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CLOSING THE GAP: INNOVATIONS TO PROMOTE AMERICANS' FINANCIAL SECURITY

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WEDNESDAY, JUNE 15, 2016

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The Committee met, pursuant to notice, at 2:32 p.m., Room 562, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Scott, Cotton, Tillis, McCaskill, Casey, Gillibrand, Donnelly, and Kaine.

OPENING STATEMENT OF SENATOR SUSAN M. COLLINS, CHAIRMAN

The CHAIRMAN. Good afternoon. The hearing will come to order.

One of our Committee's prior hearings on retirement security revealed that the gap between what Americans have actually saved for retirement and what they will need stands at an astonishing \$7.7 trillion.

According to a recent Gallup poll, 60 percent of Americans note that their top financial concern is not having enough money to make ends meet after they stop working. Most believe that they will have a much more difficult time achieving a secure retirement than their parents did.

These statistics confirm that their concern is warranted. More than half of those between 55 and 64 years of age have little or no retirement savings, and about a third have less than \$25,000 in savings of any kind. Similarly, one in three of those on the cusp of retirement could not come up with \$2,000 if they needed to do so.

It is difficult to imagine making ends meet in retirement with just \$25,000 in savings and the typical Social Security benefit of about \$16,000 a year, but for one in four retirees, this is the reality.

There are many reasons we face such a worrisome gap, including rising health care costs, the need for long-term care, and longer life expectancies. The shift away from employer-based defined benefit plans, or pensions, to defined contribution plans, such as 401(k)'s, has also played a role.

The importance of workplace retirement plans in improving Americans' retirement security is worth noting: When full-time

workers have access to retirement plans, approximately 80 percent of them contribute.

In contrast, workers without access to employer-based plans are much more likely to lack confidence in their retirement security, according to the Employee Benefit Research Institute, or EBRI. Furthermore, EBRI has found that fewer than 10 percent of employees without a workplace plan contribute to a retirement savings account on their own.

Given that 30 million full-time private-sector workers lack access to an employer-sponsored retirement plan, one important step that we can take to improve retirement security is to encourage employers to offer these plans. As we do so, we must address the fact that small businesses face challenges in offering retirement benefits to their workers because of the cost and complexity of these plans.

That is why, along with the Ranking Member, Senator McCaskill, and Senator Bill Nelson, the former chairman of this Committee, I have introduced the Retirement Security Act. It would make it easier and less expensive for small businesses to establish retirement plans as well as to encourage individuals to save more for retirement.

We also have to acknowledge that the ongoing shift toward workers taking freelance or independent contractor positions, often referred to as the “on-demand” or “gig” economy. Workers who have these jobs typically cannot participate in traditional employer-provided plans and must look elsewhere to save for retirement.

Fortunately, innovative products and services are entering the marketplace that combine new technologies with behavioral economics to improve financial literacy and promote savings.

Other apps use a game platform to make financial education entertaining. The informal encouragement people receive can make a big difference in their willingness to save. For example, Staples found that its employees were three times more likely to sign up for its retirement plan after playing one of these games.

Today’s hearing will highlight these and other innovative ideas to improve savings and thereby increase retirement security.

I look forward to the testimony of our witnesses today and thank them for joining us, as well as I look forward to the remarks of the ranking minority member.

OPENING STATEMENT OF SENATOR CLAIRE MCCASKILL, RANKING MEMBER

Senator MCCASKILL. Good afternoon, and thank you, Chairman Collins. You have laid out the retirement security crisis in stark terms, and certainly there is growing concern about whether Americans are ready for retirement or even able to stop working once they reach their golden years. We have shifted from a system in which workers could passively prepare for retirement where their employers did the bulk of the work for them by putting money in a defined benefit pension plan and sending Social Security payments to the Government. Today’s workers must be more active in planning for retirement. They must decide to put money aside and decide how much they should save. They have to figure out the best funds to invest in and to stay on top of those funds as they age.

Yet we have not done a great job of giving workers the tools to learn how and where to put money aside. Many new employees start a job and get a stack of papers about a 401(k) or other benefits and toss those documents into a drawer, never to be seen again. We need to figure out ways to reach workers on their terms and help guide them to develop a habit of saving.

I am a big fan of technology, and we have a few witnesses here today who will talk about how they are using websites and apps to appeal to workers in novel ways. In the same ways that the Fitbit is prompting people to be more active in managing their health, this technology can prompt more people to do the same for retirement security. These tools can be connected directly with people's accounts or can be played independently, aiming at changing a person's behaviors by forcing them to consider how to prioritize their saving and their spending, and these apps recognize that people are at different levels of the continuum. Some people are just starting out and need to get into the habit of putting money aside and not spending every dollar. Others can manage their entire financial portfolio, from IRAs to 401(k)'s.

We welcome Tim Flacke from Doorways to Dreams, which has been instrumental in bringing one innovation to the United States. Prize-linked savings has been popular internationally, but until 2009 had not been available stateside, which is sort of surprising given how much Americans love lotteries, but this takes all of the upside of a lottery, the hope for a big prize, and eliminates the downside. Even those who do not win a prize still win because they have set aside money for an emergency or a rainy day or, most importantly, retirement.

Congress recognized the appeal of these programs in 2014 with the passage of the American Savings Promotion Act, and as of today, more than \$150 million has been saved in the 20 States where the legislatures have approved the program. I am pleased to share that just this week Missouri became the 21st State to authorize prize-linked savings, and I am thankful that a heavy majority of legislators there and Governor Nixon decided to give Missourians a fun way to get into the habit of savings.

Roughly one in three people in my State do not even have a savings account, and the idea that prize-linked savings could play a role in shrinking that number is very encouraging. We obviously have a long way to go until most Americans can feel financially secure in retirement, and I do not want this hearing to underplay a very real crisis out there, but it is worth taking the time today to examine what is working, what is prompting behavioral change, and how we can get more Americans on the right track to a solid retirement.

Thank you, Madam Chairman.

The CHAIRMAN. Thank you very much.

Now we will turn to our panel. First we will hear from Catherine Collinson, a retirement and market trends expert who serves as the president of Transamerica Institute and the Transamerica Center for Retirement Studies.

Next I would like to welcome Aron Szapiro, who serves as an expert on retirement and pension issues at HelloWallet, a Wash-

ington, D.C.-based web and mobile application that promotes financial wellness and security.

As Senator McCaskill has already mentioned, Tim Flacke is the executive director of Doorways to Dreams, or D2D, a national nonprofit that works to strengthen the financial opportunity and security of financially vulnerable consumers through innovation.

Our final witness this morning will be Mr. Brian Plum, who is president and CEO of Blue Ridge Bank in Virginia. The bank offers prize-linked savings accounts which can incentivize savings.

I want to thank you all for joining us, and we will start with you, Ms. Collinson.

**STATEMENT OF CATHERINE COLLINSON, PRESIDENT,
TRANSAMERICA CENTER FOR RETIREMENT STUDIES
(TCRS) AND TRANSAMERICA INSTITUTE,
LOS ANGELES, CALIFORNIA**

Ms. COLLINSON. Thank you. I am Catherine Collinson, president of Transamerica Institute and its Center for Retirement Studies, or TCRS. Transamerica Institute is a nonprofit, private foundation funded by contributions from Transamerica Corporation. TCRS' nonprofit mission is to conduct research and educate the public about the latest trends, issues, and opportunities surrounding saving and planning for a financially secure retirement. Thank you for this opportunity to share our research and survey findings.

The retirement landscape is evolving due to increases in longevity and the ever increasing need for people to save and plan for their retirement. The pace of change calls for new solutions to promote retirement security. Our survey found that 49 percent of workers agree that they are building a large enough retirement nest egg, but notably, only 15 percent strongly agree. As a result, many are planning to work longer, retire at an older age. However, all too often life's unforeseen circumstances derail the best laid plans, and many find themselves retiring sooner than they expected.

My written testimony sets forth a ten-step plan for increasing retirement security. I will now share five of those recommendations.

First, expand coverage by providing part-time workers with the ability to save. Our survey found that 74 percent of employers offer a 401(k) or similar plan, but only 38 percent extend eligibility to their part-time workers. Reforms are needed to remove impediments and encourage employers to offer benefits to their part-time employees, particularly vulnerable groups such as women and low-income workers, giving them the opportunity to save in the workplace.

Second, implement personalized retirement education and planning tools. With two out of three workers agreeing that they do not know as much as they should about retirement investing, the need for education is clear. When asked what would motivate them to learn more, many said, "Make it easier to understand." People have their own unique circumstances, be it an unpaid family caregiver balancing work and an aging parent, a recent college grad just entering the workforce, or an aerospace engineer who is getting ready to retire. Personalizing retirement education and resources, including the manner in which they are delivered, can engage more people.

Case in point: Our survey found that 20-somethings are almost twice as likely as 60-somethings to find mobile apps for managing their accounts to be helpful.

Third, reduce leakage from retirement accounts. Among workers who are currently participating in a plan, 23 percent have taken a loan and/or early withdrawal from their 401(k) or IRA, with top-cited reasons suggesting that they lack emergency savings or insurance coverage or they are struggling to pay off consumer debt. While access to funds can encourage plan participation, more education is needed in clear and simple terms about the risks involved. Limiting the number of available plan loans as well as extending the repayment period for terminated participants can help as well.

Fourth, facilitate working longer and a phased transition into retirement. Gone are the days of the gold watch retirement. Fifty-eight percent of workers now plan to work past age 65 or do not plan to retire, and many are envisioning a phased transition. Unfortunately, few employers have business practices in place to support them. Reforms are needed to labor and benefits laws to help remove barriers and encourage employers to offer a flexible and phased retirement, enabling their workers to work past age 65, and fifth, promote and expand the saver's credit. Tax incentives can be a powerful motivator to save, but only if people are aware of them. Our survey found that only 30 percent of workers are aware of the saver's credit, a tax credit available to low-to moderate-income workers who save in a qualified plan or IRA. Awareness is even lower among women and part-time workers. Expanding the saver's credit and incorporating it onto the 1040EZ form can enable more workers to save as well as make it easier for them to claim when preparing their tax returns.

On behalf of TCRS, I would like to thank Committee Chair Collins and Ranking Member McCaskill and all of the Committee members for your commitment and leadership to increasing retirement security.

The CHAIRMAN. Thank you very much for your testimony.
Mr. Flake.

**STATEMENT OF TIMOTHY FLACKE, EXECUTIVE
DIRECTOR, DOORWAYS TO DREAMS FUND,
ALLSTON, MASSACHUSETTS**

Mr. FLACKE. Chairman Collins, Ranking Member McCaskill, and members of the Committee, thank you very much for the opportunity to appear before you today. As noted, I am Timothy Flake. I am the executive director of Doorways to Dreams Fund, or D2D for short. D2D is national nonprofit that strengthens the financial security and opportunity of financially vulnerable Americans by discovering ideas, piloting solutions, and driving innovations to scale. I am here today to discuss how some of these innovative ideas and consumer-friendly technology can help Americans improve their financial lives and become more financially secure.

Much of D2D's work has focused on addressing the savings crisis, which has already been described in great detail today. We have spent over a decade researching, exploring strategies, and developing solutions that motivate and support people's positive financial behavior. Through our work, we found three persistent chal-

allenges in helping consumers to build savings, whether for retirement or more generally.

First, as I think we all know, people are busy and stressed, and capturing their attention to focus on financial issues and savings is very, very hard.

Second, while good information is essential, it is rarely enough to motivate people to take action on their financial aspirations, and finally, high-quality financial solutions have to be paired with effective distribution strategies that provide broad-based access at scale, especially for financially vulnerable Americans.

D2D has seen how technology can help address each of these challenges. Today I want to highlight a few of our ideas that harness the power of tech to meet consumers' needs in an engaging, effective, and widely accessible way.

Most Americans are not drawn to personal finance, so to break through that noise that we all live with, we have to make these issues engaging, attractive, and exciting, and for that reason, D2D developed, as has been noted, a suite of online and mobile financial education video games which we call "Financial Entertainment." These games build financial capability, financial decisionmaking skills in a number of areas—budgeting, debt payment, and saving for retirement—and they do it in a way that is fun and familiar to many, many people.

This is something that many of us already do. In fact, 155 million Americans play video games, at last count, including 41 million Americans who are age 50 or older, according to the AARP. That same study found that three-quarters of people 50 or older play games weekly, and 40 percent are playing them every single day.

