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# Focus On . . . The Conversation on Coverage

By David A. Pratt

*The Conversation on Coverage is a national public policy initiative of the Pension Rights Center, devoted to finding new ways of expanding coverage for the millions of low- and moderate-wage earners who do not have pensions or retirement savings plans to supplement Social Security. Over the past year, 45 pension experts came together in three Working Groups to develop innovative, common-ground approaches to expanding retirement savings. This article discusses their recommendations, published in July 2004, which represent an important contribution to the ongoing policy discussion.*

*I gratefully acknowledge the assistance of the Pension Rights Center, and of Robert England, who wrote the reports and spent months working on them. In describing the recommendations and goals of the Conversation on Coverage, we frequently quote the reports (with a view to doing so precisely) verbatim. Members of each of the three Working Groups edited their own respective reports, and did not have input into the other reports. The full reports are available at www.pensioncoverage.net. The PRC tells us the Conversation on Coverage will start up again soon and the Working Groups will begin refinement and implementation of the recommendations.*

**David A. Pratt** is a professor of law at Albany Law School, Albany, NY.



Social Security now covers approximately 96 percent of U.S. workers and self-employed individuals. Some employers are still not covered, notably some state and local governments and tax-exempt employers. Social Security provides retirement, death, and disability benefits to workers, self-employed individuals, and their families.

Employers have no obligation to offer a supplemental plan. In 1981, a Presidential Commission recommended that a minimum universal pension system (MUPS) be established for all workers, funded by employer contributions equal to 3 percent of pay, but the recommendation never came close to being enacted. [President's Commission on Pension Policy, Coming of Age: Toward a National Retirement Income Policy (1981)] In the current political climate, it is highly unlikely that any mandated pension proposal will receive serious consideration. Mandated pensions, like other benefit mandates, are vehemently opposed by small businesses, where most of the gaps in pension coverage exist.

If additional retirement benefits were to be mandated, it would be far simpler and more cost-effective to increase Social Security benefits, rather than requiring each employer to set up a separate plan to supplement Social Security. In the current climate of hostility toward Social Security, and concern as to how to finance the current benefits, this outcome is extremely unlikely.

Public-sector workers have traditionally had pension coverage. In 1993, 91 percent of the 18.6 million federal, state, and local government employees worked for agencies that sponsored pension plans, and 77 percent of all workers were actually covered. [American Academy of Actuaries, Policy Monograph 1998 No. 1, Trends in Retirement Income Security, *www.actuary.org*, at 10]

In contrast, many private-sector employers (primarily smaller employers) offer no supplemental pension plan to their employees. A 2002 General Accounting Office study found that the percentage of firms sponsoring a retirement plan was only 12.9 percent for those with fewer than 10 employees, 28.6 percent for those with 10 to 24 employees, and 39.7 percent for those with 25 to 49 employees. [General Accounting Office, Private Pensions: Improving Worker Coverage and Benefits, GAO-02-225 (April 2002), Table 1 (citing the Employee Benefit Research Institute)]

> Sixty-four percent of all employees at employers with more than 100 workers were covered by one or more employment-based retirement plans in 1999, according to data from the U.S. Bureau of Labor Statistics (BLS). ... According to data from the BLS, 34 percent of all workers in small private

establishments (99 or fewer workers) were covered by a retirement plan in 1999. For the smallest employers the number is much lower. [The 2002 Small Employer Retirement Survey (SERS) (employers with 5 to 100 full-time workers), Summary of Findings, *www.ebri.org*]

According to one witness:

We get pension simplification, pension complication, tax reform, high marginal rates, low marginal rates, and one thing stays constant, and that is probably the vexing problem. All of the interventions that have been tried and all of the external forces that have influenced us over the last 20 years, it hasn't budged the pension coverage rate more than a percentage or two. [U.S. Department of Labor, Report of the Working Group on Increasing Pension Coverage, Participation and Benefits, November 13, 2001, Testimony of Richard Hinz, *www.dol.gov/ebsa/publications/AC_1114a01_report.htm*]

According to the 2002 SERS, the most commonly cited "most important" reasons for having a plan were a competitive advantage in recruitment and retention, positive effect on employee attitude and performance, and tax advantages for employees. The most commonly cited "most important" reasons for not having a plan were:

1. Employees prefer wages and other benefits;
2. Revenue is too uncertain to commit to a plan;
3. A large portion of workers are seasonal, part-time, or high turnover;
4. Required company contributions are too expensive; and
5. It costs too much to set up and administer a plan.

