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Kerry responds to Pension Forum questions on retirement policy

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By Nicholas Braude

The next administration will face many key decisions on retirement policies in the next four years, regardless of whether President Bush or Sen. John Kerry wins the presidential race on Nov. 2.

Twelve organizations representing employee benefits professionals and Pensions & Investments submitted questions for the candidates on issues ranging from pension plan regulation to cash balance plans to national retirement policy.

The questions were gathered by Sam Gilbert, president of The Pension Forum and of United Plan Administrators, Westlake Village, Calif., a consulting organization that works with small businesses that have retirement plans.

Mr. Kerry's campaign answered the questions; Mr. Bush's representatives declined to respond "due to time constraints."

The organizations submitting questions were the American Academy of Actuaries; U.S. Chamber of Commerce; National Institute of Pension Administrators; American Society of Pension Actuaries; The Pension Forum; National Small Business Association; Profit Sharing/401(k) Council of America; Small Business Council of America; National Association For the Self-Employed; Employers Council on Flexible Compensation; National Association of Women Business Owners; and Society of Professional Business Administrators.

The questions are identified below the names of the submitting organizations. Mr. Kerry's campaign grouped some responses to questions in related topics. The edited questions and answers are as follows:

American Academy of Actuaries: *What is your position on defined benefit pension plans? If you believe they are a critical component of the U.S. retirement system, what steps would you take to promote defined benefit plans? Do you think that cash balance plans or other hybrid plans should be curtailed, even if that would*

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reduce the formation and maintenance of retirement plans? Do you believe a proposed pension funding yield curve is essential to pension reform?

U.S. Chamber of Commerce: *Do you have a comprehensive agenda for addressing U.S. employers' rising pension costs and associated liabilities? Do you see employers playing more or less of a role in providing retirement benefits?*

National Institute of Pension Administrators: *What legislative agenda do you have planned that will improve the pension environment for plan sponsors and their participants over the next four years? What would you do to strengthen the retirement plan system?*

MR. KERRY: Employers play a central role in providing our nation's workers with retirement income security. My administration will work to support and enhance that role, to encourage saving and health care coverage, and to restore workers' confidence in the retirement plan and health care system.

In the retirement area, our private pension system is critical in providing retirement security for working Americans and is a key factor in promoting national savings. Defined benefit plans are a vital component of that system. I support policies to promote the formation and continuation of defined benefit plans that provide meaningful retirement security income to employees and their spouses.

Among other things, this requires careful attention to:

- the need for reforms of the pension funding rules to ensure they are effective, workable and administrable;
- the role and financial status of the Pension Benefit Guaranty Corp.; and
- the role of cash balance and other hybrid pension plans.

Before the Bush administration took office, the PBGC was financially sound and solvent, achieving a surplus (some \$10 billion) for the first time in over 20 years. Under the Bush White House, the PBGC has lost its credibility, and its financial situation has been allowed to deteriorate so rapidly that it now faces a deficit even larger than its former surplus, and has been placed on the Government Accountability Office list of "high-risk" federal agencies.

My administration will work on a bipartisan basis to improve retirement security in a variety of ways. My retirement savings strategy includes shoring up the nation's defined benefit pension system, improving the funding rules, strengthening the PBGC and restoring its credibility, and expanding retirement plan coverage generally, especially for moderate- and lower-income employees and employees of small businesses.

With respect to the cash balance controversy, I intend to work with Congress and exercise the leadership needed to end the uncertainty affecting this area through a fair and workable solution that will adequately protect older workers while permitting appropriate cash balance plans.

American Society of Pension Actuaries: *The American Society of Pension Actuaries is concerned that current laws and the accompanying regulations have left millions of American workers without a reasonable way to save for retirement. Though intended to increase access to private retirement savings, these laws and regulations have in fact had an opposite effect. What would you do to simplify existing regulations?*

MR. KERRY: I do believe there is room for further simplification of pension law and regulations. In my administration, the Treasury and Labor Departments will collaborate to develop legislative proposals and propose regulatory reforms that have simplification as one of their important objectives. I will also direct the two departments to propose better ways to coordinate or conform the tax provisions and the ERISA provisions of pension law. This will simplify life for plan sponsors, participants and their providers and advisers, who will no longer have to comply with conflicting or inconsistent provisions.

