WASHINGTON, DC • BRUSSELS • LONDON • WWW.ICI.ORG

State-Run Retirement? Better to Go Private

State-Run Retirement? Better to Go Private

By Paul Schott Stevens

(As published in the Wall Street Journal, February 7, 2016)

More than 50 million workers—most working for small businesses—lack coverage under employer-based retirement plans. They need greater access to these private plans, which will enable them to supplement Social Security.

Instead, a movement is under way in at least 26 states that would in most cases sweep employers without pension plans into mandatory retirement-savings plans run by state governments. Businesses—particularly small ones—will be saddled with new expenses and complicated rules. The problem would be worse for employers that operate in more than one state.

Meanwhile, at the White House's insistence, the Labor Department is working to change the rules governing employer retirement plans so that state-run plans will not have to offer protections to employees under the 1974 Employee Retirement Income Security Act. These protections include stringent rules that private employers must follow regarding the management and safekeeping of plan assets.

Some state lawmakers are selling these plans with the promise of guaranteed returns and benefits. Yet some of these same states, such as California and Illinois, account for more than their share of the $1.7 trillion shortfall in funding for the retirement plans that cover their state and local employees. Guaranteed benefits for private workers would expose taxpayers to vast new liabilities.

A better way to help more workers save is to make it easier for small businesses to provide them with flexible retirement plans. Here are some proposals that could do so:

Open up multiple-employer plans to more small businesses. MEPs allow related businesses to band together in a retirement plan operated by a single plan sponsor, reducing administrative and compliance costs. According to a Government Accountability Office analysis a few years ago, MEPs managed some $175 billion in defined-contribution assets (about 6 percent of the total). However, current regulations restrict MEPs to employers sharing a "commonality of interest," prohibiting unrelated small employers from partnering.

The Obama administration's fiscal 2017 budget includes a call for opening up the MEP structure. Details are not yet clear, but this could be better than a confusing patchwork of mandatory state plans.

Encourage "Simpler" 401(k) plans. Small employers looking to cover their workers have two primary options: a full 401(k) plan or a Simple (Savings Incentive Match Plan for Employees) IRA Plan. Simple IRAs improve on individual retirement accounts by enabling contributions through payroll deduction and matching contributions. But the regulations and costs discourage many employers from offering them. A "Simpler" 401(k) plan with lower costs would make this retirement plan more attractive to employers. As businesses offering these new plans grow, they may be more inclined to offer a full 401(k) plan with higher contribution limits and additional features, such as loans to participants.

Bipartisan cooperation on Capitol Hill can help millions more workers to save for their retirement. But unless Congress acts, state governments may step in and make the retirement system more fragmented—and weaker.

Paul Schott Stevens is president and CEO of the Investment Company Institute, a global trade association for mutual funds and other regulated funds.