Even for those employees who are covered, the value of their accumulated benefits is often low. A 2001 report found that nearly 30 percent of all active plan participants, including those in large plans, had a total plan balance less than $5,000:

Average account balances are low. In 1998, the mean value of all IRA and 401(k) accounts was $35,000 and the median value was only $14,000. For ages 55–64, the average account balance was about $57,000. A $57,000 account for a 65 year old in May 2001 would buy a single life annuity of only $450 per month. [U.S. Department of Labor, Report of the Working Group on Planning for Retirement, November 14, 2001, Testimony of Patrick Purcell, *www.dol.gov/ebsa/publications/AC_111401_report.html*]

There is widespread agreement that employers that do not currently sponsor plans should be encouraged to offer plans by a combination of educational outreach and economic incentives. Similarly, educational outreach efforts and economic incentives should also be targeted at employees of non-sponsoring employers, to encourage them to ask their employers to make a plan available. The 2000 Small Employer Retirement Survey concluded that:

long-term efforts to increase coverage among small employers have the greatest potential for success if they include: education of workers, so that they view retirement planning and saving as a personal priority and communicate their desire for a retirement plan to their employer; ongoing good economic conditions, so that business profits and the affordability of plan sponsorship improve; and policy approaches such as simplification and tax credits that help make plans more affordable.

## Workers Who Are Not Eligible to Participate in Their Employers' Plans

Many workers are not eligible to participate in their employers' plans, for any of several reasons:

1. *They may not yet be eligible to participate.* Generally, the employer may require attainment of age 21 and completion of one year of service with the employer before the employee is covered by the plan, and coverage is then prospective only. For the typical employee who changes jobs several times during a working career, the requirement to satisfy a waiting period with each new employer will result in several years of no pension coverage. Further, because of the 1,000 hour rule, permanent part-time or seasonal employees may never become eligible or, if eligible, may never acquire vested rights. In both the public and private sectors, there is a major difference in coverage between part-time and full-time employees. Only 12 percent of part-time workers in the private sector participate in pension plans, versus 50 percent of full-time workers. In the public sector, 30 percent of part-timers were covered in 1993, while 85 percent of full-time workers were covered.
2. *The employer is not required to include all of its employees in the plan, even if they have satisfied the statutory age and service eligibility requirements.* Participation may be limited to certain categories of employees (e.g., salaried employees) or to certain divisions or locations of the employer. In general, an employer may exclude at least 30 percent of its non-highly compensated employees from plan participation for almost any business-related reason.

3. *Most tax-favored retirement arrangements may only cover employees of the firm sponsoring the plan.* . Nearly one-third of the workforce is in "non-standard" jobs: part-time, temporary, contract worker, or self-employed. This "free agency" workforce makes traditional pension coverage less adequate, especially for working mothers. [U.S. Department of Labor, Report of the Working Group on Increasing Pension Coverage, Participation and Benefits, November 13,2001, testimony of Michael Calabrese, *www.dol.gov/ebsa/publications/AC_1114a01_report.html*]

These problems should be addressed by tightening the employee coverage rules, satisfaction of which is a prerequisite of plan qualification. In particular,

1. The 70-percent rule, which has been in effect since 1942, should be repealed. The 70-percent threshold under the average benefit percentage test should also be increased to 100 percent. Employers should be required to cover all employees who are at least 21 years old and have completed a short period of service (somewhere between 30 and 90 days); and
2. The number of hours of service required for eligibility and vesting should be reduced from 1,000 to no more than 250.