As an integral part of this process, the Treasury and Labor Departments will meet with and listen closely to the concerns and ideas of the stakeholders in the private pension system — those who benefit from it, those directly affected by it and those who work with it on a regular basis. One of the main objectives of this process will be to collect suggestions as to where the existing laws and regulations might be unnecessarily complex and how they might be simplified while furthering their basic policy objectives, including retirement security and protection of the rights of participants and beneficiaries.

The Pension Forum: *Some small business owners would prefer to offer a traditional defined benefit retirement plan to their employees, but find that some or all their employees would want to defer some of their income into a 401(k). Would you favor rules allowing “k” provisions to be part of any defined contribution plan as well as a defined benefit plan?*

MR. KERRY: Both defined benefit pension plans and 401(k)/defined contribution plans play vital roles in our retirement system. My administration will actively consider further improvements to the rules governing both types of plans and will invite and listen closely to suggestions from stakeholders.

Pensions & Investments: *With all the mutual fund trading scandals and hedge fund implosions, what additional steps do you think need to be taken — by the government and by the industry — to protect institutional and individual investors?*

MR. KERRY: Government must be more vigilant in enforcing the laws against fraud and other violations of the securities laws. At the same time, government and industry can also do a much better job to improve disclosure in order to assist plan sponsors and participants. Investors seldom get a complete picture of how much they are paying in fees, and employees participating in 401(k)s often get no information on the fees they are paying in their plans. Mutual funds and 401(k) providers should be required to show investors — on their statements as well as in printed marketing materials — how much they are paying in fees, not just a percentage or a range of hypothetical amounts.

National Small Business Association: *How would your administration balance the need to encourage employees of small businesses to save for retirement with the need to keep employers involved in the system?*

Profit Sharing/401(k) Council of America: *In 1999, the Department of Labor's ERISA Advisory Committee recommended the repeal of so-called “top-heavy rules” that result in small businesses being uniquely required to make mandatory contributions to all employees. As president, what will you do to repeal these rules?*

Small Business Council of America: *Would you, as president, take a stand that new cash balance plans (not converted cash balance plans) are not inherently age-discriminatory and that the recent proposals by Treasury should be given effect immediately?*

National Association for the Self-Employed: *If elected, what proposals would you offer and/or support to assist the self-employed and businesses with 10 or fewer employees in drawing and maintaining skilled workers?*

MR. KERRY: As a ranking member of the Senate Small Business Committee, I understand and have first-hand

knowledge of the issues facing small businesses today. I believe that small business is crucial to our economy, and I can promise you that the needs of small business will be a high priority for my administration.

I am convinced that it is critical to keep the private employer-based retirement plan system strong and healthy, including in the small business sector.

One of the priorities of my administration will be to do more to encourage national saving — including personal saving in employer plans and (individual retirement accounts). ...

Accordingly, I will first protect our system's existing incentives for small-business owners to sponsor retirement plans for their employees by opposing my opponent's large individual account proposals, which would discourage small-business owners from sponsoring employee plans. Instead, we should emphasize valuable small-business options such as the SIMPLE plan, the SEP and the 401(k), and explore ways to build on these options.

It is in the small-business arena that the challenge is greatest. We have made some progress. Since we enacted the SIMPLE plan in 1996, coverage of small-business employees increased steadily — at least until 2001 — and small-business owners gained a better understanding of their retirement plan options. I am concerned that, unfortunately, the economic policies of the Bush administration have presented an additional challenge by actually reversing some of the progress in pension coverage that we made before 2001. But I am confident we can regain lost ground and expand coverage further.

