Statement Presented to
The U.S. Senate Committee
On Health, Education, Labor and Pensions

Hearing on

Pooled Retirement Plans:
Closing the Retirement Plans Coverage Gap for Small Business

July 16, 2013

Transamerica Retirement Solutions appreciates the opportunity to provide this written testimony in connection with the hearing of the U.S. Senate Committee on Health, Education, Labor, and Pensions (HELP) entitled Pooled Retirement Plans: Closing the Retirement Plans Coverage Gap for Small Business. This testimony will discuss the role of small business in helping employees to save for retirement, principles for solutions to coverage, and innovative private sector solutions.

Transamerica Retirement Solutions Corporation ("TRS"), an affiliate of Transamerica Life Insurance Company and its affiliates, designs customized retirement plan solutions to meet the unique needs of small to midsized businesses. TRS provides services for over 21,000 plans that collectively represent over $102 billion in plan assets as of December 31, 2012. Specifically, in the small employer market, TRS services over 18,500 plans with over 800,000 participants and $24.5 billion in assets. Transamerica Life Insurance Company and its affiliates focus on life insurance, pension, annuity, supplemental health, savings, and investment products. Transamerica has approximately 11,000 employees in the United States; approximately 3,800 of whom work in Iowa. The primary call center for employer plans that TRS administers is also located in Iowa.

TRS services small to large size employer plans but finds the lack of coverage of employees in workplace retirement plans to be most prevalent in the small employer market. Therefore, this testimony will focus on coverage in the small business market.

We have four main points, which we will discuss in our testimony:

1. Employers have played a vital role in improving plans and enhancing benefits through innovations designed to help their employees. We need to preserve a central role for employers in the private retirement system.
2. The private retirement system has made great strides forward, and is continuing to improve. We should be careful not to do any harm to the wonderful progress that has been made.
3. We need to continue to improve the voluntary system by making it easier for employers to provide plans through reforms that address the primary reasons that employers, especially small employers, do not offer plans: cost, complexity and concern about fiduciary liability. In this regard, we encourage proposals to enhance coverage and benefits, such as proposals

to expand the safe harbor for auto-enrollment, and proposals to limit the liability of participating employers in a multiple employer plan from the wrongful acts of another participating employer.

4. Because there is not a single right way to enhance retirement security, we need to promote and encourage innovation. We at Transamerica can share an exciting story of a new approach that we believe can very much help to improve small business coverage.

Small business facts and employers' role in helping workers save for retirement. According to the U.S. Small Business Administration, small businesses (less than 500 employees) represent 99.7 percent of the total firms and 49.2 percent of the workforce in the United States.[1] Therefore, expanding retirement plan coverage among small businesses is critical to enhancing Americans' retirement security.

Employers play a vital role in helping workers save for retirement. The workplace retirement savings system has succeeded in serving as the preferred method of saving for retirement for millions of workers. With the benefits of saving in an employer-sponsored plan (e.g., often investment education, the potential for employer contributions, and fiduciary oversight), combined with the employer match and the convenience of automatic payroll deduction, Americans are far more likely to save for retirement through participating in a company-sponsored retirement plan versus contributing to an individual IRA or other alternate savings structures. According to research from the Transamerica Center for Retirement Studies® (TCRS), a nonprofit private foundation, plan participation rates among workers who are offered a 401(k) or similar plan remained strong and steady at 77 percent between 2007 and 2012.[2] By comparison, the Investment Company Institute found that only 16 percent of U.S. households contributed to an IRA in 2011.[3] The role of employers in providing retirement savings plans to their employees has long been supported by public policy and the work of this and prior Congresses in providing tax incentives both for employers to sponsor retirement plans for their employees and for employees to accumulate long-term savings through those plans.

Despite the many difficult cost-cutting decisions faced by employers over the last five years, employer-sponsored defined contribution retirement plans have remained relatively intact. According to government data, between 2007 and 2010, the number of firms in the United States declined by 5.6 percent[4] yet the number of private defined contribution plans declined only 0.7 percent[5]. This strength in the defined contribution

[1] U.S. Small Business Administration, Frequently Asked Questions, September 2012, http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf.