### Eligible Employees Who Do Not Participate

Originally seen as a way to supplement benefits provided by another plan (typically a defined benefit plan), 401(k) plans have increasingly become the dominant type of retirement plan in the United States, at the same time as the number of defined benefit plans has steadily declined. Under the vast majority of 401(k) plans, at least part of the employer contribution is a matching contribution made only for employees who have agreed to contribute their own funds, so that employees who do not contribute do not receive any matching contributions.

To encourage lower-income workers to save for retirement, EGTRRA enacted a savers' credit, a non-refundable income tax credit for elective deferrals and IRA contributions. [IRC § 25B] The amount of the credit is a percentage of the "qualified retirement savings contributions" up to $2,000 per year. In order to be more effective, the credit should be extended (it is currently scheduled to terminate on December 31, 2006), the income thresholds should be increased, and the credit should be made refundable. For example, assume that an individual whose federal income tax liability (before credits) is $100 contributes $2,000 to a 401(k) plan in 2004. Her income is low enough that she qualifies for a 50-percent credit, $1,000, under Code Section 25B. Because the credit is non-refundable, it can be used to eliminate her tax liability, but not to give her a refund. Accordingly, her actual tax benefit is only $100, an effective 10-percent credit. If the credit were refundable, she would receive a $1,000 tax benefit.

### Vesting

Despite the faster vesting required by ERISA and subsequent legislation, a significant number of plan participants still terminate employment—often with more than one employer during their work career, and particularly at younger ages—before becoming fully vested, so that part or all of their accumulated benefits is forfeited. Survey evidence indicates that the median job tenure in the U.S. economy in 2000 was about 3.7 years, which is less than the number of years of service needed for full vesting under three of the four minimum vesring schedules (5-year cliff, 3 to 7 year graded and 2 to 6 year graded). About 25 percent of all workers had been with their current employer for 12 months or less. [U.S. Department of Labor, Bureau of Labor Statistics, Employee Tenure Summary, USDL 02-531, Sept. 19, 2002, available at *www.bls.gov/news.release/tenure.nr0.htm*] The solution here is relatively straightforward, and much less controversial than it would have been 10 years ago: require all employer-provided benefits to be fully vested after (at most) two or three years of service.

### The Recommendations Made by the Working Groups

At a public Conversation on Coverage forum on July 22, 2004, four proposals for new types of retirement plans were announced, with common goals:

1. Reduce or transfer administration costs away from employers and reduce employer worries about the costs of funding the plan;
2. Expand the number of workers eligible to participate in a plan;
3. Provide more opportunities to provide benefits, and in some cases increase the level of benefits, for low- and moderate-income workers;
4. Create approaches that are more appealing to the small- and medium-sized businesses where coverage is the lowest.

According to the documents disttibuted at the forum:

> It is important to understand the context in which these new proposals are being offered. They are not considered finished concepts, but initial recommendations. It is hoped that these suggestions will prompr a host of consrructive suggestious for improving them, as well as eveu more uew ideas for expanding coverage. Lastly, these arc not the final reports on the recommendations of the Working Groups. Comments and suggestions abont the recommendations contained in these reports will be incorporated into an upcoming Final Conversation on Coverage National Policy Forum Report.

Thus, it is important for those of us who work tegularly with pensions, and are concerned about the future of the private pension system, to consider these proposals and submit consttuctive comments.

**Working Group I: Encourage DB Plans**

This Working Group's assignment was to answer this quesrion: How do we inctease coverage by encouraging incentives for both traditional and new forms of defined benefit plans? Working Group I proposed two diffetent plans: the Guaranteed Account Plan and the Plain Old Pension Plan.

***The Guaranteed Account Plan.*** The Guaranteed Account Plan (GAP) is a hybrid plan that takes the existing money purchase plan and adds a guaranteed account balance. The account of each participant is credited with an annual employer contribution.

Benefits are funded by the employer, based on standardized and conservative funding assumptions. If the plan becomes undetfunded because of the market performance of the assets, the gap would be closed over a five-year period, shorter than would be required under a traditional defined benefit plan. The employer would be allowed to make additional contributions that could raise the level of assets in the plan to 150 percent of its current liability.

