The Model T Retirement Savings Plan

The Model T is one of four plans designed as part of the Conversation on Coverage, a national common ground public policy dialogue. The Conversation brought together experts of varying perspectives to develop proposals to expand coverage – particularly for low- and moderate-wager earners.

The Model T is a simplified, cost-effective retirement savings plan developed to increase coverage in the small-business sector. It was designed to be marketed to multiple small employers in a particular community or region. Because of its unique features, it is meant to be more attractive to small businesses than other plans now available, thereby expanding coverage for employees.

Elements of the Model T plan include:

- **The plan will be offered by regulated financial institutions to small employers**: A third-party financial institution – such as a bank, insurance company, mutual fund or brokerage firm – runs the plan and relieves the employer of many administrative functions, including record-keeping, disclosure, communications, and payment of benefits.

- **All employees are eligible**: Once an employer signs up for the plan, all employees, including part-time and seasonal workers, are eligible to participate

- **Automatic enrollment**: To expand coverage, employees are automatically enrolled into the plan, unless they choose to opt out, and their tax-deferred contributions are deducted automatically from their pay.

- **The self-employed can contribute**: Independent contractors and other self-employed people can contribute directly to a Model T through contributions to the financial institution.

- **Unique incentives to encourage employer contributions:** An innovative two-tiered contribution feature provides incentives for employers to make contributions on behalf of their employees. Employers can put more money (tax-free) into their own retirement accounts if they provide across-the-board contributions or matches to all employees' accounts.

- **Simplified investment options:** The Model T will be launched with three investment options: (1) target date or life cycle funds, (2) balanced funds or (3) managed accounts. These options are consistent with those the U.S. Department of Labor authorized as default investments for employees automatically enrolled in 401(k) plans. These simplified investments are meant to cut down on costs and make the choices more streamlined.

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Financial institutions can later add other investment choices beyond the initial options if they choose.

- **Limits on early withdrawals and loans:** Employees will not be permitted to permanently withdraw funds from a Model T until retirement age. Financial institutions offering Model Ts could permit employees to borrow up to 50 percent of their account balances prior to retirement (up to $50,000).

- **Pay-out options at discretion of financial institutions:** Financial institutions could provide for all or a portion of retirees' Model T benefits to be paid out as a lifetime stream of income.

The Model T combines elements of already-existing plans with new features not available under current plan designs. The plan's two-tiered contribution structure and loan feature were highlighted in a July 2007 *Washington Post* article as features that might be particularly appealing to small-business owners.

For more information about the Model T, visit www.conversationoncoverage.org or call Karen Friedman at 202-296-3776.