[2] Transamerica Center for Retirement Studies, Emerging from the Economic Storm: Retirement Plans in the United States, 2007 – 2012, 2013. The Transamerica Center for Retirement Studies ("TCRS") is a nonprofit, private foundation. TCRS is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third parties. For more information about TCRS, please refer to www.transamericacenter.org.

[3] Investment Company Institute, The Role of IRAs in U.S. Households' Saving for Retirement, 2012.

[4] United States Census Bureau, Statistics of U.S, Businesses, 2007, 2010.

[5] U.S. Department of Labor, EBSA, Private Pension Plan Bulletin Historical Tables and Graphs, 2012.

system can be further illustrated by the vast majority of employers (82 percent) who believe that these retirement benefits are important for attracting and retaining talent.[6]

Principles for Developing Solutions to Coverage. While coverage of workers in employer plans is very broad, the industry remains as concerned as policymakers that more can be done and continues to seek solutions to drive up coverage of workers in retirement plans. There are several principles that should be followed in developing proposals to increase coverage and enhance benefits:

1. *Acknowledge the vital role of employers in retirement savings.* We must acknowledge the vital role employers play in providing the structure and opportunity for workers to save for a secure retirement. Employers and their service providers, working together, have made huge strides forward by constantly seeking to improve plans and enhance savings. Innovations such as auto enrollment and auto escalation were products of these efforts. Although we have a long way to go, employers and their service providers have pioneered investment education approaches that have vastly improved understanding of retirement issues and investment principles. Target date funds are another product of this continual effort to find answers for retirement challenges. In addition, without employers, not only would there be far less innovation, but we would be reliant on individual savings, which on its own has proven to be far less effective in achieving retirement security.

2. *Do no harm.* In seeking solutions, we must take care to "do no harm" to the current system. The current employer plan system is a voluntary one, and as noted above, is successful in providing workers with the ability to save for a secure retirement. Employers establish and maintain employer retirement savings plans at a considerable cost and administrative burden, and with significant concern over liability. Solutions should address these concerns and not add to them.

   Any new legislative or regulatory requirements adding further complexity and cost without any significant benefit to the employer plan or participant are likely to further tip that balance in favor of not offering a plan for many employers. Overly burdensome requirements that add to an employer's fiduciary liability and are contrary to market demands without any significant benefit to either the employer or plan participants would similarly be very counterproductive.

   New restrictions on benefits and contributions would also undermine the voluntary system by reducing the incentives for company decision makers to maintain a plan. Without the voluntary maintenance of a plan by companies, we are left with far less savings and more pressure on the government to enhance social programs to address the needs of seniors.

[6] Transamerica Center for Retirement Studies, Emerging from the Economic Storm: Retirement Plans in the United States, 2007 – 2012.

Even some apparent simplifications can be very disruptive and harmful, and ironically can actually cause complexity. For example, proposals to consolidate 401(k), 403(b), and 457(b) plans would cause very significant complexities. Thousands of governments, churches, colleges and schools, and charities, and their millions of employees would be forced to adjust to new unfamiliar rules and uncertainties, and likely endure burdensome transition rules. The end result would be plans that are not suited to these unique employers and workforces.

3. *Address obstacles to employers providing retirement plans*. Industry, employers and policymakers should continue to seek and find ways of enhancing the current system. Many excellent legislative and regulatory proposals have been introduced to address the primary challenges that employers, especially small employers, face in establishing plans: cost, complexity and concern about fiduciary liability. Such proposals would also serve to facilitate employee participation in the employer plans. I would like to express my appreciation to Members of this Committee for their leadership in developing many of these proposals, which include:
    a. Facilitating electronic delivery of plan notices to participants. The required use of paper raises costs, creates inefficiencies, and makes communication with participants far less effective.
    b. Permitting consolidation of plan notices. It is critical that participants understand their rights and their opportunities. The provision of numerous redundant, complex and lengthy notices is severely counterproductive and leads to fewer participants reading important disclosures.
    c. Preventing plan leakage. We need to enhance opportunities to keep plan assets in plans and IRAs, such as through improved rollover opportunities with respect to plan loans.
    d. Limiting plan sponsor liability issues. Potential liabilities remain a major obstacle to broader plan coverage among small employers.