Employees could elect to conttibute on a pre-tax basis. Employers could make matching contributions, in accordance with the current Code requirements for matching contributions, including the safe harbor rules.

The plan would guarantee the annual rate of return on participants' account balances. The Working Group generally agreed that the rate of return could be either a fixed rate, or a variable rate tied to a market indicator ot index. The group did *not* agree on what the guaranteed rate of return should be.

The employet would invest the plan assets. Thus, GAP transfers from the employee to the employer (1) the risks associated with choosing approptiate investments and (2) the financial market risk of how well investments perform.

The plan would offer an annuity as the automatic payment option, but participants may also be given as an alternative a lump sum equal to the amount credited to the participant's account. The group generally agreed that, rather than applying the complicated cash balance rules, individuals would simply receive the balance credited to their accounts, using the defined contribution plan rules.

Most of the Working Group members supported a suggestion that GAP be insured by the PBGC, and supported charging a lower $5 ptemium per participant.

A majority of the membets agreed that employers should be given a choice of whether to use the defined benefit or defined contribution limits.

No agreement was reached on what minimum level of contributions would be required in order to allow employers to avoid nondiscrimination tests.

***The Plain Old Pension Plan.*** The Plain Old Pension Plan (POPP) is intended to be a simple, traditional defined benefit plan that provides a modest basic benefit to allay employer concerns about funding the plan. The plan would cover all employees who meet the minimum service requirements, including part-time employees. Employets could, but would not be requited to, cover seasonal employees.

The basic benefit is a percentage (as low as 1 percent) of an employee's career average pay, multiplied by the number of years of service.

To simplify funding calculations, plans could rely on tables published annually by the Treasury Department or the PBGC that would use age and compensation to detetmine the contribution each year. The tables would be based on conservative actuarial assumptions. Employers would calculate the required contribution by totaling the contributions from the table for each participant. The plan would be subject to petiodic actuarial valuations, primatily to assess investment expetience, because mortality and interest rates would be covered automatically by the tables. Investment experience would be smoothed by using a 10-year rolling average of the asset valuation (or, if less, the number of years since the plan was established).

Investment shortfalls would be funded over five years; however, the use of conservative actuarial assumptions should significantly reduce the risk of funding shortfalls.

The plan would allow employers to fund bonus benefits in any given year or years. This would raise the final benefit without having the bonus benefits become part of the permanent benefit structure.

The plan would permit, but not require, a generous past service credit that would be attractive to small business owners. The plan allows past service credit for as many years as the employer would like. The past service credit would be amortized over a seven-year period, and employees would accrue the past service credit over a seven-year period.

The plan could include a 401(k) feature. Participants could "buy" more retirement income through contributions, using the government tables to determine the cost, or the employer could offer a separate 401(k) plan.

The plan would be insured by the PBGC and would pay $5 premiums, lower than those paid by traditional pension plans.

All benefits would be paid in the form of an annuity. Lump-sum distributions would not be permitted.

The Working Group expressed a preference for supporting some type of DB-K plan, a defined benefit plan with a 401(k) feature; however, the group did not generally support any one of the three proposals it reviewed, from ASPPA, the American Academy of Actuaries, and Principal Financial Group.

As proposed, the plan would allow employers a tax credit equal to 5 percent of the contributions made to fund benefits for non-highly compensated employees for a period of five years. The credit would be recaptured if the employer terminates the plan within five years. The Working Group generally agreed that the tax credit should be similar to the level of the Saver's Credit, which provides a maximum 50-percent credit to individual plan participants who save for retirement.

The Working Group generally supported giving employers tax credits (1) to provide immediate vesting of benefits; (2) for 100-percent coverage of employees in a single line of business; and (3) for reduction of the 1,000 hours requirement for plan participation and benefit accrual/allocation. The Working Group generally supported the idea of reducing the requirement to 500 hours for part-time workers, but that seasonal workers could be excluded. Some members of the Working Group also supported credits for (1) establishment and maintenance of a defined benefit plan, (2) defined benefit plans providing annuity options only, (3) plans not permitting pre-retirement age distributions, and (4) no use of permitted disparity.

