

Commentary

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BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

In Search of a National Pension Policy

The Pension Rights Center (PRC), held a National Policy Forum in Washington in late July. The forum brought together leading professional and academic thinkers to present and discuss a number of proposals that might be incorporated into a National Pension Policy. The PRC assembled three separate working groups, each with a specified objective relating to expanding pension coverage and retirement savings for American workers. The working groups comprised experts from the legal and actuarial professions, academia, retiree and consumer groups, women's organizations, labor unions, the business community, and financial, insurance and investment institutions.

In the private sector, according to the Department of Labor, only 49 percent of workers currently participate in pension plans. Coverage gaps are greatest among low to moderate-income persons, younger employees, part-time workers, and the workforce of small businesses. With this focus on coverage, the three PRC working groups were assigned the challenge of responding to the following questions: (a) How do we increase coverage and retirement savings through new institutions and structures? (b) How do we increase coverage by encouraging incentives for both traditional and new forms of defined benefit plans? (c) How do we increase coverage and retirement savings by providing new incentives for employees to save for themselves and incentives for employers to contribute increased amounts for lower-paid employees?

The three groups worked within the constraints of voluntary retirement systems, avoiding the controversial aspects of mandatory systems. From their deliberations, four distinct proposals emerged for enhancing the voluntary private retirement system. The working group charged with developing new institutions and structures proposed a multi-employer savings and investment plan to be offered by financial

institutions such as banks, insurance companies, brokerage firms and mutual funds; the institutions would administer the plans and assume fiduciary liability for the investment choices in the plan. The working group charged with developing incentives for defined benefit plans proposed two concepts; the first is a variation on the traditional defined benefit plan, but with predictable funding obligations; the second is a guaranteed annuity plan based on defined contributions, like a money purchase plan, but with a guaranteed rate of return on account balances. The working group charged with developing incentives for employee savings proposed a retirement investment account to be administered through a government-authorized privately-run central clearing house, essentially providing a voluntary national payroll-deduction retirement savings account system.

Working within the limited scope of their respective mandates, the three working groups produced some creative ideas for enhancing the range of offerings presently available within the US retirement system. The working groups' proposals are described by the PRC as work-in-process and will be subject to further development and refinement. While the PRC initiatives represent creative enhancements to existing pension product design, the achievement of an effective national pension policy will require bolder and more radical thinking and recommendations.

The essential elements for achieving a national pension policy will likely emerge from a consideration of the following: Inclusion of both voluntary and mandatory systems; Inclusion of both defined benefit pension plans and defined contribution savings and investment plans; Adoption of tax incentives to encourage voluntary systems at both the individual and employer level; A top-down economic planning process to allocate adequate resources to the provision

of retirement income for all segments of the population; A communication and education campaign to overcome the obstacles presented by a lack of adequate information regarding pension issues as between employers, employees, shareholders and financial intermediaries; Consideration of how other nations have approached the challenges of pension provision through social security systems, mandatory provident funds, mandatory minimum pensions, inflation indexing, annuitization, and contracting-out options from mandatory government systems for private pension plans; Addressing the challenges posed by longevity risk, inflation risk and dissipation risk (the leakage from retirement and savings plans caused by the tendency to divert lump sums settlements to other purposes, whether on changing jobs during a working career or on receipt of benefit entitlement at retirement); A political commitment by Congress to ensure that "no senior citizen is left behind" in terms of provision of adequate income to sustain a reasonable basic standard of living in retirement; A political commitment to the long-term solvency and sustainability of the US Social Security system with an appropriate allocation of national economic resources to keep the promise of Social Security for future generations.

It is our hope that the Pension Rights Center will continue its efforts to achieve broader pension coverage for the current population and will broaden the scope of its initiatives to achieve a bolder vision of what it might be possible to accomplish with a national pension policy.

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