Retirement Security

Public Policy Issue Statement

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Background
Retirement plans represent an important aspect of the total compensation package used by employers to recruit and retain employees. HR professionals are responsible for selecting and implementing retirement benefit plans that meet the needs of an organization’s workforce. These plans play a crucial role in the current U.S. retirement system’s three-pronged approach to savings: Social Security, voluntary employer-sponsored pension plans and individual savings. Tax-qualified retirement plans currently hold $19.4 trillion in assets, of which nearly $11.8 trillion is in salary-deferral retirement plans—401(k)-type IRAs and annuities.¹ Employers have helped to make this happen, having contributed almost $3.5 trillion to public and private retirement plans from 2000 through 2009.²

Employer-sponsored retirement plans offer more than 84 million American workers and their families the opportunity to accumulate savings and improve their retirement security.³ Generally speaking, there are two main types of pension plans sponsored by employers: defined benefit (DB) plans and defined contribution (DC) plans. DB plans promise participants a specified monthly benefit at retirement. DC plans, on the other hand, do not promise a specific benefit at retirement. Instead, the participant, employer or both contribute to the participant's individual account and those contributions are invested according to the participant's allocation. The participant will ultimately receive the account balance, which is based on contributions plus or minus investment gains or losses.

The design and function of employer-sponsored retirement plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA) and/or the Internal Revenue Code of 1986 (IRC). Individual personal savings vehicles are defined in the IRC while the Social Security Act of 1935 (SSA) governs the nation’s Social Security system.

Issue
HR professionals know that America’s traditional retirement system is being tested in new ways. The Baby Boom generation is beginning to retire, yet many of its members may need to continue working as their expected retirement benefits have diminished with the economic downturn that

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began in 2008. Possibly the catalyst to the recession, several financially troubled companies have defaulted on their DB plans and turned their obligations over to the Pension Benefit Guaranty Corporation (PBGC), resulting in a deficit of $27.4 billion for single-employer plans. In addition, many fiscally healthy companies have decided to freeze their DB plans and switch to DC plans as their company’s retirement benefit.

Today, 89 percent of employees with retirement savings plans offered through an employer participate in a DC-type plan. By contrast, 19 percent participate in a DB plan. DC plans require greater involvement from the plan participant who, in many cases, must not only opt into the plan but must elect a percentage deduction from take-home pay and determine how to invest the money. Although employees are given these options, many do not understand how to invest to maximize retirement savings. Other workers are not willing or able to put aside wages for the future because they need to cover expenses today.

Not all employees have access to an employer-sponsored retirement plan. In fact, nearly one-third of employees do not. Lack of access to an employer-sponsored plan creates increased reliance on personal retirement savings and the Social Security system. Unfortunately, Americans’ personal savings is only at 4.8 percent, steadily declining from over 11 percent in the 1970s, with the largest losses occurring in the late ’80s and ’90s. Additionally, the Social Security system, which was designed to provide safeguards against destitution and dependency, is also being challenged. Currently nearly 9 out of 10 individuals age 65 and older receive Social Security benefits. However, the system faces challenges to its solvency as the Baby Boom generation begins retiring and the country faces the reality of a smaller pool of workers supporting a larger group of retirees. Under current demographic assumptions, the Social Security Trust Fund expenses are expected to exceed income from taxes in 2017, with all funds exhausted by 2033.

**SHRM Policy Statement**
The Society for Human Resource Management (SHRM) believes that every American worker should be afforded the opportunity to save for his or her own retirement. The government should facilitate and encourage voluntary employer-sponsored plans, as well as individual savings, through consistent tax incentives and simplified regulations. Retirement is a shared responsibility between individuals and government. Individuals have a primary responsibility to evaluate their retirement needs, and to plan and save accordingly. Government has the responsibility to provide Social Security benefits and keep the trust fund solvent as a safety net of basic, guaranteed income.

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5 Society for Human Resource Management (2014). *2014 Employee Benefits; An Overview of Employee Benefits Offerings in the U.S.*


Key Public Policy Principles
SHRM supports the following key principles with regard to public policy on this issue:

Incentives for Employer-Sponsored Retirement Plans:
Automatic Enrollment - SHRM supports proposals that enable employers to maximize employee understanding and participation in retirement plans. Provisions that remove obstacles to automatic enrollment and allow for automatic match increases provide important tools to assist employees in planning and saving for a financially healthy retirement.

Employer Match - To encourage greater savings among employees, employers may choose to make contributions to their retirement plans. In general, employers contribute a percentage of their employees’ contributions up to a specified amount. This practice is fairly common. According to the SHRM 2013 Employee Benefits research report, 74 percent of employers offer some type of match on dollars contributed to these plans.10

Defined Benefit Solvency - There must be a stable, reliable system upon which employers can rely to determine pension obligations. Funding levels and premiums for DB plans should be based on stable, accurate and consistent accounting and valuation methods. Plan sponsors should have the option to make excess contributions during economic prosperity and the PBGC should encourage faster funding of unfunded obligations and underfunded plans to ensure plan solvency.

Employer Flexibility - To best meet the needs of their workforce, employers need a variety of retirement plan options from which to choose. Plan designs include defined benefit plans, cash balance plans, a variety of defined contribution plans and plans designed for small businesses. Cash balance plans represent one option that can be advantageous for many employees, such as those who change jobs frequently, are lower paid or are short-term workers. Any transition to a cash balance plan should include timely and comprehensive communication to employees and an opportunity for older employees, who may incur a financial loss, to remain covered under the old plan.

ERISA Pre-emption - ERISA provides a uniform set of federal statutory regulations that protect the rights of plan beneficiaries while protecting employers from complex and contradictory state laws, some of which provide for punitive and extra-contractual damages. ERISA’s uniform standards and remedies are critical to providing a safe environment for plan sponsors to voluntarily provide pension and welfare benefits.