***Comments on the GAP and POPP Proposals.*** The funding rules would clearly be much simpler, and the volatility of contribution requirements much lower, than for a traditional defined benefit plan; however, it is not clear that the proposals (or the proposals of the other Working Groups) adequately address the reluctance of many businesses, particularly small businesses, to assume *any* obligation to make annual contributions to a pension plan. The contribution flexibility, and the ability to make no contribution at all for one or more years, is a major reason for the continuing popularity of profit sharing and 401(k) plans.

In connection with both the guaranteed rate of return feature of the GAP plan and the Working Groups' defined benefit plan proposals, it would be enormously helpful to have new, guaranteed investment products designed specifically for small-business retirement plans. Although employers are clearly better able to handle investment risk than are individual employees, many employers are risk-averse. The federal government should study how to develop such products in partnership with insurance companies and other financial institutions.

In order for any proposal to have any realistic chance of succeeding in the small-business market, employers must be given strong incentives to adopt the plan, including:

1. Tax credits for adopting and maintaining the plan, based on some combination of employer size (amount of profit or number of employees) and the amount contributed for rank-and-file employees;
2. No (or simple) nondiscrimination rules for plans that provide significant benefits for rank and file employees; and
3. Exemption from the PBGC insurance program. Most small employers will never receive any return for their premiums, and even a reduced premium diverts resources that would be better used to provide benefits for employees.

Regardless of the outcome of the Working Groups' proposals, the law should be changed to allow any type of qualified plan to include a 401(k) feature.

The annuity requirement of the POPP proposal raises an important issue: As we strive to expand coverage, we also need to address the risk of participants outliving their retirement savings, a risk that is compounded by increasing longevity and the prevalence of lump-sum distributions:

> workers reaching retirement age with pension coverage are increasingly unlikely to take their benefits as lifetime annuities. Indeed, a recent study found that three-quarters of company pension distributions are currently paid as lump sum cashouts rather than as lifetime annuity payments (McGill, et al., forthcoming). In this sense, fewer and fewer retirement plans are providing longevity insurance in the form of lifetime insured annuity benefits. [Olivia Mitchell and Stephen Utkus, Lessons from Behavioral Finance for Retirement Plan Design, Pension Research Council Working Paper 2003-6]

Requiring a certain type of plan to make annuity distributions is generally regarded as placing the plan at a competitive disadvantage; however, if properly explained, that may not be so: According to a recent survey, when given a choice *of equal value*, two-thirds of workers (57percent of workers with a defined contribution plan and 71percent of those with a defined benefit plan) indicate a preference for taking retirement income as a life annuity. Only 12 percent say they would prefer to receive a lump sum. [Society of Actuaries and American Academy of Actuaries, Retirement Plan Preferences Survey, Report of Findings, January, 2004, Matthew Greenwald & Associates, Inc.]

Before any new annuity requirements are introduced for any type of plan, two developments are necessary. First, employers and employees must be given incentives to offer and choose annuities. Second, the government must work with financial institutions to develop a more robust and competitive annuity marketplace.

**Working Group II: Facilitate Individual Savings**

This Working Group's assignment was to answer this question: How do we increase coverage and retirement savings by providing new incentives to encourage employees to save for themselves, and incentives for employers to contribute increased amounts for employees in low tax brackets?

The group reached general agreement on the broad outlines of a new centralized savings account vehicle, the Retirement Investment Account Plan or RIA. This plan is targeted at workers at businesses that do not now have a retirement plan, as well as workers at firms that have a retirement plan, but one in which some workers are not eligible to participate.

