AMERICAN ACADEMY *of* ACTUARIES

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Bush Savings Proposal Raises Concerns
Actuaries Fear Defined-Benefit Plan Wipeout

(Washington, D.C. –September 1, 2005) The American Academy of Actuaries Pension Committee has released an updated analysis of the Bush Administration's retirement savings proposal. The proposal, introduced in 2003, called for new employer-based accounts that would provide tax-advantaged savings vehicles. The three accounts included Lifetime Savings Accounts (LSAs), Retirement Savings Accounts (RSAs), which are available to all individuals and have no age limit, or income limit; and Employer Retirement Savings Accounts (ERSAs), which would consolidate 401(k), 403(b) and 457 plans. ERSAs would have a single simplified nondiscrimination average deferral test compared to the average deferral percentage and average contribution tests offered by defined contribution plans. The most recent proposal included the establishment of Individual Development Accounts (IDAs), which are accounts for low-income individuals between the ages of 18 and 60. **"Although the Administration's proposals have a lot of positive incentives, which include the simplification of nondiscrimination tests and a change in the rate of matching contributions, there are a number of unintended consequences that should be addressed**," said Kenneth Kent, Academy vice president for pensions.

Issues to be addressed include:

1) Reduction in future government revenue.
2) Decrease in personal savings.
3) Further reduction in employer-sponsored retirement plans.
4) Differential treatment for tax-exempt entities.

He added that while the proposal modifies existing rules for defined-contribution plans, new rules to encourage retirement savings through defined-benefit plans have not been addressed.

"We need to strengthen defined-benefit plans as well, because they are a major component of America's retirement system," said Kent.

The analysis shows that over the past two decades, the percentage of people covered by defined-benefit plans has declined from 40 percent to 20 percent of the private workforce, while the number of people in defined-contribution plans has increased from 17 percent to 43 percent.

Kent stated that because the administration's proposals will provide tax-favored incentives for defined contribution plans, employers, particularly small businesses, might discontinue their defined-benefit plans.

"Overhauling defined contribution plans without considering the necessary improvements for defined-benefit plans will only increase the disparity between the two," said Kent. To view the analysis go to http://www.actuary.org/pdf/pension/savings_august05.pdf. To interview Ken Kent, the Academy's vice president for pensions, please contact Tracey Young, media relations manager, by phone at 202-785-7872 or by e-mail at young@actaury.org

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