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## *Hybrid Plans*

### **Sen. Harkin Outlines Pension Proposal Based on Privately Trusteed Hybrid Model**

**S**en. Tom Harkin (D-Iowa) released a retirement security proposal July 27, saying he will formally introduce legislation next year but that he wants candidates to debate the proposal during congressional and presidential campaigns this fall.

"I'm under no illusions we're going to get anything done this year, but I want to be ready to go on this next year," Harkin, chairman of the Senate Health, Education, Labor and Pensions Committee, said at a July 27 briefing with reporters.

Harkin said his proposal, the culmination of two years of hearings on retirement security, would create a privately administered hybrid pension system on a national scale to address inadequacies in the current employer-based retirement system.

**'Middle Ground.'** Harkin described the proposal, Universal, Secure and Adaptable (USA) Retirement Funds, as "a middle ground between pensions and 401(k)s." A board of trustees representing employers, employees, and retirees would oversee each USA Retirement Fund.

Like today's Section 401(k) plan accounts, individual accounts under Harkin's hybrid pension proposal would be "portable" from one employer to another. Unlike Section 401(k) plans, the proposed USA Retirement Funds would expose employers to no fiduciary risk and to very minimal investment or market risk, Harkin said.

"This is like a retirement insurance program," he said.

In contrast to retirement savings in today's Section 401(k) plans, contributions to USA Retirement Funds would be pooled and managed professionally, Harkin said. Participants would receive their benefits as monthly retirement income.

Under Harkin's proposal, the amount of a retiree's monthly pension income would be based on two factors: fund performance and total contributions from participants and employers on behalf of participants.

Employers would be required to make a minimum level of contributions, either to an existing Section 401(k) plan, if they sponsor one, or to one of the USA Retirement Funds that would be established if legislation is enacted, Harkin said.

**Automatic Payroll Deductions.** The proposal has some features in common with the Obama administration's automatic payroll deduction individual retirement accounts, but the differences are significant, Harkin said.

"Auto IRA—that's not going to cut it" as a source of retirement security, he said.

By requiring every employer to contribute at a minimum level, the proposal would enable small employers to better compete with larger ones and put a halt to "a race to the bottom" by employers that take no responsibility for helping their employees retire, Harkin said.

Harkin added that he will be meeting with employers to discuss what an adequate minimum mandatory contribution should be. Generally, employer contributions would be smaller than employee contributions, he said.

**Infrastructure Investments.** Harkin also said he would like to hear from investment companies about their views on the proposal.

The contribution that pension funds make to economic stability and U.S. economic growth should be part of the public debate, Harkin said. As traditional pensions disappear, the U.S. economy is losing a major source of investment capital, he said.

Harkin referred to testimony presented at one of the retirement security hearings over which he presided. "Public and private pensions account for about 42 percent of all investments in venture capital, real estate, infrastructure, and later-stage corporate financing," he said.

Municipal bonds would be a large portion of the investment portfolio of USA Retirement Funds, Harkin said. "If you want to rebuild the infrastructure of America, this is the way to do it—and a way to do it that provides immediate jobs for people," he said.

Harkin also referred to a recent study by the National Institute on Retirement Security that estimated the economic stimulus effect of pension payments, based on 2009 data, to be \$1 trillion a year (44 PBD, 3/7/12; 39 BPR 483, 3/13/12).

**Social Security Changes.** In addition to the outline of a new hybrid pension system, Harkin's proposal included changes to increase Social Security income for low-wage workers. Harkin also proposed increasing revenue for Social Security programs by phasing out current provisions that exclude wage income exceeding \$110,100 from Social Security payroll tax.

Working families will be under enormous strain if nothing is done soon to avert a retirement crisis, Harkin said, recalling that when he came to Washington in the 1970s, one out of every two American workers had a traditional pension, in addition to Social Security.

"Now we basically just have Social Security," he said.

The Pension Rights Center in Washington, commenting on the Harkin proposal in a July 27 news release, said it would provide "a meaningful supplement to So-

cial Security for millions of employees whose employers do not offer pensions or retirement savings plans.”

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*A copy of Harkin’s proposal is at <http://harkin.senate.gov/documents/pdf/5011b69191eb4.pdf>.*