



a NEW BENEFIT PLATFORM
for LIFE SECURITY



THE ERISA INDUSTRY COMMITTEE



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THE ERISA INDUSTRY COMMITTEE

is a non-profit association committed to the advancement of the employee retirement, health,
and compensation plans of America's major employers.

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The ERISA Industry Committee (ERIC) is a membership organization representing the employee benefit plans of America's largest employers. ERIC's members have for many decades voluntarily provided comprehensive health, retirement, and other benefit and compensation plans to their employees and their employees' families. Together, ERIC member companies have provided and paid for benchmark life security plans directly to more than 10% of the U.S. population.

As major employers, ERIC member companies pioneered many of the retirement, health, and compensation plans that have become the benchmark for private and public employers. Thus, ERIC's members continue to be at the forefront of the intensifying controversy about how to more efficiently and effectively provide quality lifetime retirement and health security to millions of American workers and their families.

ERIC and our members continue to believe that it is essential that major employers, who voluntarily sponsor the nation's most comprehensive private sector life security plans, establish a policy position that will make a positive contribution to the public dialogue on the retirement and health security of American workers.

That is what the New Benefit Platform for Life Security is about.



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EXECUTIVE SUMMARY

Employers' voluntary participation in the American system for providing medical, retirement, and similar "life security" benefits has, over time, served workers and their employers quite well.

Through their benefit plans, employers have:

- Fostered trillions of dollars of disciplined savings
- Met changing times with innovative programs
- Enabled individuals to pool risk and thereby increase the efficiency of money invested in benefit programs
- Educated employees about the need to plan for economic- and health-related risks
- Directly funded many benefits provided

At the same time, life security programs have become an integral part of an employer's ability to recruit and retain the talent they need to make their enterprise thrive.

Employers that today provide retirement, medical, and similar life security benefits, however, are under stress. In addition to increased national and global competition, U.S. employers face complex, often contradictory, and inflexible rules governing benefits, as well as exposure to volatile and often escalating financial commitments and litigation. For many employers, plan sponsorship diverts their focus from competitive business challenges. Under these constraints, employers are finding that establishing mechanisms to address underlying gaps and flaws in delivering benefit security to American workers has become increasingly difficult.

Employer programs alone cannot satisfy the life security needs of American workers in today's highly competitive business environment.

Indeed, traditional life security policy has always envisioned a balance of employer provided benefits, employee savings, and government programs as a "three-legged stool."

Employer programs alone cannot satisfy the life security needs of American workers in today's highly competitive business environment. At the same time, turning to government programs that are themselves under financial stress or relying too heavily on individuals to pick up the slack is likely to prove unsatisfactory. Indeed, traditional life security policy has always envisioned a balance of employer provided benefits, employee savings, and government programs as a "three-legged stool."

New thinking is required.

OVERVIEW: A NEW BENEFITS PLATFORM FOR LIFE SECURITY

The benefit security needs of all Americans is a troubling issue of increasing importance to employers and to society as a whole; as these issues began to be raised by our members, The ERISA Industry Committee (ERIC) asked a Task Force drawn from its membership and composed of experienced senior benefit professionals to address this issue. The Task Force's assessment and proposal has been reviewed and endorsed by ERIC's policy committees and its Board.

- **The new proposed structure would give employers an alternative method for providing benefits without the "entanglements" of traditional provider sponsorship. This structure complements but would not require replacing the current system for those who find the current system more appropriate.**
- **The new benefits offerings would be administered by competing Benefit Administrators.**
- **Benefit Administrators, in many respects, would assume the role of today's plan sponsors and, particularly with regard to health care, would be organized on a geographic basis.**
- **Employers and individuals would share funding of benefits.**
- **In addition, the structure would also provide a way for individuals to purchase coverage independent from an employer relationship.**

The proposal is centered on certain guiding principles, described in the body of the proposal, such as benefit expansion, simplicity,

flexibility, portability, and the need to balance employer and individual needs and responsibilities. As a significant departure from the present system's increasing reliance on employer-provided benefits, the new system combines a market-based structure with individual choice and group risk sharing. This structure will make possible the continuation and possibly the expansion of employers' role as a facilitator rather than solely as a provider of benefits.

We believe that the New Benefit Platform will also encourage creativity and innovation to the benefit of both employers and individuals.

Administrators would compete with each other based on quality, design, and cost. To ensure that competition among administrators occurs on a level playing field and is transparent to consumers, the federal government would establish, or arrange to be established, a uniform national regulatory structure and uniform standards for measuring plan performance.

An employer could obtain the benefits for its employees, and in some circumstances, an individual could participate directly, without employer involvement. The federal tax consequences for an individual accessing benefits would be the same whether the benefits were accessed individually or through an employer. Contributions by employers providing coverage through an administrator would be tax deductible.

The benefits available through this new structure would initially include retirement (and short-term savings) plans and health care coverage. Life insurance, disability, and other benefits also may be provided.

In the retirement arena, ERIC's proposal significantly rationalizes the current system, making it both more equitable and more attractive to employers and individuals. The proposal:

- Expands opportunity for participation in retirement plans
- Enhances competition by providing better tools and improved information to consumers
- Offers improved asset management
- Increases retirement security by providing the flexibility needed to meet the unique circumstances of each individual

The core structure envisioned builds on the experience of employers and encourages uniform national standards, yet

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encourages incorporation of new ideas to improve financial well being of Americans in retirement.

In the health care arena, ERIC's proposal rationalizes the delivery system in ways that:

- Expand access and creates a level playing field;
- Create the foundation for increased accountability to improve health care quality, transparency, and value to consumers;
- Require greater consumer accountability by providing both the information consumers need to be prudent purchasers and incentives for responsible lifestyle behaviors; and
- Require improved health information technology.

OPENING THE DEBATE: HOW THIS PROPOSAL SHOULD BE VIEWED

In the past, proposals to reform access to life security benefits have tended to focus on increasing the responsibilities borne by employers or individuals or the government. ERIC's proposal is designed to spark new thinking about replacing such limiting silos with more creative options.

The conceptual structure described in this document is intended to provide a foundation for responsible discussions that will entail further refinements and, eventually, the legal and operational details needed for complete implementation. Some parts of the proposal would require changes to the legal framework surrounding benefits, while other parts could be implemented under current law.

This is an urgent debate. The life security of millions of Americans, as well as the viability of many American businesses, depends on the outcome. Through ERIC, the major employer community welcomes the dialogue that will change the status quo in a way that meaningfully addresses the life security needs of all Americans while improving the competitive position of American employers.