These players learn through an interactive, stress-reducing, problem-solving experience that engages people to practice making actual financial decisions. Also as noted, Massachusetts-headquartered office supply company Staples saw the value of this approach and partnered with us to offer its employees a game we call "Bite Club," which is designed to tackle the challenges of how to make your financial future relevant today.

In the game, you play the role of a vampire running a "day club" who desperately needs to save for an eternal retirement, and while playing, employees have the opportunity to follow links directly to their own retirement plan provider to learn more and, crucially, to take action.

D2D and Staples collaborated on several pilot tests to reach employees outside of work hours. In one test, over 80 percent engaged with the game. In another, 11 percent of newly eligible employees took action on the 401(k) website after being offered the game.

Building from these insights, D2D designed and developed SavingsQuest, which is a web and mobile app that rewards people for taking saving action. SavingsQuest applies the fun of video games and the popularity of fitness trackers to create motivation and offer instant gratification for saving. The app links directly to a real financial product, allowing consumers to make in-app savings decisions motivated by different video game-inspired elements. When users save even as little as a penny, the app rewards them with a user-customized whimsical dance from Dig the Pig, and dur-

ing pilot tests with prepaid card holders, SavingsQuest users saved 25 percent more frequently than non-users, and about a quarter had not previously engaged with the savings feature on their prepaid card at all. By providing a unique gamified way to take action, strategies like this can help consumers start and build a savings habit, whether for emergency savings or ultimately for retirement.

Finally, D2D has explored solutions that use the power of technology, particularly mobile technology, to provide better and broader access to consumers. One area of particular interest is modernization of the U.S. Treasury's Retail Securities Program. We believe that savings bonds are a powerful tool for many Americans to start saving. They have low minimum balances, no fees, complete security, and utterly unique giftability. These traits make bonds helpful tools for older Americans who hope to give the gift of savings to loved ones, kids and grandkids, and that action can help in building a national culture of savings.

Despite these user-friendly features, since 2012 savings bonds have only been sold through an antiquated online system and are available through the tax-filing process through a tax form called 8888. With the tax form option now at risk, D2D has been supporting the Senate legislation 2478 to preserve the current tax-time channel and pave the way for a savings bond for the 21st century. We envision a system that allows innovators to develop mobile solutions that securely hook into Treasury's platform and offer this trusted product to millions of Americans that already rely on mobile devices for Internet access and to manage their finances.

To wrap up, D2D envisions a world where the financial system promotes lasting social and economic prosperity for every family. We are deeply committed to developing innovative ways to help vulnerable Americans build savings and financial security. Technology is a critical part of this effort, and we applaud the members of the Committee for recognizing this approach as you seek ways to help Americans improve their financial futures.

Thank you.

The CHAIRMAN. Thank you very much.

Mr. Szapiro.

**STATEMENT OF ARON SZAPIRO, ASSOCIATE
DIRECTOR, POLICY RESEARCH, MORNINGSTAR,
WASHINGTON, D.C.**

Mr. SZAPIRO. Chairman Collins, Ranking Member McCaskill, and members of the Committee, thank you very much for inviting me here today to give the perspective of HelloWallet and our parent company, Morningstar, on technological innovations and how they can help improve retirement security.

As part of Morningstar's mission to help ordinary investors, we offer products that provide automated guidance to American workers to help them make the most of their finances, and we have learned a lot about the power of technology to improve people's retirement security from these products. In particular, I will draw on the lessons we have learned in developing HelloWallet as well as our Retirement Manager applications.

To best use their retirement workplace benefits, employees often must make complex financial decisions in the context of other obli-

gations and goals. In many cases, workers do not have sufficient tools to make these choices; luckily, new technology can play a vital role in helping them make the most of their benefits.

A few decades ago, as has been discussed, most workers did not need such financial technology. Employers offered defined benefit plans, and workers did not really have to make any decisions. In the old system, employees did not have to decide how much to contribute to their retirement plan, how to invest those contributions, or how to convert their savings into lifetime income, but today, as workers are mostly in defined contribution plans, they carry risk and responsibility for key decisions regarding contribution levels, asset allocation, and withdrawal strategies. Technology can help employees manage these responsibilities in ways that were not possible even a few years ago.

I think financial technology offers three key strengths for conveying critical information about retirement plans and improving employees' retirement security.

First, technology offers immediate feedback to help people plan for retirement. Americans have grown increasingly comfortable with smartphones, tablets, and, of course, computers, and they are more accustomed to managing their finances online, so the immediate feedback they can get from an app is much more useful today than it has ever been before. For example, by using electronic retirement planning tools, as workers adjust their retirement contributions, they can instantly see how these changes would translate into an increase (or decrease) in likely future retirement income. They can then modify their retirement deferrals to meet their goals just with the click of a button. The feedback is targeted to the individual, as it can be personalized for a person's age, goals, and income. Technology even makes it possible to run extremely sophisticated retirement simulations, which test the robustness of a user's plan under a variety of market conditions in just a few seconds.

The second advantage of technology is that it allows for rapid behavioral testing so researchers can learn which approaches encourage more saving. Due to the low cost of providing cloud-based software applications, it is now a lot easier than it has ever been to run experiments to see which approaches to presenting information resonate and which ones do not.

By using this technology, our behavioral researchers have repeatedly found that even minor details in the decisionmaking environment can halve, or in some cases double, actual follow-through rates. For example, we tested several calls to action in our HelloWallet app to encourage our users to review their retirement plans, and to our surprise, we learned that a simple, "Are you saving enough for retirement?" worked a lot better than other approaches. It encouraged the most people to click on a link for retirement guidance and then adjust their elections.

Indeed, through extensive testing and observation, we have been able to increase users' retirement deferrals 12 percent within 1 year of using HelloWallet, and we have been able to increase their total savings deferrals 29 percent in the same time period.

The third advantage that technology can offer is it can aggregate a user's accounts to provide a comprehensive, holistic picture of

their finances. If you look at an employee's 401(k) balance in isolation, it will likely result in a false assessment of their readiness. For example, a worker might have a high retirement balance, but if that work lacks sufficient emergency savings, she may well end up using these retirement assets to cope with an unexpected expense. Workers with other pressing financial goals—such as sending a child to college or purchasing a home—may be very tempted to spend from their retirement account for nonretirement purposes. Indeed, this leakage may drain as much as one-fourth of assets from retirement accounts. New technology makes it inexpensive to aggregate accounts, and new applications can compute the numbers to provide users with holistic guidance, which helps them prepare for emergencies and other expenses, preserving their retirement savings for their intended purpose—retirement.

Another complication is that retirement assets are often spread across many different accounts, such as individual retirement accounts or a previous employer's 401(k). This fragmentation makes it critical to look across all of a worker's accounts to gain the fullest picture of their retirement savings. If you fail to do that, then it is very difficult to recommend the right asset allocation strategy or the right contribution levels. Technology provides a low-cost way to aggregate data that can help workers with multiple accounts form a good plan for achieving success in retirement.

Of course, when helping workers reach their retirement goals, technology is just one part of the solution. Hybrid approaches, where software helps people understand their options and stay on track, may well be augmented with human advisers for more complex problems. However, new technology has an important role to play. I have shared some of the results we have seen with our products in my written statement.

Again, thank you very much for the opportunity to testify here today, and I look forward to questions.

The CHAIRMAN. Thank you for your testimony.

At this time I am going to call very briefly on Senator Kaine who wanted to welcome Mr. Plum since he is a constituent of his.

Senator KAINE. Thank you, Madam Chair and Ranking Member McCaskill, and welcome, Mr. Plum.

Let me introduce my constituent, Virginian Brian Plum, who is the president and CEO of Blue Ridge Bank and its parent company, Blue Ridge Bank Shares, which is a position he assumed in December 2015, and we are pleased to have Brian here today because he is going to talk a good bit about some of the innovative strategies Blue Ridge Bank uses to help seniors with retirement security.

Welcome. I am so glad you are here.

**STATEMENT OF BRIAN K. PLUM, PRESIDENT
AND CHIEF EXECUTIVE OFFICER, BLUE RIDGE BANK,
LURAY, VIRGINIA**

Mr. PLUM. Thank you very much, Senator. I appreciate it.

Good afternoon, Chairman Collins, Ranking Member McCaskill, and distinguished Members of the Committee. It is a tremendous honor and privilege to provide my thoughts and perspectives to this Committee, and it is my hope that something in my testimony of-

fers meaningful insight into what we can do to address a severe and critical issue in our Nation.

My name is Brian Plum. I am President and Chief Executive Officer of Blue Ridge Bank, headquartered in Luray, Virginia.

Blue Ridge Bank was organized in 1893 and has been proudly serving its communities for 123 years. We are a small community bank and we take seriously our charge and responsibility of improving the lives of everyone in the communities we serve. Our bank does well when our communities do well, and we believe we can play a meaningful role in producing desirable financial outcomes.

In that spirit, we were the first bank in the Nation to launch a prize-linked savings account. These accounts were authorized at the Federal level by the American Savings Promotion Act, signed into law by the President in December 2014. Since we are a Virginia-chartered financial institution, we also had to wait until the Commonwealth of Virginia took action, and we launched our product on July 1st, 2015, the first date legally permissible for us to do so.

The name we adopted for the account is “Jackpot Savings” and it consists of offering monthly prizes and a larger annual grand prize. Each month we randomly select four winners—one \$200 winner and four \$50 winners. In 2015 we offered a \$5,000 grand prize, and in 2016 the grand prize is \$10,000. Each increase of \$25 in an account generates a prize entry, so the more money any one person deposits into his or her account, the more likely he or she is to win.

It is important to note that these customers really give up nothing. We offer the same rate on the product as the traditional savings product, so we are not subsidizing the prize costs by reducing the interest rate. Virginia Code requires prize-linked accounts to offer similar rates to other savings accounts, whereas my understanding is that not all states do. The prize funds are part of our marketing budget, and I think that is a key point, as it illustrates the real goal of this account is to make winners of everyone by increasing savings and not to reward some customers by reducing payments to others in the form of lower interest rates.

The only real tradeoff is that since this account is meant to strongly encourage savings, we do have tighter rules for withdrawals. We limit customers to one penalty-free withdrawal per month and each additional withdrawal incurs a penalty. This penalty is not meant to be punitive, but to discourage withdrawals unless they are absolutely necessary.

The stories of people being motivated to open a Jackpot Savings account are wide and varied: recent high school graduates, parents with young children, people approaching retirement, and even people that have already retired. In fact, our 2015 grand prize winner was a retiree living on fixed income, so Jackpot Savings turned out to not just be a tool for retirement, but one during retirement.

One of my favorite stories is of a customer who was motivated to open a savings account after reading about the product. She had been planning a vacation for a long time and wanted to pay for it with savings instead of utilizing credit. Not only has she made significant progress toward her goal, but she was also one of our monthly prize winners.

Jackpot Savings also created another opportunity to expand our efforts in savings. We are partnering with Long Game, a technology company startup focused on improving financial literacy and increasing personal savings through gamification. This partnership provides a tremendous tool to fundamentally improve the lives of consumers, and I suspect we are only at the very beginning of that trend.

However, to fully capitalize on the potential, we need to ensure that regulatory treatments offer accommodation and practicality to encourage financial literacy innovation while preserving a focus on safety and soundness of the banking system.

Community banks like Blue Ridge Bank can be a nimble and able partner for so many looking to offer financial literacy solutions. I commend this Committee for looking at this issue. The Associated Press-NORC Center for Public Affairs Research released a survey just a few weeks ago showing two-thirds of Americans lack \$1,000 in savings to cover emergency expenses. This is appalling, and none of us should be willing to accept that so few people have any meaningful savings.

We should be particularly motivated to work together as we think about the implications of deficient savings for an aging demographic in a society where defined-benefit plans become rarer each day. A crisis in emergency savings today is an unimaginable retirement savings problem tomorrow.

Blue Ridge Bank and I stand ready and willing to commit more time, energy, and insight for this Committee and staff to make progress on this critically important issue. Thank you so much for this opportunity.

The CHAIRMAN. Thank you very much, Mr. Plum.

Ms. Collinson, we know that 80 percent of employees who have a workplace retirement plan available to them will contribute to that. We also know that many small businesses that would like to offer a retirement plan find that it is too costly and complex to do so. What do you think of the idea of allowing small businesses to join multiple-employer plans, even if there is no nexus on the type of business? In other words, the fact that you are a grocery store versus a clothing shop, you could still join together. Do you think that that would help deal with the administrative burden, cost, and complexity that discourages a lot of small businesses from offering plans?

