



# News Release

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CONTACT: Jeff Close, The SPARK Institute  
860-658-5058

## **THE SPARK INSTITUTE DEFENDS 401(k) PLANS, RECOMMENDS CHANGES TO INCREASE COVERAGE AND PARTICIPATION**

SIMSBURY, CT, Mat 4 – While defending 401(k) and other employer-sponsored retirement plans as the best vehicles to help American workers save to reach their retirement goals, The SPARK Institute today issued a second white paper that outlines several recommendations for improving the plans to meet the changing needs of the U.S. workforce. The paper, “The Case for Employer-Sponsored Retirement Plans – Coverage, Participation and Retirement Security,” examines issues related to the coverage of American workers by 401(k) and similar workplace savings plans, and the retirement security and readiness of participants in these plans, said Larry Goldbrum, General Counsel of the SPARK Institute. The white paper is available on The SPARK Institute website at [www.sparkinstitute.org/comments-and-materials.php](http://www.sparkinstitute.org/comments-and-materials.php).

While noting that nearly 700,000 defined contribution plans, such as 401(k), 403(b) and other similar plans currently provide savings accounts for nearly 92 million workers and are fundamentally sound, Goldbrum said opportunities to improve workplace savings plans remain. “Refinements to plan designs, features, rules and regulations are the best way to leverage the existing employer-based system in order to help today’s workers reach their retirement savings goals.”

The SPARK Institute paper recommends generally that employer-sponsored plans be designed to help working Americans (1) save more, (2) avoid taking distributions of the money they have in their accounts before retirement, (3) appropriately diversify their savings through asset allocation, (4) protect their savings from market volatility, particularly as they get closer to retirement, (5) provide a steady stream of income throughout their retirement, and (6) minimize the risk of outliving their savings.

Goldbrum commented on some of the more specific recommendations in the paper. “While we believe that the current voluntary system should be maintained, if policy makers decide that a mandatory retirement program is necessary, then we recommend that employers offer 401(k) plans as the primary savings vehicle.” He added that while IRAs may be a good alternative for very small businesses, they

should not be given preferred status as a substitute for employer-sponsored retirement plans. “An underlying basis for the mandatory IRA concept appears to be the successes of the automatic enrollment feature that was developed by, and first used in, 401(k) plans. We are also concerned that mandatory IRAs may create an environment similar to the ‘403(b) plan system’ prior to the IRS and Treasury adopting rules and regulations requiring greater employer involvement in the operation of those plans,” said Goldbrum. “They would likely create the next unsupervised, loosely managed and hard-to-regulate retirement system, and mimic the concept that was just fixed in the 403(b) world.”

Regarding the issue of participation, Goldbrum noted that the average participation rate today is approximately 77% and the increasing adoption of automatic enrollment programs is expected to raise the rate even further. “Some workers are almost always likely to refrain from enrolling in defined contribution plans, but the reasons usually have more to do with personal circumstances, such as the inability to put money aside for retirement when current financial needs appear more pressing, than with the type of plans being offered. If policy makers conclude that more must be done to force employees to begin saving for retirement at an early age and to save more, we recommend mandating that all employer-sponsored plans include automatic enrollment and automatic escalation of contribution features.”

Another point made in the paper is that critics of employer-sponsored plans often ignore the fact that these plans have, in large part, acted as a feeder program for a significant amount of money invested in rollover IRAs. “At year-end 2008, approximately \$3.6 trillion were held in IRAs, of which approximately \$2.39 trillion were rollovers from employer-sponsored retirement plans, while the total saved in employer-sponsored plans at the same point was approximately \$4.12 trillion,” said Goldbrum. “We believe that any discussion regarding what Americans have been able to save as a result of the employer-sponsored retirement system must look at the combined savings figure of \$6.51 trillion in order to provide an accurate picture of the success of these plans.

The SPARK Institute decided to produce the white paper series because “employer-sponsored retirement programs, particularly 401(k) plans, have been under attack for the last two years based on many myths, misperceptions and misunderstandings,” Goldbrum said. “As a result, we felt it was necessary to set the record straight with facts.” The first paper in the series examined the “Benefits and Accomplishments” of employer-based retirement plans, and the third installment discusses “Fees and Expenses.”

The SPARK Institute is the leading voice in Washington for the retirement services industry. Through the combined expertise of its member companies, The SPARK Institute provides research, education, testimony and comments on pending legislative and regulatory issues to members of Congress and relevant government agency officials. Collectively, its members serve over 62 million defined contribution plan participants.

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