Proposals to expand the attractiveness of multiple employer plans (MEPs) as a cost effective alternative to a stand-alone 401(k) plan for small employers, as well as proposals to increase participation of employees in employer plans and to reduce the employees' investment risk and risk of outliving his or her retirement savings deserve special mention.

Multiple Employer Plans. Under a multiple employer plan, many small businesses can join together to achieve economies of scale and advantages with respect to plan administration, making plans both more affordable and effectively managed. Proposals that protect employers from any fiduciary liability for the acts or failure to act of other employers participating in the MEP, as well as proposals to reduce administrative complexity of MEPs should be encouraged. TCRS' research found that many small companies that do not offer a 401(k) plan would be likely to consider joining a MEP (36 percent).[7]

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[7] Source: Transamerica Center for Retirement Studies, 13th Annual Retirement Survey, 2012.

Annuities: Managing retirement savings to last a lifetime. Proposals that help increase plan participants' awareness of amounts needed to fund their retirement, as well as that help participants both manage their investment risk and ensure their retirement savings will last their lifetime should also be encouraged. These proposals include requiring benefit statements to provide a participant's account balance in the form of a lifetime income stream as well as a lump sum, and facilitating the offering of in-plan annuities and annuities as a distribution option. Investment in an in-plan annuity will enable an employee to shift the investment risk and risk of outliving his or her retirement savings to the annuity provider.

Auto-enrollment: higher levels of default contribution rate. Proposals to increase auto enrollment will address employee inertia and help employees increase their retirement savings. In particular, we support proposals that increase the level of default contribution rates in the existing safe harbors. The current minimum default contribution rates in the safe harbor, ranging from 3% to 6%, send a powerful message that savings at those levels are sufficient to ensure a secure retirement. However, we know that this is not the case and we should work together on a more robust safe harbor with minimum default contribution rates as high as 10% without maximum limits on default contribution rates.

4. *Acknowledge that there is no silver bullet to the coverage problem; allow room for continued innovation in the industry.* We must acknowledge that there is no one solution to the coverage problem. The workforce retirement plans system complements the other two legs of the retirement security stool – Social Security and private savings, and no one leg can be expected to fully ensure the retirement security of all Americans. The employer plan system continues to be adopted by more employers and cover more workers. It should be given room to further innovate to adapt to changes in the current workforce and the needs of the employees.

   The Retirement Exchange. For example, Transamerica Retirement Solutions recently introduced The Retirement Exchange ℠ (the "Retirement Exchange") a new private sector solution designed to help more small businesses offer workplace retirement plans to more employees, and to help employees save for retirement at higher rates. The Retirement Plan Exchange includes, within the current employer retirement plan system, many of the elements of Senator Harkin's USA Retirement Fund Proposal, including: (a) asset pooling, (b) automatic enrollment and escalation features, (c) risk sharing and (d) coverage.

   The Retirement Plan Exchange is not a multiple employer plan but a collection of single employer plans that builds on the cost and administration benefits of a MEP by providing employers the ability to enter into a pooled retirement arrangement, resulting in cost advantages and fee reductions as the asset pool increases. Fiduciary and administrator services, such as selection of the investment fund lineup for the plan, are outsourced to independent firms – a benefit that is typically available only for large retirement plans. Like a MEP, the

Retirement Plan Exchange also allows a small business to save on audit fees, document preparation and filing fees. To help plan participants better prepare for retirement, the Retirement Plan Exchange will auto-enroll eligible workers at a six percent contribution rate with a two percent auto increase in each of the next two years.

Transamerica is able to provide The Retirement Exchange within the current 401(k) rules, and the Retirement Exchange will benefit from any legislative or regulatory reforms, such as those discussed in this Testimony, that will enhance the efficiency of the current employer-provided retirement plan system. Ultimately, this will facilitate the ability of employees to increase their retirement savings and manage those savings to last their lifetime.

Conclusion

TRS commends Chairman Harkin, Ranking Member Alexander and other members of the Committee on their consideration of the important issue of employer plan coverage. We appreciate the opportunity to present our views on the particular challenges faced by small businesses in offering plans and our suggested approach to solutions.