Ms. COLLINSON. Our employer survey actually inquired about the topic among small businesses owners, especially those that feel like they are too small to sponsor a plan or cannot afford to sponsor a plan, and even though they are unwilling to sponsor their own plan, some say they would consider joining a multiple-employer plan, or MEP, so the potential is there.

However, as we know, reforms are needed to create an open MEP so that small businesses that do not have a common nexus can join together and be part of a plan.

The CHAIRMAN. Several of you have referred to what I would call leakage, and by that I mean that people put away money for retirement but they end up having an emergency and feel that they have to borrow from or take from their plan, and indeed, Mr. Plum, I have even more dire statistics. A recent survey by the Federal Re-

serve found that almost half of Americans did not have enough money to cover a \$400 emergency expense, so that is a real issue, but another problem, which Mr. Szapiro alluded to also, is that sometimes people cash out their 401(k) plans when they change jobs and they do not reimburse—they do not roll it over. They just spend it or use it for expenses, or as Mr. Szapiro mentioned, they may use it to help finance a college education for their child or to buy a new home.

I actually did something far worse in my youth. When I was a young Senate aid for a Maine senator and had worked long enough to vest in the Civil Service Retirement System but was then going back home to Maine to accept a job in the Governor's cabinet, and believe it or not, I withdrew my entire Civil Service Retirement System money and bought a car, and I cannot think of a more ill-advised financial decision, but I was so afraid of having debt that I thought a car loan would be a terrible thing to have, and so, instead, I raided my retirement account.

I cannot help but think if I had had one person say to me, have you thought about how stupid this decision is and what the implications are going to be later, it would have stopped me, or if I had played one of the financial games that you have described, so I would like, starting with Mr. Szapiro, to ask you about the problem of leakage, and what can we do to convince people that it is not worth doing what I did. I would have been much better off getting a car loan and having that money grow over time for my retirement, especially since I ended up going back into the Federal Government.

Mr. SZAPIRO. Well, I think there is two things that come to mind that are most obvious.

The first, that we have had a lot of success with, is showing people what their current savings will mean in terms of future income, so when you just show people a lump sum, it is very hard for them to translate that into retirement income, even if they are at retirement, much less if retirement is 20, 30, 40 years away. We have a lot of success with showing people what it means to have \$20,000 saved up now, how it will grow, and how that will translate into income, and how that compares to their current income, so that is a technique that we found, and there is actually a lot of behavioral research on this. When people have relatively small lump sums, in any context, they are likely to treat them as income. If they are relatively large, they are much more likely to think of it as long-term wealth, so I think it is a particularly acute problem with small account balances, and the second thing is any policies that encourage more automatically in moving money from one 401(k) to the next I think would be very helpful as well. That is where a lot of leakage is in the system, is at the point of shifting jobs.

The CHAIRMAN. Thank you.

I am going to ask the rest of you to respond for the record since we have a number of Members here.

The CHAIRMAN. Senator McCaskill.

Senator MCCASKILL. Okay, so I think you guys are on to something with the gaming. I hate to confess on a record of the U.S. Senate that I relax with some of those mindless things with some frequency.

I am curious about—I just went on and pulled down HelloWallet while we were sitting here. Tell me what the sponsor codes mean, Mr. Szapiro. Is that how—Szapiro? Tell me—I mean, because I cannot get to it because I do not have a sponsor code, so how is this—how is this business model set up?

Mr. SZAPIRO. Sure, so the business model is that we distribute through employers. Employers buy licenses to distribute to their employees to help them manage their benefits in the context of their other financial goals.

Senator MCCASKILL. What does it cost a business to—

Mr. SZAPIRO. The licenses vary. I mean, they are each individually negotiated contracts, so I mean, I cannot give you a single number but they are not very—

Senator MCCASKILL. Can you give me a ballpark? Let's say I have a business. Let's say I have a car dealership and I have two outlets and I have a grand total of 75 full-time employees. Would it be \$10 per license or \$200 per license?

Mr. SZAPIRO. It would be much less than \$200 per license. Of course, we are mostly working with very large companies because we are just not—you know, we are a pretty small company and we are not charging very much for the licenses, so we are trying to sell to large companies where we can sell, you know, many thousands of licenses at a time.

There is a business-to-consumer way to get to it. It is a little—it is sort of up in the corner, so you can subscribe to it as well as an individual, you know, for an annual fee.

Senator MCCASKILL. Well, it would not let me sign in without a sponsor code.

Mr. SZAPIRO. Right, you have to set up a new account and—

Senator MCCASKILL. Well, I tried to create an account. It would not let me create an account without a sponsor code. I just tried. I promise you.

Mr. SZAPIRO. I will look into that as soon as I get back to the office.

Senator MCCASKILL. Okay.

Mr. SZAPIRO. We do have—I mean, about 10 percent of our users are direct business-to-consumer, so we have some of that, and then we also have—

Senator MCCASKILL. Well, what I am trying to do is figure out a way to get this to the small businesses and get it to people that maybe might get there without having it—having it come through—I mean, what we have talked about today is—it is like everybody has been sleepwalking. You know, somehow this will all turn out, you know, because it did for their parents and their grandparents, because they had pensions and Social Security, but now, you know, you have got to actively do this, so for yours, Mr. Flacke, I tried to go to SavingsQuest and I cannot find SavingsQuest as an app, so where is it?

Mr. FLACKE. It is available in the App Store, but we will followup and—

Senator MCCASKILL. Not when you search for it.

Mr. FLACKE. Well, like—

Senator MCCASKILL. Not even for iPad only or for iPhone only. SavingsQuest is—you cannot find it.

Mr. FLACKE. Well, like my colleague here, we will go back to the office and make sure we solve that.

Senator MCCASKILL. I am trying to help your business here.

Mr. FLACKE. I will just say that it is still in development, so it is not in its final form, so that may have something to do—

Senator MCCASKILL. Oh okay, and when it will be available, can anybody use it whether or not they—the license has been purchased by the business where they work?

Mr. FLACKE. Yes, we do not have the same business model that HelloWallet does, and as a mission-driven not-for-profit—

Senator MCCASKILL. What will your business model be?

Mr. FLACKE. Yes, as a mission-driven not-for-profit, our primary goal is to influence the key actors that are in a position to—as you so well pointed out, to really reach millions and millions of people in a sustainable way, so that is where the work with, for example, Staples comes into play. Our role was to approach them and say: We have a new idea. We have a different way of thinking about getting the attention, you know, of your workers, and then we built a partnership to do that. We believe—

Senator MCCASKILL. Yes, I want to go on Bite Club. I want to try it.

Mr. FLACKE. Yes.

Senator MCCASKILL. I cannot because I do not work at Staples, so I guess the point I am trying to make is that this has to hit mainstream, and I think that people might be surprised what kind of appetite there is for it mainstream.

I have a question for you, Mr. Flacke. Is there anything that you all have done in terms of optimizing those savings moments? The one I think of most frequently, you know, I have had to educate my children, who think that the tax refund is like a bonus they are getting, or something. I keep explaining to them that that is their money that they are getting back and that maybe they should not be withholding so much. If they were saving through the year, it would be better for them to be using that money than the IRS holding that money, and I tried to explain that to them and they said, well, then we would not get that check. We would not get that check, and I am going, yes, but it is your money, and so I have tried to instill in them that if they are going to do it that way, they have to save some of it.

What research have you done, or have any of the rest of you done, about the savings moment of tax refunds, because that is when everybody else out there is trying to get you to buy something. I mean, they are doing the sales on cars and they are doing the sales on mattresses and appliances, because everybody knows there is this check that is coming between the end of January and the beginning of April that is going to up the buying power of thousands—millions and millions of households, so talk to me about that.

Mr. FLACKE. Well, I think we absolutely agree that that is the single-most powerful potential saving moment, especially for sort of regular working folks—

Senator MCCASKILL. Right.

Mr. FLACKE [continuing]. who get very large refunds.

I guess I would say that the thing that is good news is that the government has done a lot to lay the foundation to take advantage of that moment. The IRS—and many people are not aware of this—will send your refund electronically to up to three different destinations, so that allows us to make a single decision when we file our return and say, my refund is going to be \$1,000 or \$2,000; I am going to take 25 percent of it and send it directly to my IRA—or, you know, as I mentioned in my testimony, for people who do not have IRAs, a U.S. Savings Bond, which is a very good starting savings product, in our view, so I think the next step—you know, good, we have the foundation. The next step is to make people really aware of this. The most extreme version of that is this culture of savings that we refer to, but I think having laid these pipes in place, there is an opportunity for the IRS—for the Free File program, which is the free tax preparation available through industry, to clearly emphasize, front and center, exactly the message that you just described.

Senator McCASKILL. Right.

Mr. FLACKE. This is your moment. Let's make the most of it.

Senator McCASKILL. Okay, I will look forward to getting those apps so I can play those games.

Mr. SZAPIRO. If there is a second, I wrote a paper on this that came out earlier this year. We were actually able to use HelloWallet data, because we have our users' credit cards and their checking account data, to see what happened when Treasury 310 tax refund hit their accounts, and only about a third of our members saved their refund. Most of them spent it, and 25 percent of them used it to pay down credit card debt, so I mean, we are—

Senator McCASKILL. That is not a terrible thing to do.

Mr. SZAPIRO. It is not a terrible thing to do with it, but it probably would have been better if they had just not accrued the debt in the first place, so I mean, we are seeing what you just described, in our data.

Senator McCASKILL. Thank you.

The CHAIRMAN. Senator Tillis.

Senator TILLIS. Thank you, Madam Chair.

Mr. Flacke, is it RamoGames that is the one that—or is it something other than that? Say, I did a Google for SavingsQuest and I found some money games out there. I was not sure if it was yours or not, but—

Mr. FLACKE. I am not familiar with RamoGames or that image on your screen, so—

Senator TILLIS. I need to make sure because I will share it with Senator McCaskill when I get it. More importantly—

Senator McCASKILL. We are on the app quest.

Senator TILLIS. More importantly, I will share it with my daughter, who—she is 27 years old. She just passed her certification for being a registered nurse in North Carolina, and I was just having a discussion with her the day before yesterday about how she has managed an independent lifestyle to this point. She is about to get a two-or three-time multiple in her income. Now is the time to, of course, benefit some but make sure you have got a good, solid savings foundation right now, and it really speaks to kind of my one-

on-one tutoring for financial literacy, and we have to do a lot more of it.

Mr. Plum, I was speaker of the house in North Carolina. In 2011, we passed the same sort of legislation that Virginia did for the program that you have implemented, and it has resulted in about \$5.4 million more in savings that they have directly attributed to this authorization, so I think it makes a lot of sense.

In your oral testimony and in your written testimony you made the comment about partnering with Long Game, and also the regulatory treatments offering accommodations. Can you maybe get more specific about that, and relevance to either Federal or State policy?

Mr. PLUM. Certainly, Senator, and first off, I would like to say, since there is a lot of eagerness about exploring the account options, you can open our account online at mybrb.com. Feel free to do that while we are sitting here, as well.

From a regulatory standpoint, I think there are a couple of key topics. From a partnership perspective, you know, there is the issue of when a bank partners with a financial literacy provider who is looking to use gamification, looking to bring the money in, the issue exists of whether those are brokered or non-brokered deposits, and you know, I understand this is not the Banking Committee so we probably do not want to get into that deeply, but certainly happy to talk about it, but that would affect the interest level of banks in pursuing partnerships like that because the treatment, as it is brokered, would obviously carry negative regulatory connotations and also financially, from an assessment standpoint, and then also, I think another regulatory element of that would also be there is a tremendous level of scrutiny right now on any vendor-type relationship, and rightfully so. I mean, there have been significant data breaches that have been attributable to third-party vendors, so I think there is probably an unnecessary and perhaps even an unhealthy amount of fear in the marketplace about partnering with others, because, quite frankly, you know, what we would be able to do with a partner in this arena is going to dwarf what we can do by ourselves, and that is really the potential that we see in talking to Long Game, and other banks and credit unions are going to see that very same dynamic.

Senator TILLIS. Thank you.

One question. It may seem off-topic. It may be, so you are perfectly entitled to say "not relevant." To what extent does the Department of Labor fiduciary rule threaten getting information that people need to—particularly people with lower—you know, those who have some amount of net worth will have a private investment banker or someone else. It does not affect them really because they are already in that sort of relationship, but for the strata of people that we are talking about, who may not be financially literate, do you all see any either positive or negative impact of the proposed Department of Labor fiduciary rule?

We will start with Ms. Collinson.