Facilitating Retiree Mobility - Federal law prevents states from taxing retirement benefits based on the location earned rather than where the benefit is received.11 ERISA pre-emption should be applied to state tax laws in order to base taxation of retirement income on receipt rather than where income liability was incurred. This will more fairly align state tax revenues

with the services required by retirees, be more equitable between states, and reduce the administrative cost of retirement plans.

**Individual Retirement Savings Accounts** - Small employers should be encouraged to provide retirement programs, and employees in businesses of all sizes should be able to transfer retirement funds when they change employers. To encourage this, regulations should be simplified to permit and/or facilitate employers to place current retirement income and retiree health care contributions into an employee’s qualified individual retirement plan (savings), rather than establishing separate participant accounts within the plan.

**Investment Education** - American workers have an increased reliance on defined contribution and personal savings plans to finance their retirement, making access to investment advice critical. Employers and plan administrators need protection from unnecessary fiduciary liability when providing education to employees on the financial impact of investment choices in order to help employees maximize their retirement opportunities.

**Pension Reversions** - Companies should be able to recover unobligated excess assets from a terminated defined benefit plan. In establishing a defined benefit plan, a company promises to provide participants a benefit upon retirement not conditional upon the financial health of the pension fund. The company bears the risk for the pension fund’s investment performance. Therefore, if the assets of a terminated plan fully meet the plan’s obligations to plan participants, as determined by the plan document, the company should be allowed access to these funds. Restricting an organization’s access to these funds would diminish the incentive for funding defined benefit plans above minimally required levels and discourage companies from establishing defined benefit plans, which many retirees consider the most secure and reliable retirement vehicle. Employers should be allowed to voluntarily apply excess pension benefits towards the funding of other benefit programs, including retiree health liabilities.

**Phased Retirement** - The combination of the Baby Boom generation approaching retirement age and the decrease in the labor force will produce a tight labor market, increasing the interest of employers in retaining their older, experienced workers. Programs designed to permit a gradual transition from work to retirement allow workers to work past traditional retirement age on a reduced schedule. These types of programs should be encouraged, and pension laws need to be amended to allow for a phased retirement while protecting pension rights.

**Plan Administration** - SHRM recognizes the importance of expanding pension coverage to those employed by small firms. Simplified pension administration, accounting and regulations assist all employers in administering their retirement plans but are especially critical in the small business environment where complexity remains a barrier to providing coverage.

**Taxation of Stock Options** - SHRM supports proposals clarifying that qualified stock options are not subject to payroll taxes upon grant, exercise or disposition of the stock. Many companies—small, medium and large—make liberal use of Employee Stock Purchase Plans and Incentive Stock Options. These are important tools that organizations can use to encourage employee ownership. Additional tax liabilities and administrative costs discourage employers from offering these programs.
Incentives for Personal Savings:

**Contribution Limits** - To prevent the need for nonqualified retirement plans, overly complex regulations and excessive plan administration costs, all established limits on the dollar amounts that may be deferred for retirement income should be eliminated. If there are concerns that a few senior employees would inordinately benefit from tax-qualified plans, limits should only be applied to a tightly defined group of policy-making executives. In that all distributions would be taxed when received, this change would not affect the amount of taxes paid, but only the timing of tax revenues.

**Portability** - Because a large number of workers change jobs frequently, either voluntarily or involuntarily, participants should be able to easily transfer funds between pensions or between pension plans and personal retirement savings vehicles such as IRAs. SHRM supports efforts to permit retroactive catch-up contributions to personal savings vehicles for years for which a participant loses pension plan vesting due to short-term employment. Regulations should continue to permit service based on vesting schedules, permitting employers to optimize contributions for the benefit of employees who remain employed for more than a few years, but should permit employers to distribute all vested proceeds for any pre-retirement termination regardless of the amount involved. Receiving plans should be indemnified against any disqualified funds so received.

**Protecting Retirement Savings** - The same restrictions on access to funds set aside for retirement should apply equally to individual retirement plans and employer-sponsored plans. Those restrictions should ensure that retirement savings are used only to fund retirement except in extremely limited circumstances. Access to plan funds for income prior to retirement should be limited to significant life events, including purchase of a primary residence, funding of the taxpayer’s higher education, demonstrable severe hardship, medical expenses and other similar reasons acceptable to the plan’s administrators. It should be required that all funds distributed in the form of loans prior to retirement be repaid within a reasonable time frame.

**Tax Incentives** - Tax incentives should be used as vehicles to expand retirement savings. Provisions that encourage savings, such as increased contribution limits, catch-up contributions for older workers, and credits for low income workers who save, are beneficial. Tax incentives should be provided to employers that sponsor plans and to individual savings accounts on an equitable basis.

Maintaining a Retirement Safety Net:

**Social Security Coverage** - Benefits from Social Security are designed to replace lost earnings, to be proportional to contributions, and to be paid on the basis of eligibility and contributions to the system, not on the basis of need. Social Security should remain a fair benefit in which all beneficiaries have the same benefit structure. Parallel plans like the federal and state government and railroad retirement plans should provide a benefit similar to Social Security to produce a single, consistent approach toward supplementary retirement income.

**Social Security Solvency** - Solvency of the Social Security program is a shared responsibility between the government and employers who contribute in the form of a payroll tax. The
government must maintain the Social Security Trust Fund on a financially sound basis without unduly shifting the funding burden to employers through increased taxes. Maintaining benefits not only provides a minimum guaranteed source of income for retired workers but facilitates the affordability of employer-sponsored retirement plans, many of which assume retirees also receive federally sponsored retirement benefits.