The group generally agreed on the following broad outlines of the RIA plan:

1. *Accounts will be managed by a central clearinghouse.* The RIA plan will be offered through a government-authorized central clearinghouse that would be run by the private sector. The employer will send the contributions to the U.S. Treasury, which will forward the contributions to the clearinghouse. The group generally agreed that the clearinghouse would be run by the private sector to the extent possible, so that the RIA plan would not be seen by critics as creating a big government bureaucracy.
2. *Contributions can be made through payroll deductions.* The system would be set up to receive contributions from employees through payroll deduction. It would also receive contributions by employers. Employers would not have to assume the responsibilities, fiduciary liabilities, and other burdens of being a plan sponsor. The RIA plan would make it possible to offer government contributions and matches of employee contributions, as well as government tax credits. The group, while generally supporting government matches and tax credits, did not agree on a specific program.
3. *All wage earners eligible to contribute.* The RIA plan should be open to all Americans who earn an income, including the self-employed. Some of the group opposed to opening the RIA plan to all workers said they were concerned that it might set up a system that would collapse from having to administer millions of tiny accounts. The group could not reach general agreement on whether non-working spouses should be allowed to contribute.
4. *Contribution limits.* The contribution limits should be set lower than those for the 401 (k) plans, to prevent the proposed RIA plan from prompting employers to terminate existing defined contribution plans.
5. *Nondiscrimination safe harbor for contributions.* The group generally agreed to support a safe harbor from conducting nondiscrimination tests: either the employer contributes 2 percent of pay for all workers, or the employer contributes a 100-percent match on employee contributions up to 2 percent of pay, and a 50-percent match for the next 2 percent of pay.
6. *Withdrawals and distributions.* The plan allows hardship withdrawals, but not loans. There would be no early withdrawals of government contributions.

***Policies to Expand Coverage in All Retirement Savings Plans.*** The members of Working Group II also supported initiatives to increase the level of participation and the level of saving at businesses where there is already a retirement plan:

1. *Automatic enrollment.* The group generally supported the policy whereby employers voluntarily offer automatic enrollment to new hires as a way to prompt workers to contribute regularly to the plan.
2. *Default investment mix.* A safe harbor to allow employers voluntarily to offer employees a default investment option that would automatically place their contributions in a balanced, diversified fund that could be a lifestyle or life cycle fund.
3. *Saver's credit.* The members generally agreed to support an extension of the saver's credit beyond 2006 and making the credit refundable. Views differed on making the credit permanent, increasing the percentage match and income levels, offering a government match, and providing an employer tax credit.
4. *Financial education.* To encourage high schools and colleges to provide basic financial education, including education on retirement saving and health care finances.

These are all excellent ideas, and should be studied further.

***Reducing the Risk in Defined Contribution Plans.*** The Group generally supported encouraging employers to offer inflation-adjusted retirement savings bonds as an investment option in their plans. The group identified Treasury Inflation-Indexed Securities (TIPS) as a potential candidate for this option.

Views differed on the desirability of government insurance for defined contribution plans. This would be a serious mistake: We already have a big enough problem with the current PBGC program. An alternative meriting consideration is to *require* all participant-directed plans to offer either inflation-adjusted retirement savings bonds or an investment with a guaranteed rate of return as an investment option.

In addition, the existing regulations under Section 404(c) of ERISA should be amended to strengthen and make more-specific the existing rule that communication materials must adequately inform participants of the risk and return characteristics of each investment option.

***Minimum Coverage Rules.*** The group generally agreed the impact of raising the coverage threshold above 70 percent and increasing part-time coverage should be studied further. The group was unable to agree on raising the 70-percent level or increasing the coverage of part-time and contingent workers.

**Working Group III: New Plans for Small Firms**

Working Group III's assignment was to answer this question: How do we increase coverage and retirement savings through new institutions and structures? Following Henry Ford's strategy of designing a car for the masses, the group decided to name its plan the Model T. The new Henry Fords would be executives at regulated financial institutions: banks, insurance companies, brokerage firms, and mutual funds.

