



*GEORGETOWN UNIVERSITY*  
McCourt School of Public Policy  
Center for Retirement Initiatives

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State Initiatives to Expand the Availability and Effectiveness of  
Private Sector Retirement Plans  
How Federal Laws Apply to Plan Design Options

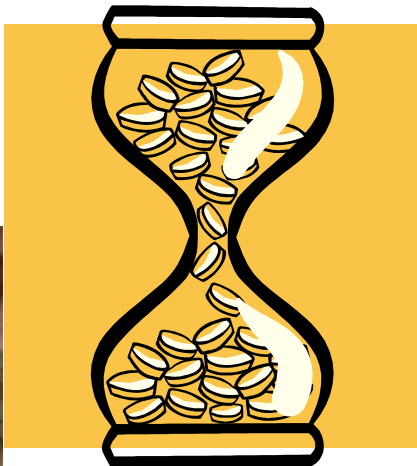
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# America's Retirement Crisis

- Most Americans rank having not enough money for retirement as one of their top concerns (Gallop, 2014).
- A sizeable portion of workers report virtually having no savings or investments (EBRI, 2014).
- Traditional pension plans are becoming rare in private sector.
- Employees much more likely to save through company 401(k) plan than on their own via IRA or taxable account.
- Approximately one-half of private sector workers are not covered by an employer plan.

# Why Some Employers Don't Provide Retirement Plans?

- Expense
- Management Time
- Fear



# States Can Take Action to Address

- Pass enabling legislation.
- State-appointed Board creates/runs turn-key retirement program.
- Low-cost; low-risk; and user-friendly.
- Allowing meaningful amounts to be saved for retirement.
- While leaving room for the private sector to craft other solutions.

# But...Challenge for States

- Familiar with managing traditional defined benefit pension plans for public sector.
- Already aware of fiduciary responsibilities, pooled and professionally managed funds and risk management.
- State pension plans have been exempt from ERISA.
- How would ERISA and other laws apply to state actions to address need in private sector?



# Federal Law: ERISA

- Covers all:
  - 401(k), traditional pensions, and other employer plans deferring payments until retirement;
  - Regulates plan operation and imposes strict duties on fiduciaries; but
  - Typical IRA is not an ERISA plan.
- ERISA has lots of rules, but also provides workable standards, sound protections and a system for resolving benefit claims.

# Fiduciary Details

- Includes:
  - Plan sponsor;
  - Administrative Board and trustees;
  - Anyone with control over plan money; and
  - Anyone with power to hire/fire another fiduciary.
- Duties:
  - Prudent expert, but can outsource to professionals;
  - Act in best interest of participants;
  - Perfection is *not* required, just reasonable decision-making.

# ERISA Preemption

- ERISA trumps state law that “relates to a benefit plan.”
- Shifting legal standard.
- Is state law that requires employers to offer a no-cost benefit preempted?



# State Can Decide –ERISA or Exempt?

- There are 3 plan options:
  - Individual Retirement Account (IRA);
  - 401(k)/defined contribution (DC);
  - Traditional pension; AKA defined benefit (DB);
- ERISA exempt or ERISA coverage – states have enacted both models (California and Massachusetts).
- Legal questions about ERISA remain.



# IRA

- Employee contributions via payroll withholding.
- No employer contributions or “endorsement.”
- Employee invests from menu of available funds selected by state board.
- **Pros**
  - Simple
  - Portable
- **Cons**
  - Low contributions (\$5,500/year)
  - Leakage
- Can state require auto-enrollment with opt out without triggering ERISA?

# 401(k)/DC

- Employee contributions via payroll withholding.
- Employer matching and non-matching contributions allowed.
- Employee invests from menu of available funds selected by board.
- **Pros**
  - Flexible
  - Auto-enrollment allowed
  - Higher contributions (\$18,000/year)
  - Portable
  - Less leakage than IRA
- **Cons**
  - More complex than IRA
- Single plan (MEP) or many separate plans?

# Pension Plan/DB

- Employees receive lifetime annuity.
- Employers and employees may contribute.
- Board, or its delegates, invests plan funds.
- **Pros**
  - Ideal for providing retirement income
  - Less leakage
- **Cons**
  - Employer has risk of underfunding (can reduce via design and hybrids)
  - More complex and costly to administer

# State-Sponsored Plans Can

- Avoid risk and cost to taxpayers.
- Be self-supporting.
- Offer options for fund investment.



# Investments

- IRAs and 401(k)s can have “default” investment of professionally managed, diversified low-cost fund.
- Also offer “menu” of other professionally managed funds.
- Pension plans invested by Board or delegate, would not have minimum return “bogey.”



# Bottom Line

- States can help workers to save for retirement.
- No “correct solution.”
  - IRA, 401(k), and pension each have pros and cons
- Don’t fear ERISA!
  - ERISA should not be made the bogeyman to stop states from taking action to address the retirement crisis.

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