Senator Tom Harkin (D-IA), Chairman http://help.senate.gov

"*After a lifetime of hard work, people deserve the opportunity to live out their golden years with dignity and financial independence. But for most of the middle class, the dream of a secure retirement is slipping out of reach. We are facing a retirement crisis.*" – HELP Chairman Tom Harkin (D-IA)

HELP Chairman Tom Harkin Introduces the *USA Retirement Funds Act* – Bill Summary

The *USA Retirement Funds Act* tackles the retirement crisis head-on by ensuring that the 75 million people without a retirement plan at the workplace would, for the first time, have the opportunity to earn a safe and secure pension benefit. USA Retirement Funds would drastically increase retirement savings through automatic enrollment while reducing the cost of retirement by up to 50 percent. And unlike 401(k) plans, USA Retirement Funds would shield workers from market volatility and other risks by utilizing a shared risk design. Importantly, the Act – together with Senator Harkin's *Strengthening Social Security Act* (S.567) – would put our country on a path toward restoring the "three-legged stool" of retirement security, ensuring that every American has a pension, Social Security, and the opportunity to save.

Universal Coverage: USA Retirement Funds would provide every working person in America with access to a retirement plan through an automatic payroll deduction. Employers with more than 10 employees would have to offer a retirement plan with automatic enrollment and a lifetime income option or automatically enroll their employees in a USA Retirement Fund. Employees would have the option of choosing a USA Retirement Fund or simply using a fund selected by their employers. Employees would be able to select a different USA Retirement Fund once a year.

Enrolling employees in a USA Retirement Fund would utilize existing payroll withholding systems, so it would involve little, if any, additional administrative burden. Employers who already have pension plans or defined contribution plans with automatic enrollment and lifetime income options would not have to change anything. Self-employed individuals and people working for very small businesses could also participate in USA Retirement Funds. They would simply sign up and make periodic contributions like they would with any other individual retirement plan.

Contributions. Employees would be automatically enrolled in a USA Retirement Fund at 6 percent of pay, but they could increase their contributions, decrease their contributions, or opt out at any time. Individuals could contribute up to $10,000 per year pre-tax, and employers would also be able to contribute up to $5,000 per year for each employee, provided the contributions are made uniformly. Low-income individuals would be eligible for a refundable savers credit.

Oversight and Fiduciary Protection. USA Retirement Funds would be privately-run retirement plans approved and overseen by the Department of Labor. Each USA Retirement Fund would be managed and administered by a board of qualified trustees able to represent the interests of employees, retirees, and employers. The trustees would be fiduciaries required to act prudently and in the best interests of plan participants and beneficiaries. They would also have to avoid conflicts of interest, remain independent of service providers to the fund, be bonded, and have fiduciary liability insurance.

Professional Management. The assets held by each USA Retirement Fund would be pooled and professionally managed by the trustees. The trustees would manage the fund with the intention of providing each participant with a cost-effective stream of income in retirement and reducing benefit level volatility for those approaching retirement. Trustees would be specifically required to protect participants from longevity risk – *i.e.*, the risk of outliving one's savings – and market volatility.

Lifetime Income Benefit and Risk Sharing. People participating in a USA Retirement Fund would earn a benefit paid out over the course of their retirement, with survivor benefits and spousal protections, like a traditional pension. The amount of a person's monthly benefit would be based on the total amount of contributions made by, or on behalf of, the participant and investment performance over time.

Pension plans have traditionally placed all of the risk, primarily investment and longevity risk, on employers, and those risks have discouraged employers from offering a pension. USA Retirement Funds would make offering a pension benefit more attractive by eliminating virtually all risk to employers. Instead, USA Retirement Funds would spread the risks inherent in running a pension across large groups of employees and retirees. That kind of broad risk pooling would provide significant protection to individuals and would reduce overall costs.

Transparency and Fund Democracy. Each USA Retirement Fund would be completely transparent. The trustees would be required to publicly disclose the fund's performance and fees as well as the fund's investment policy, procedures for providing lifetime income, and conflicts of interest policy. Participants would receive an annual statement explaining the terms and conditions of the fund and an estimate of their benefit in retirement.

Unlike most retirement plans, USA Retirement Funds would be democratic. Participants would have the ability to petition the trustees to remove services providers, comment on the management and administration of the fund, and approve or disapprove of the compensation for the trustees.

Portability. Participants would be permitted to change USA Retirement Funds every year and would be allowed to roll their 401(k) or IRA balances into a fund. Additionally, a person under 60 with a small account balance would be able to roll that account balance over to another retirement plan. A person over 60 who has sufficient retirement income outside the fund or is facing a substantial hardship could elect to take a one-time, lump sum withdrawal of the greater of $10,000 or 50 percent of his or her benefit.

Employer Responsibility. Because USA Retirement Funds would be approved by the Department of Labor and overseen by a board of trustees, employers would not have any fiduciary responsibilities in selecting, administering, or managing the funds. Employers' only obligation with regard to the USA Retirement Funds would be to automatically enroll employees and ensure that employee contributions are processed. Importantly, employers would not "guarantee" the USA Retirement Funds or have any residual responsibility to provide additional funding or make up shortfalls.

Coordination with Other Retirement Plans. There are many people for whom the current system is working, and it is important that systemic reforms not compromise their retirement security. Thus, USA Retirement Funds are not intended to replace existing pensions. Many employers and employees have developed excellent pension arrangements that benefit everyone involved, and those arrangements should be allowed to continue to flourish. Additionally, individual retirement savings is a critical component of retirement security, so USA Retirement Funds are intended to supplement, not supplant, defined contribution plans. Employers could certainly offer both a USA Retirement Fund and a defined contribution plan to their employees.

* * *

For more information, please visit http://www.harkin.senate.gov or contact any of Senator Harkin's offices in Washington, D.C. or Iowa.