Ms. COLLINSON. It is a massive rule. It is going to take time to assess its impact, both on retirement—on the landscape as well as how it affects the delivery of investment advice and recommenda-

tions to Americans, and we do not have a formal position because we have not been able to do a full assessment.

Senator TILLIS. Okay. Anyone else wishing to opine on that?

Ms. COLLINSON, you mention in your opening comments about reforms. Certain sorts of reforms may be beneficial to the area that we are focused on today. Do you have specific recommendations either at a Federal or State level that you think are some of the most meaningful reforms that we should focus on?

Ms. COLLINSON. One area that I opened with is extending eligibility to part-time workers and up to corporate retirement plans, and there are a few things that can be done through reforms that may remove disincentives and encourage employers to extend that eligibility to their part-timers.

One is excluding part-time employees from nondiscrimination testing. Two is having a provision that they can exclude part-time employees from a matching contribution, and then the last is easing service requirements so it is easier to do the administration to identify long-term part-time employees as meeting service requirements as being part of the plan, and of course, tax incentives can also help.

Senator TILLIS. Yes. Thank you.

Mr. Flacke, if you can send a link to these games so that we can download them, I think—I mean, honestly, they are very helpful, particularly for young people but really the entire age spectrum, so I would be very interested in getting them, and maybe Senator McCaskill and I can compare scores.

Mr. FLACKE. We will certainly do that.

Senator TILLIS. Thank you.

Mr. FLACKE. Thanks.

The CHAIRMAN. Thank you very much.

Senator Kaine.

Senator KAINE. Thank you, Madam Chair, and thanks to the witnesses—very, very interesting testimony.

Mr. Plum, I am going to direct my questions to you. First just a couple of facts. The Commonwealth of Virginia is 29th out of 50 states in the percentage of residents who have a savings account. We are at 69.8 percent is our State percentage, and there are some real disparities in that number. African-American families—about 52.1 percent of African-Americans have savings accounts in Virginia; 53.2 percent of Hispanic families do. It is nearly three-quarters for Caucasian and Asian-American households, so you see some significant disparities.

I just think it is a simple concept and it makes so much sense. I did not really know that much about these prize-based savings programs until I was reading the testimony about this, and it just seems obvious and, in fact, so obvious that in articles that I have read there is a suggestion that if too many states do what Virginia has done or North Carolina has done and allow it, State lotteries are going to start to get mad because people are going to be saving money rather than buying lottery tickets. Now, that is a problem I hope we see. That would be a wonderful problem to have to deal with, but talk a little bit about, in the time you have done this—so you have been almost at it for about a year and your bank has already gotten some significant attention for going into this. What

have you seen with respect to seniors in particular? Obviously saving at any point in life is going to be helpful for retirement savings. The earlier you start, the better, but is this a product that seniors have been interested in and excited about partaking in?

Mr. PLUM. Senator, you know, I do not have the stats on that and do not know them off the top of my head, but as I had in my testimony, you know, we are seeing everybody across the spectrum—I mean, there is the excitement of it, and there also is—you know, since we were the first bank in the country to do it, there is also that element of, you know, you guys are doing what again? You know, and so there is an educational piece.

I think we have started to see the interest level pick up, and we have seen—you know, again, of the customers that we have had open the accounts, I would say a significant portion—I do not know what that number would be—are people who are, you know, 10 years either close to retirement or, as indicated in the testimony, even some people in retirement, partly because if you look at the prize money that we are giving away and if you look at where interest rates are in today's environment, you know, part of it is, you know what, I am going to go ahead and roll the dice on winning the prize, because if I get that I am going to get an effective interest rate above what I get out of my savings account now.

Senator KAINE. One of the things I was interested in reading some of the press about your bank is you have also been pretty forward-leaning in, you know, encouraging other banks to do this, encouraging other states to open this up. It could be really scaled up if larger banks could do this. Was it hard getting the Commonwealth of Virginia, as a state-chartered bank, to open the way for this particular innovation?

Mr. PLUM. Yes, so in the wake of the Federal legislation, you know, it was a slam dunk with the General Assembly. You know, and it is one of those things, Senator, that I am still perplexed that we are the only bank that I am aware of in the country—and I am pretty sure that we are the only bank in Virginia—because it is an account class that really does offer an opportunity for us to do something that is great for our business model, but do something that does that and also addresses what is an incredible gap in the country, and so the potential to do something is incredible, and you know, and I always kind of feel like since we are the only ones out there doing it—you do not mind being the first one out there, but if you are too far out there maybe it is because you are running off a cliff, you know, and that is why nobody is following you, so it is just—you know, it is something I have been excited about. I first read about it in the summer of 2014, and you know, it is something that just really clicked with me and I thought would make a lot of sense, and I think we are going to see—as banks and credit unions have success with it, I think we are going to see more people come online, but it is a conservative industry, as you know, and I think sometimes people want to see others go before they follow behind.

Senator KAINE. You make an interesting point there. You know, this is in the Banking Committee's jurisdiction, not this Committee, but in what sense should banks be treated like credit unions? In what sense should they not be? That is a standard fea-

ture of people coming to our offices every year talking to us about this, but I understand these prize-based savings programs were programs that credit unions have been able to do for some time, and this act that was signed in 2014 allowed banks to do——

Mr. PLUM. Right.

Senator KAINE [continuing]. programs similar to the way that credit unions—so you may be a leader on the bank side but you are not running too far ahead.

Mr. PLUM. Right.

Senator KAINE. There is a track record on these kinds of programs that they have been successful and they have met the needs of folks who have been credit union account holders for some time.

Mr. PLUM. As previously mentioned, you look at the statistics out of Europe. You know, it is amazing how effective a tool it has been, and as a nation and as a lot of individual states they have just lagged in implementing what is somewhat an obvious solution.

Senator KAINE. Well, I think—I will just finish and just add that Senator McCaskill used the phrase that we have been kind of sleepwalking—sleepwalking as a Nation, you know, in terms of this retirement security crisis, and the good news is it is all driven by good news, which is we are living longer. That is great. You know, I think sometimes we are in such angst about these problems, but it is a problem created by something that is positive, which is we are living longer but that does mean we really have to reorient our thinking and we have to have new kinds of programs to make sure that people change their habits and, you know, start to take account of that new demographic reality as we look at programs like this, and anything that gives simple incentives for people to do the right thing, we really ought to be paying attention to it and seeing how it works and maybe applying the lesson to other strategies as well, so I really appreciate you coming, and appreciate all the witnesses' testimony today.

The CHAIRMAN. Thank you very much.

Senator Cotton.

Senator COTTON. Thank you.

Pleased to hear all the conversation about the American Savings Promotion Act, which I authored along with Derek Kilmer in the House of Representatives to correct this very disparity between credit unions and banks, so when individuals opened a saving account they could also have the possibility of winning a prize, a financial prize as opposed to, say, a toaster, which is what I always remember as a teenager in Dardanelle, Arkansas being offered when I opened a savings account.

Ms. Collinson, since the passage almost 2 years ago of the American Savings Promotion Act, what kind of progress have we seen in the financial services sector of taking advantage of the new opportunities that that bill allows?

Ms. COLLINSON. I will be honest; we have not studied that in our research. What I can say is that what we are seeing in our research is still too little progress is being made toward promoting and advancing retirement security, and for a number of reasons.

I have talked about part-time workers. There is still opportunities to expand coverage among small business especially, and people are still recovering from the recession, so as we look at all these

things together, there is more that we can do, and we will make that a focus of our research.

Senator COTTON. Thank you.

Mr. Plum, do you have any thoughts on the kind of progress that has been made in this sector?

Mr. PLUM. You know, again, Senator, I think that there is an awareness issue within the industry, you know, for people like me that just happened to stumble across something in 2014. You know, I was able to latch on to it, and also it gets back to the idea of convincing people in the industry to do it, and I think as banks and credit unions are successful with products in this arena, that is when we are going to see more activity come online. It is just maybe not happened as quickly as I know you all would like to see, and certainly I would like to see as well.

Senator COTTON. Any other ideas for steps that Congress might need to take in this space or, for that matter, ideas about whether any of the regulatory agencies are impeding progress and Congress might be able to encourage them to move a bit faster?

Mr. PLUM. As I referenced earlier, I mean, I think that whole issue of how deposits that might be accumulated through joint-venture arrangements and partnerships, I think that is something that certainly deserves some inspection and consideration, and just, it is a rule of regulation. It tends to follow what is happening, I think, in the private sector, so I feel like here the private sector is probably out a little bit ahead of some of the perspectives on that.

Again, I think for a lot of the providers, they are going to want to have that bank partnership, and frankly, from a public policy standpoint, I would think that we would want them to have that banking partnership as well, because then funds are in an insured environment as opposed to somebody offering an app that says, yes, we will allow you to build balances over time and we will give you prizes, but it is not going to be within the banking system.

Senator COTTON. Okay. Thank you both.

I yield back the balance of my time.

The CHAIRMAN. Thank you very much, Senator, and congratulations on writing that law that is leading to increased savings.

Senator COTTON. Thank you.

The CHAIRMAN. I want to thank our witnesses today for being with us. This is part of a series of hearings that the Committee is holding to examine ways that we can strengthen the retirement security of Americans.

I believe that we are, as Senator Kaine stated, facing a real crisis where more and more Americans will find that they are outliving their retirement savings and Social Security will not be adequate for them to have a comfortable, secure retirement, so part of the reason for these hearings is to heighten public awareness as well as to encourage more savings.

The second goal of these hearings is for us to identify public policy changes that are needed. In this regard, I thank you on both counts for enhancing our understanding.

The hearing record will remain open until the close of business on June 22nd. I want to thank the staff for their work, and I par-

ticularly want to thank our witnesses for their contributions today.
Thank you.

This hearing is now adjourned.

[Whereupon, at 3:36 p.m., the Committee was adjourned.]

APPENDIX

Prepared Witness Statements

TRANSAMERICA CENTER
FOR RETIREMENT STUDIES®

Testimony of Catherine Collinson
President, Transamerica Center for Retirement Studies® and Transamerica Institute®

Before
The U.S. Senate Special Committee on Aging

Hearing on
Closing the Gap: Innovations to Promote Americans' Retirement Security

June 15, 2016

Transamerica Center for Retirement Studies® ("TCRS") appreciates the opportunity to provide this written testimony in connection with the hearing of the U.S. Senate Special Committee on Aging on issues, opportunities, and innovations related to promoting retirement security among Americans. TCRS commends Committee Chair Collins and Ranking Member McCaskill for focusing on these concerns.

TCRS is a division of Transamerica Institute® ("The Institute"), a nonprofit, private foundation. The Institute is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third parties. For more information about TCRS, please refer to www.transamericacenter.org.

TCRS is dedicated to conducting research and educating the American public on trends, issues, and opportunities relating to saving and planning for retirement and achieving financial security in retirement. TCRS focusses on American workers and segments within the workforce, trends of employer-sponsored retirement plans and their participating employees, and the implications of legislative and regulatory changes.

Today's testimony features TCRS' new research report [The Current State of 401\(k\)s: The Employer's Perspective](#) which offers an overview of employer trends, plan sponsorship rates, comparisons by company size, and worker insights. This testimony also draws from other research reports from TCRS' 16th Annual Retirement Survey, including:

- [A Compendium of Findings About American Workers](#) offers a broad overview of key measures of retirement preparedness by gender, household income, and generation, and other segments,
- [Retirement Throughout the Ages: Expectations and Preparations of American Workers](#) outlines the worker survey findings by age range and life stage, and
- [The Current State of Retirement: Pre-Retiree Expectations and Retiree Realities](#) compares and contrasts the retirement outlook of age 50+ workers with the actual experiences of retirees.

TCRS' annual retirement survey is now one of the largest and longest running surveys of its kind. In 2015, the 16th Annual Retirement Survey interviewed 4,550 American workers, 2,012 retirees and 1,022 employers of for-profit companies with 10 or more employees.¹

¹The TCRS research team prepared the analysis of 2015 surveys of workers, employers, and retirees and related research publications. The surveys were fielded within the United States by Harris Poll on behalf of TCRS. Methodologies can be found at www.transamericacenter.org.

The Current State of Retirement Preparedness in America

While the economy is still recovering from what is commonly referred to as the Great Recession, the U.S. retirement landscape is continuing to evolve, with increases in life expectancies, uncertainty about the sustainability of Social Security benefits, and an even greater responsibility for individuals and families to plan and save for their future financial security.

TCRS' survey found that American workers are continuing to recover from the recession and its aftereffects. Many workers say they have not yet fully recovered from the recession, with 40 percent saying that they have somewhat recovered, 15 percent saying that they have not yet begun to recover, and eight percent saying that they may never recover.