Your questions also refer to inadequate incentives for individuals to save for retirement within the context of employer plans. After taking office, I intend to announce a plan to improve pension security and coverage and to enhance retirement saving incentives for individuals and employers in a variety of ways. While it is premature to describe many of the specific elements — in part because I want this plan to benefit from your suggestions and those of other stakeholders — I can tell you that one of the specific ways I intend to improve those incentives is to expand the saver's credit, which can significantly increase the incentives to contribute to a 401(k) plan (or an IRA) for tens of millions of working Americans — especially those to whom additional savings mean the most in terms of retirement security. Among my other priorities in this area will be measures to make it easier for 401(k) plan sponsors to use automatic enrollment and similar approaches that encourage saving by their employees without eliminating individuals' flexibility to make their own choices. I also can tell you now that my plan will include steps to enhance the portability as well as the transparency of pensions for participating employees.

Employers Council on Flexible Benefits: *What changes do you advocate for employer-sponsored health benefits with the current tax deduction for employers and tax exclusion for employees?*

National Association of Women Business Owners: *Do you support the creation of Associated Health Plans (AHPs) to improve access and choice for women business owners with respect to medical care for their employees?*

MR. KERRY: I have a plan to address soaring premiums and cut Americans a break. My plan will lower family premiums by up to \$1,000 a year, cut waste from the system, lower the cost of prescription drugs to provide real relief to seniors, and use targeted tax cuts to extend affordable, high-quality coverage to 95% of Americans, including every child. And because I believe that everyone's health is equally important, I will provide all Americans with access to the same coverage that members of Congress give themselves.

My plan will allow Americans to buy into the Federal Employees Health Benefit Plan (in a separate pool) and provide reinsurance to assure coverage is affordable. By focusing on cost containment and helping to cover catastrophic costs, my plan strengthens the employer-based market and ensures the ability of larger businesses

to continue offering coverage to their workers.

My plan would allow all Americans to get this coverage by adding a new pool for small and large businesses, as well as individuals and families who need affordable health insurance. A new “premium rebate” program will provide subsidies to help stabilize insurance rates and keep coverage affordable by removing the burden of high cost cases from the insurance pool. These premium rebates have the potential of saving Americans up to 10% (or \$1,000 for a family) on their current health care costs. I will also sign an executive order to ensure participants will be guaranteed the right to family health benefits for their domestic partners.

Here’s what my plan will do for small businesses:

- Small businesses need access to more affordable health care. Small businesses typically spend more on administrative costs and they often see premiums rise when one employee has high health care costs. By joining the new Congressional Health Plan, small businesses will be able to provide more affordable coverage by wielding market clout, obtaining better deals from insurers and reducing administrative burdens and costs.
- Tax credits to make coverage more affordable. Refundable tax credits for up to 50% of the cost of coverage will be offered to small businesses and their employees to make health care more affordable. In addition, the premium rebate pool for certain high-cost health cases will help reduce costs for everybody. This protection is especially crucial for small businesses, as they have traditionally fared worse in the marketplace from an inability to sufficiently spread risk. The premium rebate pool and access to the Congressional Health Plan will save small businesses approximately 15% in health care costs on top of the tax credit — so health care will be two-thirds cheaper for small business employees than it is today.

Society of Professional Benefit Administrators: *How would you create incentives or mandates for all players in the health care community to embrace and implement interoperable electronic health care records?*

MR. KERRY: The annual cost of health care today is \$1.4 trillion. Approximately 25% is spent on non-medical costs — principally the costs of the paperwork burden As you know, this is orders of magnitude more than for any other industry. Whereas settling a single transaction in health care can cost as much as \$12 to \$25, banks have cut their costs to less than a penny per transaction by using modern information technology. The Veterans Administration has found that through improved technology, doctors can pull entire medical records (that previously cost \$9) instantaneously and without cost. Other purchasers have had similar results.

A key part of my health plan is a technology bonus that is targeted specifically to the issue you raise. My technology bonus will:

- ensure that all Americans have secure, private electronic medical records by the year 2008. In addition to cost controls, computerized medical records and decision support software can also reduce serious medical errors by as much as 88%.
- assure federal government adopts modern computerized methods for health care transactions that are widely used in other industries.
- require private-sector insurers to use advanced systems. Private insurers would have to use this simplified technology standard as a condition of doing business with the federal government.

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