Question I:
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 Americans?

Chairman Harkin and Ranking Member Enzi, thank you for inviting me to this roundtable today and bringing together such a diverse group of experts to develop creative solutions to solving the retirement security crisis facing today's and tomorrow's retirees. I am here to represent both the Pension Rights Center, the nation's only consumer organization devoted exclusively to promoting and protecting the retirement rights of workers and retirees and their families; and Retirement USA, a campaign working for comprehensive and effective retirement solutions. We thank you both for your strong leadership on retirement issues.

While those on this panel may not agree about everything, we are all here because we are committed to the importance of retirement security. I believe that by listening to each other, finding common ground to achieve our shared aims, and working together, we can shape measures to ensure that hard-working Americans will be able to retire with a strong supplement to Social Security today and tomorrow. I look forward to a vigorous and productive discussion.

I want to turn now to the first question you asked us to address: ***What should our pension system look like to meet the challenges of the global economy and the need to provide retirement security for Americans?*** And the question implied by the introduction to the question: what is the role of the defined benefit plan.

I want to start with defined benefit plans. As we know, such plans—particularly traditional defined benefit plans—have been on a steady decline among private-sector employers. However, I want to stress how important these plans are to the individuals still covered by them and their importance to economic growth. First, approximately 20 percent of all workers continue to be covered by defined benefit plans. That is a large slice of the population, and they generally work well for those people. Indeed, defined benefit plans are the lowest-cost and most efficient means of providing retirees with guaranteed income for retirement.

Defined benefit plans also provide one of the most important sources of patient capital, investing for the long-term. According to the National Institute on Retirement Security, the steady benefits provided by these plans are especially important in stabilizing local economies during economic downturns because retirees can keep spending their pension checks, knowing that more are coming.

For these reasons, both the Pension Rights Center and the organizations represented by Retirement USA believe that we should do everything possible to preserve the defined benefit plans that already exist and to encourage new forms of these plans or plans that have these features.

However, with the decline of traditional defined benefit plans, we need creative ways of developing new plans that mimic many of these plans' features. That's why the Center launched Retirement USA with an array of 27 other organizations – including the AFL-CIO, the Service

Employees International Union, and the Economic Policy Institute – to advocate for a new pension system that is universal, secure, and adequate (hence, the “USA”). This new system, in conjunction with Social Security, will provide people with sufficient income in retirement and allow them to continue to maintain the same standard of living that they enjoyed while still in the workforce.

After studying numerous systems and proposals found here in the United States and in other countries, Retirement USA developed **12 principles for a new private retirement system**. These principles borrow from the best parts of defined benefit 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:

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 are in plans that provide equally secure and adequate benefits.

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.

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.

Additional 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.

We hope that these principles will serve as a guidepost to evaluate and strengthen any new proposals.

Recently, the Center has been working with business groups to come up with new risk-sharing models. Earlier this year we co-sponsored a conference, “Reimagining Pensions,” with the Urban Institute, and Covington and Burling, a law firm representing some of the largest corporations in America. The conference explored new pension designs to share and spread risk between employees and employers, and among generations. In all, we looked at eight proposals, including flexible hybrid plans, simplified defined benefit plans, and multiple employer plans.

Senator Harkin, your USA Retirement Funds proposal meets most of our principles and takes an innovative, fair, and realistic approach to risk-sharing. By setting up a system of privately-run pension plans, where the employer’s responsibility is to write a contribution check for a modest amount to the plan administrator, USA Retirement Funds relieve employers of administrative and fiduciary burdens, and should make the plan attractive to employers. By providing low fees, pooled investments, and a lifetime benefit at retirement age, they allocate investment and mortality risk in sensible ways among employees. They are, we believe, a significant improvement over today’s 401(k) plans, which place all of the responsibility and risk on individual employees. We believe USA Retirement Funds are a serious model that can help millions of Americans prepare for retirement.

It should be noted that, while we favor new creative approaches to ensure that all Americans enjoy a decent standard of living in retirement, we are not advocating replacing the system that we now have. Rather, we want to augment what currently works with meaningful retirement-savings opportunities for the approximately 50 percent of the workforce that are shut out of the system. With your leadership, Senators Harkin and Enzi, I know we can do it!

Question 2:
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?

For seven years, from 2001-2007, I coordinated a common-ground initiative called the Conversation on Coverage, which brought together 45 experts from business, financial institutions, unions, retiree groups, and other constituencies to discuss ways of increasing pension coverage – especially for lower-wage workers. We developed four concrete proposals – a few of which were especially suited for small- and medium-sized businesses.

Let me share what I learned from this common-ground dialogue. Studies show – and the participants of this dialogue confirmed – that small businesses would be more likely to start a plan if administrative costs, complexities, and fiduciary responsibility were reduced and if employer contributions were voluntary. One plan developed especially with small businesses in mind is called the Model T which is a simplified plan with automatic enrollment. I know, Senator Enzi, that you have been very interested in new multiple employer approaches, and I would be happy to share with you and your staff more about the findings.

I also learned that there may be ways of structuring defined benefit plans to make them easier to be adopted by smaller businesses. The Conversation on Coverage provided an example, the Plain Old Pension Plan or POPP. In short, the POPP provides a straightforward career average defined benefit through a plan that would have predictable employer funding – which is one of the biggest concerns employers have in adopting defined benefit plans It also enables owners to give themselves, and other longer-service employees, benefits for the years worked before the plan was established.

Also, Senator Harkin, it seems that the structure you developed for the USA Retirement Funds is consistent with addressing many of the concerns of small businesses. Your Retirement Funds would be run by financial institutions, the taking burden off of small businesses, and would also automatically enroll participants into the plan, unless they opt out. This, it seems, would be highly appealing to small businesses.

I want to raise one important concern regarding fiduciary issues that I learned during discussions with our partners in both Retirement USA and the Conversation on Coverage. Under current law, employers have the fiduciary responsibility of choosing a plan provider and also monitoring investments. Relieving employers of such responsibilities raises a bevy of complex issues and possible conflicts of interest. It is very important that, if new arrangements transfer fiduciary duties on to third parties, there be effective government regulation. Without such regulation and oversight, there is room for enormous amounts of self-dealing and other conflicts of interest.

Since small businesses represent the fastest growing employment sector in the economy, finding creative ways to encourage these employers to provide secure benefits is of paramount importance.

Question 3:
<u>What do employees need from a pension plan to ensure that they will have a secure retirement?</u>

Public opinion polls reflect America's mounting anxiety about retirement. In a recent Gallup poll, the top financial concern for most Americans was not having enough money for retirement – surpassing concerns about paying for health care and paying the mortgage.

We hear every day from people who can't make ends meet. Folks like Shareen Miller, A home health care aide who makes only $12 an hour and can't put enough away for retirement. Women like Karen O'Quinn who never worked for a company that offered a pension or savings plan and had to use all her savings to take care of her kids and her health care.

What employees want is income that is sufficient to supplement Social Security and that will enable them to live with dignity in retirement. What they need is a vehicle where both employers and employees contribute and, if they are lower-income, that includes a government-subsidized contribution. The money that is contributed to that vehicle should be professionally managed because most Americans do not have the time, education, and experience to create an investment portfolio that provides the right combination of risk and return. The savings in a retirement plan should be more or less locked in until retirement and should pay benefits over the lifetime of the employee and their spouse or life partners.

Having a good retirement is part of the American dream. And what people want is to be able to continue to know that they can take care of themselves and also contribute to society.