Despite the continuing effects of the recession, 59 percent of workers are confident that they will be able to fully retire with a comfortable lifestyle, including 45 percent who are "somewhat" confident and only 14 percent who are "very" confident. Only 49 percent of workers agree that they are building a large enough retirement nest egg, including 34 percent who "somewhat" agree and 15 percent who "strongly" agree.

Perhaps one of the greatest measures of retirement preparedness is total household retirement savings. Among Baby Boomer workers, the generation which is nearing and entering retirement, the survey found the total reported household savings in all retirement accounts to be \$132,000 (estimated median). Total household retirement savings is less for younger generations, specifically Generation X (\$61,000) and Millennials (\$25,000). All three generations face challenges in prioritizing saving for retirement over more immediate needs such as covering basic living expenses and paying off consumer debt. Millennials are also facing the burden of student debt.

In response, workers' expectations about how and when they will retire represent a dramatic departure from long-held societal notions about fully retiring at age 65. The majority of workers (58 percent) expect to retire after age 65 or do not plan to retire. Fifty-one percent plan to continue working in retirement, either part-time (39 percent) or full-time (12 percent). Most plan to do so because they want or need the income (53 percent), yet many also cite reasons of enjoying what they do and wanting to stay involved (34 percent).

Planning to work longer and retire at an older age can help bridge savings shortfalls. However, all too often, life's unforeseen circumstances can derail the best laid plans. Only 23 percent of workers have a backup plan for retirement income if forced into retirement sooner than expected. TCRS' survey of retirees found that they retired at age 62 (median) and that 60 percent retired sooner than planned, due largely to reasons beyond their control including employment or health issues.

The worker survey's findings also shed light on vulnerable demographics including women and lower income workers. Only 42 percent of women workers agree that they are building a large enough nest egg, compared to 55 percent of men. Just 33 percent of workers reporting an annual household income of less than \$50,000 believe they are doing so, compared to 66 percent of those with an income of \$100,000 or more.

In today's world, individuals are increasingly expected to self-fund a greater portion of their retirement income but they need help in order to be successful. Closing the gaps and improving the retirement outlook of Americans can best be achieved if approached as a shared responsibility among policymakers, employers, and individuals in which each do their part.

The Vital Role of Employers in Providing Workplace Retirement Benefits

Employer-sponsored retirement savings plans play a vital role in facilitating and simplifying the savings process, making such plans attractive for American workers. The benefits of saving in an employer-sponsored plan (e.g., investment education, tax-deferred savings, the potential for employer contributions, fiduciary oversight), combined with the convenience of automatic payroll deduction, make American workers more likely to save for retirement through participation in an employer-sponsored plan versus contributing to an IRA outside the workplace.

Public policy supports employers in providing retirement savings plans to their employees, evidenced by the tax incentives passed by Congress both for employers to sponsor retirement plans and for their employees to accumulate long-term savings through those plans. Today's tax system has mechanisms intended to help to ensure savings will be available for retirement by placing restrictions on pre-retirement distributions and imposing tax penalties for most early withdrawals. The Pension Protection Act, enacted in 2006, improved upon the system by facilitating automatic enrollment, default investment options, and the portability of retirement accounts, in addition to increasing deferral limits and making the Saver's Credit permanent.

TCRS' survey findings underscore the importance of workplace retirement benefits in helping workers prepare for retirement. The vast majority of workers (89 percent) value retirement benefits as an important workplace benefit.

Among workers who have access to a 401(k) or similar plan (e.g., SEP, SIMPLE), 80 percent participate and they contribute eight percent (median) of their annual pay. Moreover, the survey found that 90 percent of workers who are offered a 401(k) or similar plan are saving for retirement, either through the plan and/or outside of work, compared to just 48 percent of workers are not offered such a plan.

Thirty-seven percent of workers expect 401(k), 403(b) accounts, and/or IRAs to be their primary source of income when they retire. Other workers indicate that they plan to rely primarily on Social Security (26 percent), working (13 percent), other savings and investments (12 percent), company-funded pension plan (six percent), inheritance (two percent), home equity (one percent), and other (three percent).

Retirement Plan Coverage Rates

Policymakers, experts, and the retirement industry seek to increase plan coverage among workers, specifically those of small companies. Coverage is defined both in terms of employers establishing plans for their workers and access of workers to employer plans.

Calculating plan sponsorship rates can be elusive. Much of the reporting is derived from the IRS Form 5500 database, a tax form that is required by employers who sponsor qualified plans (e.g., defined contribution including 401(k), defined benefit, or other). However, many small businesses offer SEPs or SIMPLE IRAs, which are not required to file a Form 5500, and therefore, do not get counted.

TCRS' survey of employers asked if they sponsored a 401(k) plan or a similar employee-funded plan (e.g., SEP, SIMPLE, other). Consistent with other studies, the survey found that fewer small companies offer retirement benefits than large companies. However, the degree of the gap may be smaller than expected. The survey found that 74 percent of companies offer a plan, including:

- Seventy-two percent of micro companies (10 to 99 employees), and
- Eighty-nine percent of small non-micro companies (100 to 499 employees), compared to
- Ninety-two percent of large companies (500-plus employees).

Only 27 percent of companies that do not offer a plan say they are likely to begin offering one in the next two years. Among the 73 percent who are not likely to offer a plan, the two most frequently cited reasons are that their company is not big enough (58 percent) and concerns about cost (50 percent). However, in contrast, one in five of them (22 percent) did say they would be likely to consider joining a multiple employer plan offered by a vendor who handles many of the fiduciary and administrative duties at a reasonable cost.

While a key to expanding coverage among workers is increasing plan sponsorship rates among small companies, it's important to keep in mind that not all employees have access to saving in their employer plan. A key to expanding coverage among workers of all company sizes is encouraging existing plan sponsors to extend eligibility to their part-time workers.

TCRS' analysis of the survey findings revealed a pervasive gap in plan coverage: part-time workers. Only 38 percent of employers that offer a plan extend eligibility to their part-time workers. Large companies (58 percent) are more likely to extend eligibility to part-time workers compared to small non-micro companies (50 percent) and micro companies (34 percent). Among plan sponsors who do not extend eligibility to their part-time workers, 91 percent do not plan to do so in the future. Their two most frequently cited reasons are that it is generally impractical (39 percent) and concerns about cost (37 percent).

As policymakers and industry seek to expand retirement plan coverage among American workers, it should be acknowledged that plan sponsorship rates are relatively high with room to grow and that part-time workers should be a special area of focus and attention. By addressing the coverage gap among part-time workers, policymakers can also help improve the retirement outlook of women and lower income workers who are more likely than other demographic segments to work part-time.

Opportunities for Enhancing Retirement Security

TCRS' survey identifies innovations and retirement plan features that can help improve retirement security among Americans in terms of saving, investing, planning and transitioning into retirement. Many of these innovations have proven to be successful while other opportunities have not yet been fully realized.

Expanding the Offering of Automatic Enrollment and Escalation Features

Automatic enrollment, a feature which automatically enrolls eligible employees into the plan with the ability for them to opt out, has been widely recognized as one of the most effective ways to increase plan participation rates. The survey found that 71 percent of workers find the idea to be appealing, a finding which is relatively consistent by company size, gender, and household income.

Despite the high level of workers' interest, only 21 percent of plan sponsors offer automatic enrollment. Large companies are far more likely than smaller companies to offer automatic enrollment:

- Eighteen percent of micro companies have adopted automatic enrollment,
- Twenty-eight percent of small non-micro companies, and
- Forty-one percent of large companies offer automatic enrollment.

The median default contribution rate is three percent of annual salary among automatic enrollment plans offered by both large and small companies, which is consistent with the current safe harbor for automatic enrollment plans. It should be highlighted that three percent is low and sends a potentially misleading message to plan participants that it is adequate to meet retirement savings needs when, in most cases, it is not sufficient. Furthermore, the worker survey found workers consider six percent (median) to be an appropriate percentage to deduct from their paycheck for their future retirement.

Automatic escalation is a feature that increases a participant's contributions to the plan, typically by one percent, annually or when he or she receives a pay raise. Only 28 percent of plan sponsors offer automatic escalation in stark contrast to the 67 percent of workers who find the idea appealing, a finding which is also relatively consistent by company size and gender. Workers with a higher household income are somewhat more likely to find it appealing compared to those with lower incomes.

Last year, the U.S. Department of Treasury provided some much-needed relief relative to the administrative burdens on employers offering automatic enrollment. This relief is still too recent to measure its effect on adoption rates.

Offering Professionally Managed Services / Asset Allocation Suites

Thirty years ago, when 401(k)s were introduced, participants' investment options were limited and often required a do-it-yourself approach to asset allocation. After three decades of continuous innovation, professionally managed services such as managed accounts, and asset allocation suites, including target date and target risk funds, have become staple investment options offered by 401(k) or similar plan sponsors to their employees. These types of offerings enable plan participants to invest in professionally managed services or funds that are tailored to their individual goals, years to retirement, and/or risk tolerance profile without their having to become investment experts themselves.

The survey found that 78 percent of plan sponsors offer one or more of these professionally managed alternatives to their plan participants. Larger employers are more likely to offer target date or target risk funds to their plan participants while the offering of managed account services is somewhat similar across company size. Among both large and small companies, there is an opportunity to expand the availability of all of these types of professionally managed services to plan participants.

Stopping Plan Leakage Which Undermines Retirement Savings

"Leakage" from retirement plans in the form of loans and early withdrawals can severely inhibit the growth of participants' long-term retirement savings. Among participants who are currently participating in a plan, the worker survey found that 23 percent have taken some form of loan and/or early withdrawal from a 401(k) or similar plan or IRA. Among these participants, the frequency of taking loans (13 percent) is the same as that of taking early withdrawals (13 percent). Employees of large companies are somewhat more likely than those of smaller companies to have taken a loan or early withdrawal.

Participants' reasons for taking loans and early withdrawals suggest that they may have inadequate insurance coverage, a lack of emergency savings, and / or consumer debt. The most frequently cited primary reasons for taking a plan loan was unplanned major expenses such as home or car repair (23 percent) and paying off debt (23 percent). The most frequently cited primary reason for taking a hardship withdrawal was to pay for medical expenses (28 percent).

While access to funds through loans and hardship withdrawals may encourage plan participation, more education is needed about the risks and negative consequences involved. Additionally, educational programs on the need to budget and have a backup plan for financial setbacks, including emergency savings and insurance coverage, can help reduce leakage from retirement accounts.

Implementing More Personalized Education, Communication, and Planning Tools

Sixty-six percent of workers agree that they do not know as much as they should about retirement investing, a survey finding that varies somewhat by demographic segment (i.e., company size, gender, age range, household income) but nevertheless each segment garners a majority response rate. When asked

about what would motivate them to learn more, workers' frequently cited responses related to making it easy to understand (49 percent).

Most workers (61 percent) would like more information and advice from their employers on how to achieve their retirement goals. In terms of the helpfulness of tools and resources offered through their employer's retirement plan provider, the survey found that workers of all ages (83 percent) similarly find online tools and calculators to project retirement savings and income needs on the plan provider's website to be helpful. However, the survey also found a noteworthy disparity by age range with regards to mobile technology. Plan participants in their twenties were far more likely to find mobile apps to be helpful compared to older workers. For example, 71 percent of twentysomethings find mobile apps for managing their retirement accounts helpful, compared to just 36 percent of those age sixty and older.

Despite the availability of online tools and resources from their retirement plan providers or through other sources, when asked about how they estimated how much they need to save for retirement, many workers (53 percent) say that they guessed. Just seven percent say they used a retirement calculator.

As plan sponsors and the retirement industry seek to enhance their educational resources and services, personalizing both the message and the medium can increase the likelihood of success.

Providing Financial Guidance and Solutions for Retiring Employees

Workers nearing retirement face a myriad of difficult financial and benefits-related decisions to help them ensure that their savings last their lifetimes. While retirement plan sponsors are intensely focused on helping workers save and invest for retirement, the survey found that they offer little assistance when a worker is getting ready to retire. For example, few plan sponsors offer planning materials (39 percent), educational resources (35 percent), systematic withdrawals (27 percent), or an annuity as a payout option as part of their plan (13 percent). As a point of contrast, it should be noted that 80 percent of non-sponsors say they do nothing to assist their retiring employees.

