. Approximately 35%, or more than 700,000, have no access to a retirement plan at work. These include home care workers, child care workers, security officers, janitors, and others. These members tend to be in low-wage occupations where they are living paycheck to paycheck, without significant savings, and with little ability to shoulder the burden of retirement savings on their own.

Many of these members, as well as the nearly 50% of all American workers without access to a retirement plan at work, are facing the choice of working until they die, or retiring into poverty or near poverty. They need a pension plan that will ensure that after a lifetime of work, they can retire with a secure income stream that enables them to maintain their standard of living as long as they live.

Since most employees in the 21st century no longer work for one employer for the majority of their working lives, the plan needs to be portable and universal, with immediate vesting, so that employees' accounts receive contributions throughout their working lives. We strongly believe that accounts must be pooled and professionally managed and invested, in order to reduce administrative costs and investment management expenses, and to spread investment and longevity risk among many participants.

All employers and employees should make pre-tax contributions to the system up to reasonable income limits. These contributions should start at a low rate when the program first takes effect and gradually phase in over a number of years to achieve the level needed to build an adequate retirement benefit with reasonable investment assumptions over a workers' lifetime. The federal government should support employee contributions for low and moderate-income earners through refundable tax credits.