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CLIENT ALERT

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REPORT EXPLORES PRIVATE PENSION ALTERNATIVES

The General Accounting Office recently released to Congress a study of private pension plans. The report addresses three principal questions:

1. What are key risks faced by U.S. workers in accumulating and preserving pension benefits?
2. What approaches are used in other countries that could address these risks and what trade-offs do they present?
3. What approaches do key proposals for alternative plan designs in the U.S. suggest to mitigate risk factors faced by workers and what trade-offs do they entail?

The study identifies the following as significant risks faced by participants in U.S. private pension plans:

- diminution of benefits in defined benefit plans following a job change;
- lack of portability of qualified plan benefits;
- investment risks;
- the trend in recent years to shift the burden for pension contributions from employers to employees; and
- increasing fees and administrative costs.

As part of its analysis of alternatives to employer sponsored retirement plans, the report describes pension programs in the United Kingdom, the Netherlands and Switzerland. One key difference noted between those countries and U.S. employer-based plans is that in the Netherlands and Switzerland, private pension funds are managed by independent entities with no legal or financial link to the sponsoring employers. This structure is intended to mitigate the risk that a pension fund will become insolvent if an employer goes bankrupt. The UK is just implementing a structure under which all

employers must either offer a pension plan or auto-enroll all employees in a plan with features specified by the government. Under the systems of all three countries, both employers and workers contribute to

the retirement plans. The GAO report includes four proposals for alternative designs to the current pension system in the United States:

1. **“Super Simple Savings Plan”** -- a voluntary system of private sector defined contribution accounts, intended primarily to establish a minimum base of retirement security for low to middle income workers; this plan would be a type of modified 401(k) plan with higher contribution limits and alleviation of some non-discrimination and reporting requirements; employer contributions would be mandatory; a government match of employee contributions would be available;
2. **“New Benefit Platform for Life Security”** -- a private system of plans that could offer uniform benefit structures for both defined benefit and defined contribution retirement benefits; plans would be managed independently from employers by benefit administrators regulated by the federal government; administrators would be required to guarantee a minimum return on defined benefit plan investments; employer contributions would not be required but employee contributions might be mandatory;
3. **“Universal 401(k) Plan”** -- a government-sponsored defined contribution plan available to workers without an employer-sponsored plan; sponsored by the federal government; employer contributions not required but would be permitted;

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4. **“Guaranteed Retirement Accounts Plans”** – a government established plan with both defined benefit and defined contribution features that would require participation by all employees without an equivalent or better defined benefit plan; individuals could receive a tax credit which would replace tax preferences for many qualified plans; the government would guarantee a minimum investment return.

All of the above plan designs would be fully portable.

The report is simply a study prepared in response to a Congressional inquiry. It has not generated any legislative proposals and is not likely to do so in the foreseeable future because of the time and resources being devoted currently to the health care reform debate. Nevertheless, the report puts forward some thought provoking suggestions and alternatives, especially for those concerned about the future of employer-based retirement plans.

[Click here to view the GAO Report at http://www.gao.gov/new.items/d09642.pdf](http://www.gao.gov/new.items/d09642.pdf)

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