Facilitating the Ability for Workers to Retire Past Age 65 and Phase in Retirement

Workers have a diversity of expectations in terms of when and how they want to retire. Most workers plan to work past age 65 including some who do not plan to retire. Many are envisioning a transition that may involve flexible work arrangements, shifting from full-time to part-time, or working in a different role that is less demanding (41 percent). Some want to continue working as long as possible until they can no longer work (20 percent). Only 21 percent plan to stop working when they reach a certain age or savings goal.

Workers' vision of continued work in retirement can help bring income and benefits as well as an opportunity to stay active and involved. While most employers (78 percent) agree that they are supportive of their employees working past age 65, the survey found that few employers have business practices in place to support their employees who are transitioning into retirement. For example, few companies offer pre-retirees flexible work arrangements (35 percent), the ability to shift from full-time work to part-time work (25 percent), the opportunity to participate in succession planning, training and mentoring (21 percent), or take on a role that is less demanding (17 percent). Even fewer employers offer information about encore career opportunities (12 percent) and retirement lifestyle and transition planning resources (12 percent).

By updating business practices to enable workers to work past age 65 and facilitating a phased retirement, employers can play an invaluable role in helping pre-retirees continue to earn income, grow their savings, and stay involved while they are transitioning into retirement.

Promoting Saver's Credit and Publicly Available Government Programs

Tax incentives can be powerful motivators for people to save for retirement – but only if they know about them. Only 30 percent of workers are aware of the [Saver's Credit](#), a tax credit for low- to moderate- income tax filers who save in a qualified retirement plan or IRA. Moreover, awareness is even lower among those who are more likely to benefit from it, including women (24 percent), workers with a household income of less than \$50,000 (25 percent), and part-time workers (26 percent).

Workers may also be unaware of other government-related programs that can facilitate retirement savings, including the recently launched [myRA](#) which offers a low cost and convenient starting point for saving, especially for those who do not have access to a 401(k) or similar plan in the workplace. Other programs which can help workers file their taxes and save for retirement include the [IRS' Free File program](#), and the ability to [direct deposit a tax refund into an IRA](#) (including [myRA](#)).

Addressing a Hidden Threat to Retirement Security: Caregiving Responsibilities

Today, an estimated 43.5 million adults in the United States have provided unpaid care in the prior 12 months, including 34.2 million who are caring for someone age 50 and older. The “typical” caregiver is a 49-year-old female, currently caring for a 69-year old female relative who needs care because of a long-term physical condition. She has been providing care for four years on average, spending 24.4 hours per week. She is typically employed and working an average of 34.7 hours per week.²

Given increases in longevity and the high cost of assisted living and long-term care, many workers will be called upon to be an unpaid family caregiver for an aging parent or loved one – and at a time in which they are balancing their careers and raising children. These responsibilities can involve decisions such as reducing work hours or taking time out of the workforce which can negatively affect their own future retirement in terms of reduced income, savings, and accruing of pension benefits.

TCRS' survey findings illustrate a tremendous opportunity for employers that can help them retain talent while helping employees balance their caregiving responsibilities. For example, just 58 percent of employers accommodate caregiving employees by offering flexible work schedules. Forty-four percent offer the ability to shift from full-time to part-time work (and resume full-time when ready), and 36 percent offer flexible working arrangements including telecommuting.

Moreover, employers may not fully understand their legal obligations of accommodating caregivers. Fewer than half (47 percent) say that they allow their employees to take unpaid leave covered by the Family and Medical Leave Act (FMLA). Large companies are more likely than small companies to recognize the law.

Recommendations: A Ten Step Plan to Increase Retirement Security

TCRS sets forth a 10-step plan for increasing retirement security among Americans. Employers have played an invaluable role in providing benefits and helping workers save and prepare for their future retirement – and they can do even more with the assistance of policymakers.

TCRS' recommendations are focused on timely, cost-effective, workplace-oriented solutions focused within the context of the existing retirement system. The recommendations are intended to build on recent innovations and realize the full potential of opportunities already available. They focus on policy reforms and not new programs or overhauls which could be expensive and time-consuming to implement.

² National Alliance for Caregiving and AARP, [Caregiving in the U.S.](#), June 2015

Transamerica Center for Retirement Studies, www.transamericacenter.org.

Ten steps for increasing retirement security are:

1. *Increase plan sponsorship rates through MEP Reform and additional incentives*
Plan sponsorship rates should continue to be an area of focus among non-sponsors as well as employers who are ready to upgrade from a SEP or SIMPLE to a 401(k) plan. Solutions include:
 - a. For businesses unwilling or unable to establish a stand-alone 401(k) plan, facilitate their ability to join with other employers in a multiple employer plan (MEP), regardless of whether the adopting employers have a common nexus to each other. MEP reform is needed to (a) protect employers from any liability for the acts or failures to act of other employers participating in the plan (the “one bad apple”), (b) allow employers without a common nexus to join together in a MEP (an “Open MEP”).
 - b. Additional tax incentives to help offset the cost for small employers to establish new retirement savings plans. Increase the available amount and number of years for the start-up tax credit which currently allows small businesses to claim a tax credit of up to \$500 for three years for establishing a retirement plan.
2. *Expand coverage by providing part-time workers the ability to participate in employer-sponsored plans*
Obstacles to coverage of part-time workers can be addressed by: (a) treating workers who have consistently worked part-time (over 500 hours/year for at least three consecutive years) as meeting the plan's service eligibility requirements; (b) exempting long-term part-time employees from discrimination testing; (c) permitting employers to exclude long-term, part-time employees from an employer match; and (d) providing relief from being a Form 5500 “large plan filer” if the reason that the plan has more than 100 participants is covering part-time workers.
3. *Increase default contribution rates in plans using automatic enrollment*
The current minimum default contribution rates in the safe harbor, which range from three percent to six percent, send a misleading message to plan participants that saving at those levels are sufficient to ensure a secure retirement. A new automatic enrollment safe harbor, under which employees are enrolled at six percent (increasing to eight percent, then 10 percent), which also provides a tax credit for adopting it, could drive up plan sponsor adoption rates and participant savings rates.
4. *Reduce leakage from retirement savings accounts*
The benefits of contributing to a retirement savings account are negated when individuals take early withdrawals before retirement. Reasons for early withdrawals are often based on unplanned or urgent financial needs, a plan participant's inability to repay a plan loan, and changes in employment. In any case, leakage can be reduced by (a) educating workers of the risks associated with plan loans and the tax penalties and damage to retirement savings by early withdrawals; (b) educating workers on the need to plan for emergencies through budgeting and obtaining adequate levels of insurance coverage for health, death, disability, long-term care and other insurable types of financial setbacks; (c) extending the 401(k) loan repayment period for terminated plan participants where electronic repayment options are used and eliminate the six-month suspension period following hardship withdrawals; and, (d) encouraging plan sponsors to consider limiting the number of plan loans.
5. *Illustrate savings as retirement income on retirement plan account statements*
Workers' awareness of their retirement savings needs can be enhanced by requiring retirement plan statements to include a projection of participant account balances as a lifetime income stream and as a lump sum at retirement age. Such illustrations can demonstrate that while lump sum amounts sound large, when translated into lifetime income, they are revealed to be much smaller. This can help participants realize that they need to save more as well as increase engagement in goal-setting and planning. The illustrations also help educate participants about the importance of ensuring that their savings will last throughout their life.

6. *Implement more personalized retirement education, communication, and planning tools*
Employer-sponsored retirement plans play an important role in educating employees on the need to save for retirement along with basic financial and retirement literacy skills, such as goal-setting, planning, budgeting and investing. Employers should be encouraged to continue offering such education and regulators should help ensure fiduciary liability protection in providing such information. Employers should also be encouraged to continue implementing new ways of tailoring educational tools to the various worker populations, ranging from mobile apps for younger workers to guidance for pre-retirees to assist them in their financial and work/life transition into retirement. Additionally, reforms are needed to facilitate the delivery of plan disclosures electronically with an opt-out for those who wish to continue receiving documentation by hard copy. This can facilitate easy access of critical information by all age groups while reducing plan expenses.
7. *Facilitate working longer and a phased transition into retirement*
Employers can help workers improve their retirement security and remain productive for a longer life. Reforms are encouraged to (a) facilitate and incentivize employers to provide for phased retirement and flexible retirement programs through tax credits and changes to pension and labor laws that serve as barriers to such programs; (b) facilitate and incentivize employers to extend eligibility in workforce savings and health insurance programs, as well other employee benefits, to workers participating in phased retirement and flexible retirement arrangements; and (c) increase the availability of and types of workforce training, especially for employees as they age.
8. *Facilitate retirement savings to last a lifetime*
In order to encourage and facilitate employees' needs to manage their retirement savings to last their lifetime, obstacles to offering in-plan annuities and annuities as a distribution option should be addressed by (a) providing liability protection for plan sponsors and annuities offering guaranteed lifetime income options in plans and as a distribution option, and (b) permitting delegation of current administrative burdens of offering annuities as a distribution option such as obtaining spousal consent.
9. *Promote and expand the Saver's Credit*
The effectiveness of the Saver's Credit in incentivizing low- to moderate-income Americans to save for retirement can be improved by (a) increasing awareness by promoting the Saver's Credit, (b) making the Saver's Credit refundable; and (c) expanding it by raising the income eligibility requirements so that more tax filers are eligible.
10. *Provide support to unpaid family caregivers to help protect their future retirement security*
Reforms are needed to ease family and volunteer caregivers' financial burden (a) through receipt of credits to their Social Security benefits when they are out of the paid workforce; (b) through receipt of tax credits or deductions to offset expenses they incur in caring for their elderly family members; and (c) encouraging workforce policies to support flexibility for employees who also serve as caregivers.

Conclusion

Retirement security for Americans is a shared responsibility. Success can be best achieved through a collaborative effort in which policymakers, employers, and individuals each plays a role. TCRS' research identifies recent innovations, new opportunities, and policy reforms for bridging the gap so that more Americans can achieve a long-term financial security and enjoy a comfortable retirement.

TCRS commends Committee Chair Collins and Ranking Member McCaskill on their consideration on promoting retirement security among Americans. TCRS appreciates the opportunity to present its research findings and its suggestions to help Americans better save and prepare for their future retirement.

Timothy Flacke
Executive Director, Doorways to Dreams Fund

Statement Presented to
The U.S. Senate Special Committee on Aging
“Closing the Gap: Innovations to Promote Americans’ Financial Security”

June 15, 2016

Chairman Collins, Ranking Member McCaskill, and Members of the Committee, thank you very much for the invitation to appear before you today. My name is Timothy Flacke and I am the Executive Director of the Doorways to Dreams Fund, or D2D for short. D2D is a Boston-based, national non-profit that strengthens the financial opportunity and security of financially vulnerable consumers by discovering ideas, piloting solutions, and driving innovations to scale. I am here today to discuss how innovative ideas and consumer-friendly technology can come together to help Americans improve their financial lives – and become more financially secure.

The savings crisis in the United States is real and pervasive. The Corporation for Enterprise Development (CFED)'s 2016 Assets and Opportunity Scorecard found that nearly 44% of American households do not have a basic savings safety net¹. The Federal Reserve reports that in 2015 nearly half of American adults – 46% – said they could not cover an emergency expense of \$400². Savings is a fundamental building block of the American dream, an essential ingredient for homeownership, entrepreneurship, and retirement. But for many Americans, that dream is slipping further and further out of reach. For nearly three decades, the personal savings rate in the United States has been declining, most recently sitting at 5.4%. As we imagine our country's financial future, we should note that over 50% of Americans have \$10,000 or less in retirement savings³. It is time for the US to return to a culture of saving to shore up households' finances, foster widespread financial security, and equalize opportunities for all Americans.

Much of D2D's work has been focused on addressing this savings crisis. We have spent over a decade researching and exploring strategies that motivate and support people's positive financial behavior. We work with the financial services industry, government agencies, national non-profit groups, grassroots community agencies, and public policy organizations to develop solutions that truly meet consumers' needs through channels, methods, and language with which they are familiar. Our efforts have included a wide range of solutions. For example, prize-linked savings harnesses the allure of the lottery by offering consumers a chance to win cash prizes as a reward for savings behavior. We have also worked to make saving at tax time simple and impulsive, pilot testing "split refunds," which enable tax filers to direct the IRS to send a portion of their refunds directly into a savings vehicle of their choice. Further examples of our work follow below.

Challenges to increasing and improving savings behaviors

Though our innovations vary in approach and objective, each places the consumer – her needs, preferences and concerns – at the center. Through fifteen years of designing for and learning from consumers we have noted three core challenges in reaching and helping people save.