1. All employees—full-time, part-time, contingent workers, and independent contractors—would be eligible to participate if an employer agreed to be part of a plan.
2. Regulated financial institutions could be authorized to offer a simplified plan to groups of employers. This multiple employer plan could be targeted to a specific region or toward business categories.
3. The group generally agreed that there should be only three to five investment options, including model portfolios that would be conservative, moderate, and aggressive. The choices would be designed to make them easy for the employer and employee to understand. When workers do not make a choice between investments, the employer could designate that their contributions be invested in a mix of options that would be appropriate for their age and expected date of retirement.
4. Employers would be able to enroll workers automatically.
5. Employers would be allowed to contribute to the plan, but would not be required to contribute.
6. The plan providers—banks, insurance companies, brokerage companies, and mutual fund companies—would assume fiduciary liability for the investment choices in the plan and would shoulder administration duties for the plans. Among the unresolved issues is whether any fiduciary liability would remain with the employer.
7. While the IRS and DOL would play an important role in the regulation of the Model T plan, the SEC would take a leading role in regulation and oversight of fiduciary and investment matters.

8. The group was divided on whether the government should sponsor a Model T plan for those employers with many small accounts, clients whose business would not be profitable for financial institutions that provide Model T plans.
9. The group agreed that hardship withdrawals would not be allowed, but loans would be allowed. Participants could withdraw up to 50 percent of their account, beginning at age 59 1/2, and 50 percent of the account balance must be annuitized. There would be no minimum required distribution rules.

**Comments on the RIA and Model T Proposals**

Each of these proposals is closely related to the current debate over individual accounts under Social Security. If Social Security is modified to include individual accounts, then any individual account proposal should be designed to complement the Social Security individual accounts.

One of the great advantages of the proposals is that they provide a completely portable benefit that can follow the individual from job to job, with no need for a rollover or any other positive action on his or her part.

The design of the proposals should also draw on the extensive literature on how to motivate individuals to contribute to 401(k) plans and to overcome their inertia:

> Employees generally do whatever takes the least effort—generally doing nothing.... It is clear from these findings that companies can do quite a lot more to promote retirement saving than just implement a 401(k) plan, and counting on employees to take it from there. Plan design decisions like automatic enrollment, higher default contribution rates, default investment allocations with higher expected long-run returns, and pre-commitment mechanisms to increase future contributions can have a huge influence. [James Choi, David Laibson, Brigitte Madrian and Andrew Merrick, How to Increase 401(k) Saving, *www.nber.org/aginghealth/fall02/401kSaving.html*]

As with 401(k) plans, there is real concern as to whether the primary target population—those with no or inadequate retirement savings—will participate in sufficient numbers. One possible approach would be a generous government-funded matching contribution for low-income employees, coupled with an enhanced savers' credit.

For political reasons, the RIA central clearinghouse probably would have to be run by the private sector, which is unfortunate for two reasons:

1. Experience with other large government-run programs (Social Security, Medicare, the Federal Thrift Savings Plan) suggests that it could be run more efficiently and less expensively by the government.
2. How does the program prevent individuals from being victimized by criminal behavior or inappropriate sales techniques, a problem that has plagued the individual pension market in the United Kingdom?

Should employers be required to provide access to the RIA Plan? After discussion, the majority of the Working Group supported making access voluntary on the part of the employer, to garner business support. This should be reconsidered, with the additional burden on employers kept to a minimum. Perhaps, for instance, contributions could be reported and remitted to Treasury as part of the employer's employment tax returns, and by using the same forms.

## Conclusion

The organizers of the Conversation on Coverage, and the members of the Working Groups, deserve much credit for the thoughtful recommendations, which do much to advance the policy debate. Three background issues need to be addressed during the course of finalizing the recommendations. The first is strategic: Should all four of the proposed new plans be pursued, or should the proposals be narrowed down to, say, one in each category (*i.e.*, GAP or POPP plus RIA or Model T). Four new proposals might be too much for all but the most dedicated pension nerds.

Second, should the new plan(s) replace or be in addition to the types of plan already available to small employers? Choice is good, but too much choice may make it impossible for an employer to decide which approach is best for its business. Whichever path is followed, the complex and (in most cases, totally unnecessary) differences between the rules applicable to different types of plan should be eliminated wherever possible.

Third, it is impossible to assess the relative merits of the proposals in a budgetary vacuum. Some estimate of the revenue impact of each proposal would be helpful. ■