First, capturing consumers' attention in an increasingly saturated and busy world is difficult. Consumers face the stresses of their everyday lives, constant messaging around what to buy next, and outdated,

¹ http://assetsandopportunity.org/scorecard/about/main_findings/

² <http://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf>

³ <http://www.gobankingrates.com/retirement/1-3-americans-0-saved-retirement/>

and patronizing messages about what they should or should not do. Providing clear and easy-to-digest savings messaging in this context is difficult.

Second, simply providing good information does not necessarily result in consumers taking action to improve their financial situation. Similarly, describing “the right thing to do” is not a powerful enough strategy to shape behavior. In order to encourage and support positive financial behavior, awareness building and education must be paired with clear and easy opportunities to take action and save money.

Finally, many financial solutions lack distribution channels that provide broad-based access and facilitate scale. In order to reach all consumers, particularly those who are financially vulnerable and excluded from the financial mainstream, financial service providers must explore opportunities to “reach consumers where they are” through the channels that they are already using, and do so in a cost-effective way.

D2D believes strongly that financial technology, or fin-tech, can help address these challenges and truly help consumers to save, both in the short and long term. By harnessing technology, we can build solutions that are engaging, effective, and widely accessible.

Using games and technology to reach consumers

Most people are not drawn to personal finance. To “break through the noise” and make these issues exciting and attractive, D2D has developed a suite of online and mobile financial education video games called Financial Entertainment. Online and mobile casual games are played widely across the US, with nearly half of Americans playing some form of video games including 41 million players age 50 and older.⁴⁵ In addition, casual games (like *Candy Crush* or *Bejeweled*) have proven to decrease stress levels in their players.⁶ With their ability to reach a wide variety of consumers through a fun and familiar channel, games were a logical choice to engage consumers in financial topics. Our award winning games cover a variety of issues, including saving at tax time, balancing debt payments and savings, and saving for retirement. We want consumers to understand and apply important financial concepts. Rather than offer them a pamphlet or website full of text on how to effectively manage their credit card, we encourage them to play a video game – one that decreases their stress, keeps them interested, and allows them to practice the real world behaviors that will improve their lives.

The Massachusetts-based company Staples saw the value of this approach and partnered with us to create and promote a customized version of our game Bite Club to their employees. Developed with funding from the Social Security Administration, Bite Club was designed as a casual video game retirement simulator tackling the challenge of how to make the future relevant today. In this game, users play the role of a vampire running a “day club” who must begin saving for eternal retirement. (Images from this game can be found in Exhibit A.) While saving for their vampire within the game,

⁴ <http://www.pewinternet.org/2015/12/15/gaming-and-gamers/>

⁵ <http://www.aarp.org/research/topics/technology/info-2016/electronic-gaming-research-adults-50plus.html>

⁶ http://core.ecu.edu/hhp/russoniello/popcap_results.htm

employees had the opportunity to follow links to their own retirement plan provider's website to learn more and increase contributions to their 401(k) accounts. Staples promoted gameplay through fun, game-centric marketing that reflected the vampire motif. (See Exhibit B)

D2D and Staples collaborated on a number of pilot tests to reach employees outside of work hours. In one test, over 80% of employees in two districts engaged with the game. In another pilot, 11% of newly eligible employees took a positive savings action on the 401k website after being offered the game.⁷ The game proved able to engage new and often hard-to-reach employees, and resulted in positive behavior change.

We are excited to note that the large retirement provider Mass Mutual recently released its own retirement-themed education video game, *FUTUREJET*. As D2D has disseminated our ideas and learnings, the industry seems to be taking note that truly engaging consumers requires moving beyond traditional outreach methods and materials.

Using mobile technology to drive action-taking

D2D has long believed that technology can and should link consumers directly to opportunities for real-world action-taking. By using channels that are already (and increasingly) accessible and familiar to financially vulnerable consumers, like smartphones, technology can enable and support new behaviors that promote greater financial security. The smartphone opportunity is large – 64% of Americans own a smartphone, and 57% of that population use their phone to do online banking⁸. Additionally, secure API's, which facilitate data sharing between apps and websites and are becoming increasingly popular⁹, give financial tools the ability to connect to consumers' existing financial products, creating an in-app pathway to behavior change.

To seize this opportunity, D2D developed a gamified savings tool called SavingsQuest. SavingsQuest is both a web app and a mobile app that applies the fun of video games and the popularity of fitness trackers and virtual pet apps to generate motivation and offer instant gratification for saving. (Artwork for the app can be found in Exhibit C.) SavingsQuest recently won Best Prepaid Innovation for 2016 at the PYMNTS.com Innovation Project Conference at Harvard.

SavingsQuest users experience a "gamified" system helping them achieve a savings goal. The system uses components of video games, so that players can complete challenges, earn badges, and level up while getting savings tips and motivational messages along the way. As they receive this information and motivation, users can make savings deposits in-app and are instantly rewarded with congratulations from a customizable dancing pig. SavingsQuest rewards savers for saving as little as a penny, encouraging a behavior pattern. During a pilot test of SavingsQuest with prepaid cardholders, over 300 users saved more than \$300,000. On average, users saved 25% more frequently than non-users, and

⁷ http://www.d2dfund.org/files/publications/D2D_FE-Report_Pages_0.pdf

⁸ <http://www.pewinternet.org/2015/04/01/us-smartphone-use-in-2015/>

⁹ <https://letstalkpayments.com/the-engine-for-fintech-innovation-uses-apis-as-the-fuel-75-profiles/>

about a quarter of users had not engaged with the savings feature on their prepaid card before using SavingsQuest. Sarah, a SavingsQuest user, put it this way: “You save a dollar, and it tells you that you did a great job. People don’t think saving a dollar is a big deal, but when it’s hard to put money aside because everything is always coming up, it is a big deal.” These findings suggest that creative tools have a promising role to play in helping consumers build financial security.

With a tool like SavingsQuest, the real-world action of putting money away into a savings account is embedded in a system of fun, motivation, and reward that takes place virtually, right in the palm of a consumer’s hand. The technology and insights behind SavingsQuest can be applied across a wide array of product types throughout a consumer’s life, from children’s savings accounts to retirement accounts.

New technologies make it possible not only to reach consumers in new channels, but also to offer innovative solutions that engage them in positive financial behaviors to support a lifelong habit of saving for the future.

Using user-friendly technology to broaden access

Finally, D2D has explored numerous solutions that use the power of technology, particularly mobile technology, to provide better and broader access to consumers. Financial services innovators face the challenge of reaching large groups of segmented consumers. They want to provide robust user experiences without driving up costs. Utilizing mobile technology to distribute tools and financial information allows innovators to reach millions of consumers in a channel that they are familiar with and use frequently. Technology can bring personalized, intimate financial experiences right to the palm of a consumer’s hand with a huge potential for scale.

In exploring the potential of mobile distribution channels, one area of particular interest to D2D is modernization of the US Treasury’s Retail Securities Program. Products like US Savings Bonds are valuable and unique, and have helped millions of Americans get started saving and build a savings habit, especially Americans of modest means or who are small savers. With low minimum balances (\$50), no fees, complete security, unique giftability and no requirement to have a bank account, savings bonds combine features unavailable in a single product elsewhere. Despite these user friendly features, since 2012, bonds have only been sold through an antiquated online system (TreasuryDirect.gov) and through Tax Form 8888. With the tax form option at risk due to its reliance on printed paper bonds, D2D has been supporting S. 2478 to both secure the current tax-time channel and pave the way for a Savings Bond of the 21st Century. The legislation protects the current distribution channels until the Treasury Department designs a more modern solution that maintains the unique features of bonds. By investing in better technology, and potentially partnering with outside innovators, Treasury could design a user-friendly system that opens access to bonds to millions more consumers without needing to invest heavily in marketing or material.

Consistent with this legislation, D2D envisions a world where Treasury allows innovators like D2D and those in the financial services industry to develop solutions that “hook into” Treasury systems via secure Application Programming Interfaces, or APIs. This would unleash the market to develop a variety of new

mobile and desktop tools to access bonds, some integrated into existing products and tools that financially vulnerable consumers already use. Imagine a world where one can add a US Savings Bond to an Amazon birthday purchase for a grandchild by clicking a button, or make a US Savings Bond gift purchase for one's child through a PayPal account. This type of broad, diverse distribution can be a reality. These opportunities can be pursued by a growing market of financial innovators with a deep knowledge of their consumers. By creating secure APIs and engaging in public-private partnerships, Treasury can open the door for the creation of new distribution channels to meet the unique needs of all Americans. Innovators, in turn, can focus on user-friendly designs and target their tools and solutions to specific consumer segments.

Conclusion

D2D envisions a world where the financial system promotes lasting social and economic prosperity for every family. We are deeply committed to developing innovative ways to help vulnerable Americans build savings and financial security. Technology is a critical part of this effort, and we applaud members of the committee for recognizing this approach as you seek ways to help Americans improve their financial futures.

Appendix

Exhibit A

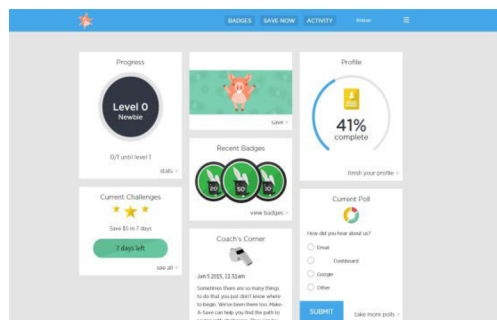
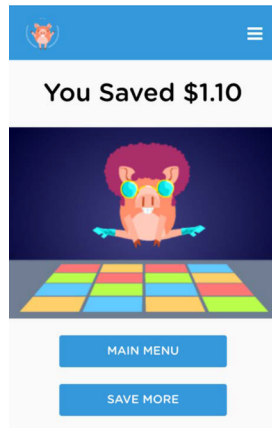
Bite Club Game Images

Exhibit B

Bite Club Marketing Material



Exhibit C
SavingsQuest Artwork



Testimony of Aron Szapiro
Associate Director of Policy Research, Morningstar
Hearing, “Innovations in the Retirement and Financial Security Sectors”
Before the United States Senate Special Committee on Aging
Washington, D.C.
Wednesday, June 15, 2016

Chairman Collins, Ranking Member McCaskill, and Members of the Committee:

Thank you very much for inviting me here today to discuss how technological innovations can help improve retirement security. As part of Morningstar’s mission to help ordinary investors, we offer products that provide automated guidance to help American workers make the most of their finances. We have learned much about the power of technology to improve people’s retirement security from these products. In particular, I will draw on some of the lessons we have learned in developing our HelloWallet and Retirement Manager applications.

The Need for Holistic Financial Guidance to Improve Retirement Security

To best use their retirement workplace benefits, employees often must make complex financial decisions in the context of other obligations and goals. In many cases, workers do not have sufficient tools to make these choices; luckily, new technology can play a vital role in helping them make the most of their benefits.

A few decades ago, most workers did not need such financial technology. Employers (who provided retirement benefits) offered defined benefit plans, which required workers to make very few decisions, except perhaps to elect the form of their survival and spousal benefits. In the old defined benefit system, employees did not have to decide how much to contribute to their retirement plan, how to invest their contributions, or how to convert their savings into lifetime income at retirement.

Today, most workers are in defined contribution plans, and they now carry responsibility and risk for key decisions regarding contribution levels, asset allocation, and withdrawal strategies. (An estimated half of workers face even more complicated decisions because they lack access to a workplace retirement plan.)

Technology can help employees manage these responsibilities in ways that weren't possible even a few years ago. By providing different options for retirement savings and later spending during retirement, technology can help workers better understand the trade-offs they face. Technology also offers a low-cost solution to help workers make smart asset-allocation decisions.

How Technology Can Help

Financial technology offers three key strengths for conveying critical information about retirement plans and improving employees' retirement security.

- *Technology offers immediate feedback to help people plan for retirement. As* Americans grow increasingly comfortable with smartphones, tablets, and of course, computers, they are more and more accustomed to managing their finances online. The immediate feedback from financial technology is thus more useful today than ever before. For example, by using electronic retirement planning tools, as workers adjust their retirement contributions they can see instantly how these changes

translate into an increase (or decrease) in likely future retirement income. They then can immediately modify their retirement deferrals to meet their goals, with the click of a button. This feedback is targeted to the individual, as it can be personalized for a person's age, goals, and income. Technology even makes it possible to run very sophisticated retirement simulations, which test the robustness of a user's plan under a variety of market conditions accounting for complex taxation rules, in only a few seconds.

- *Technology allows for rapid behavioral testing so researchers can learn which approaches encourage more saving.* Due to the low cost of providing cloud-based software applications, it is now easier than ever to run experiments to see which approaches to presenting retirement information resonate, and which ones do not. By using this technology, our behavioral researchers have repeatedly found that seemingly minor details in the decision-making environment can halve—or double—actual follow-through rates. For example, we tested several calls to action to encourage our users to review their retirement plans. We learned that a simple, “Are you saving enough for retirement?” encouraged the most people to click on a link for retirement guidance and then adjust their contribution elections.
- *Technology can aggregate a user's accounts to provide a comprehensive, holistic picture of their finances.* Looking at an employee's 401(k) balance in isolation will likely result in a false assessment of their retirement-readiness. For example, a

worker with a high level of retirement savings may appear to be on track for a secure retirement—but if she lacks sufficient emergency savings, she may well end up using these retirement assets to cope with an unexpected expense. Workers with other pressing financial goals—such as sending a child to college or purchasing a home—may be very tempted to spend their retirement assets on nonretirement purposes. Indeed, this “leakage” may drain as much as one fourth of assets from retirement accounts. New technology makes it inexpensive to aggregate accounts, and new applications can compute the numbers to provide users with holistic guidance, which helps them prepare for emergencies and other expenses, preserving their retirement savings for their intended purpose—retirement.

Another complication is that retirement assets are often spread across many different accounts, such as individual retirement accounts or a previous employer’s 401(k). This fragmentation means it is critical to look across all of a worker’s accounts to gain the fullest picture of their retirement savings, in order to recommend the right asset-allocation strategy and appropriate contribution levels. Technology provides a low-cost way to aggregate data that helps workers with multiple accounts form a good plan for achieving success in retirement.

Conclusion

Of course, when helping workers reach their retirement goals, technology is one part of the solution. Hybrid approaches, where software helps people understand their options and stay on track, may well be augmented with human advisors for more-complex problems. However, new technology has an important role to play. I would be happy to share some of the results we have seen with our financial technology products, and I have included some highlights in my written statement.

Thank you again for the opportunity to testify here today, and I look forward to any questions.

Appendix I: Key Results from HelloWallet and Retirement Manager

Through evaluating our HelloWallet and Retirement Manager products, we have seen encouraging results. With our HelloWallet application, we have seen our users increase their retirement savings deferrals by 11 percent within three months of beginning to use the application and 12 percent within one year. These increases will help more workers prepare adequately for retirement. Under our Retirement Manager application, we have seen 87 percent of users have increased their retirement deferrals by an average of 28 percent, once Retirement Manager recommended they do so.

Exhibit I: Example of Translating Regular Contributions Into Income at Different Retirement Ages

To better explain how HelloWallet gives immediate, personalized feedback to users and translates changes in retirement contributions into changes in retirement income, please see Figures 1 and 2. As illustrated in Figure 1, HelloWallet projects an after-tax retirement income (including with Social Security) of \$3,120 for a 41-year-old man with savings of \$98,000 who contributes 2 percent of his salary and gets a modest employer match. As shown, this strategy falls below his goal of replacing 90 percent of his current take-home income.

Figure 1: HelloWallet Screen Shot of Projected Monthly Retirement Income with 2 Percent Contribution and Age 65 Retirement

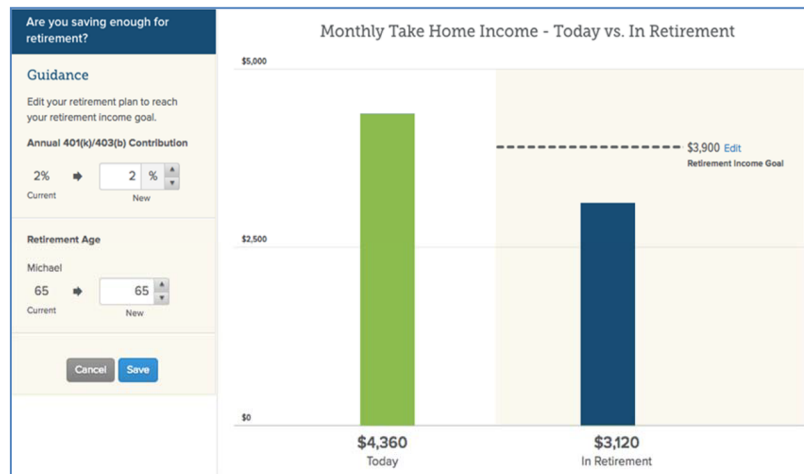


Figure 2 shows that once he increases his contribution to 6 percent (and takes better advantage of his match) and delays his retirement age to 67, he is able to fully meet his goal. This kind of immediate feedback helps workers understand the effect of their choices as they save for retirement.

Figure 2: HelloWallet Screen Shot of Projected Monthly Retirement Income with 6 Percent Contribution and Age 67 Retirement

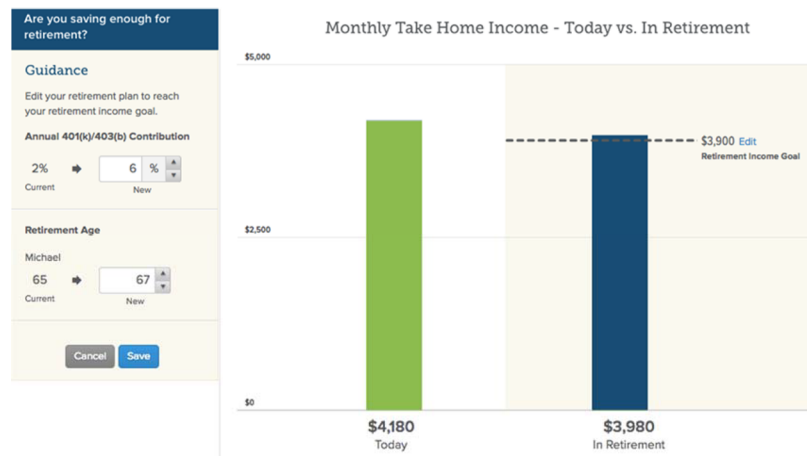


Exhibit II: The Importance of Account Aggregation and Holistic Guidance

As Figures 3 and 4 show, an employee's retirement may look well-funded in isolation, but may actually be at risk because the worker lacks sufficient emergency savings. In these cases, it is very possible that the worker's retirement money could end up being used for nonretirement purposes. Figure 3 shows HelloWallet's Retirement Score for a user who, at first glance, appears to be on track for his retirement goal based on his current retirement savings and contribution levels. However, as shown in Figure 4, he has inadequate emergency savings and risks breaching his retirement account to pay for his other spending or to cope with his inadequate emergency savings.

Figure 3: HelloWallet Screen Shot of Retirement Readiness Rating for On-Track Retiree

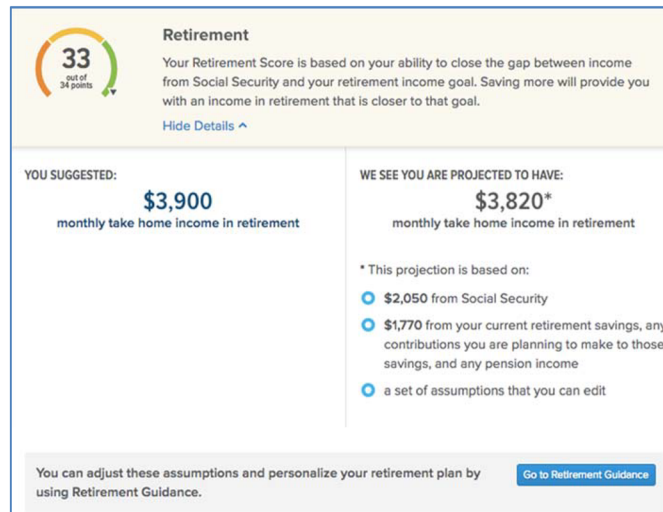
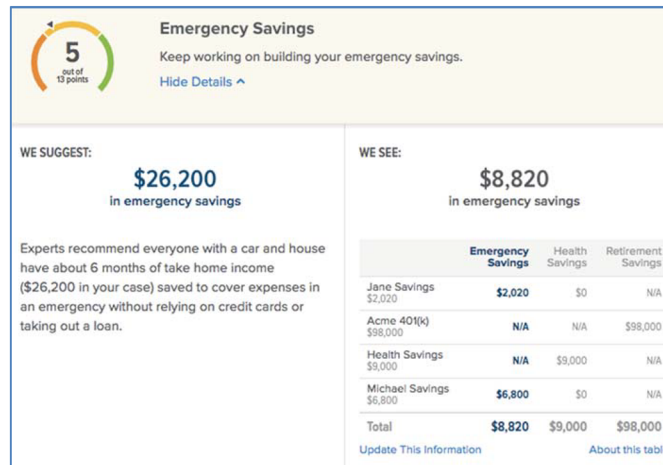


Figure 4: HelloWallet Screen Shot of Retirement Emergency Savings Rating for Same Worker



Brian K. Plum
President and Chief Executive Officer, Blue Ridge Bank

Testimony for the United States Senate Special Committee on Aging
Closing the Gap: Innovations to Promote Americans' Financial Security
June 15, 2016

Good afternoon Chairman Collins, Ranking Member McCaskill, and distinguished members of the United States Senate Special Committee on Aging. It is a tremendous honor and privilege to provide my thoughts and perspectives to this committee, and it is my hope that something in my testimony offers meaningful insight into what we can do to address a severe and critical issue in our nation.

My name is Brian Plum, and I am President and Chief Executive Officer of Blue Ridge Bank headquartered in Luray, VA. Blue Ridge Bank was organized in 1893, and has been proudly serving its communities for 123 years. We are a small community bank, and we take seriously our charge and responsibility of improving the lives of everyone in the communities we serve. Our bank does well when our communities do well, and we believe we can play a meaningful role in producing desirable financial outcomes.

In that spirit, we were the first bank in the nation to launch a prize-linked savings account. These accounts were authorized at the federal level by The American Savings Promotion Act, signed into law by the President in December 2014. Since we are a Virginia-chartered bank we also had to wait until the Commonwealth of Virginia took action, and we launched our product on July 1, 2015, the first date legally permissible for us to do so.

The name we adopted for the account is "Jackpot Savings" and it consists of offering monthly prizes and a larger annual grand prize. Each month we randomly select four winners; one \$200 winner and four \$50 winners. In 2015 we offered a \$5,000 grand prize and in 2016 the grand prize is \$10,000. Each increase of \$25 in an account generates a prize entry, so the more any one person deposits into his or her account the more likely he or she is to win.

It is important to note that these customers really give up nothing. We offer the same rate on the product as a traditional savings account, so we are not subsidizing the prize costs by reducing the interest rate. Virginia Code requires prize-linked accounts to offer similar rates to other savings accounts, whereas my understanding is that not all states do. The prize funds are part of our marketing budget, and that is a key point as it illustrates the real goal of this account is to make winners of everyone in the long run by increasing savings, and not reward some customers by reducing payments to others in the form of lower rates. The only real tradeoff is that since this account is meant to strongly encourage savings we do have tighter rules for withdrawals. We limit customers to one penalty-free withdrawal per month, and each additional withdrawal incurs a penalty. This penalty is not meant to be punitive, but to discourage withdrawals unless they are absolutely necessary.

While being the first bank in the country did create media exposure not usually given to a bank our size, there is the obvious hindrance of product awareness. Blue Ridge Bank lacks a multimillion dollar advertising budget that would be useful when on the front line of product innovation, and as a result the growth of Jackpot Savings took time to gain steam. The growth

and interest level seem to have accelerated in recent months, and we anticipate eclipsing the \$1,000,000 mark in account balances in the coming quarter. Currently, about one-third of these accounts have less than \$100 and two-thirds have less than \$1,000.

The stories of people being motivated to open a Jackpot Savings account are wide and varied; recent high school graduates, parents with young children, people approaching retirement, and even people that have already retired. In fact, our 2015 grand prize winner was a retiree living on fixed income, so Jackpot Savings turned out to not just be a tool for retirement, but also one during retirement.

One of my favorite stories is of a customer who was motivated to open a savings account after reading about the product. She wanted to set money aside to pay for a vacation she has been planning for a long time instead of utilizing credit. Not only has she made significant progress toward her goal, but she was also one of our monthly prize winners.

While we are pleased with the progress we have made on the account, we would love to see more people participate. I am sure you all are familiar with the research on lottery savings products and understand its effectiveness among low-income savers, so I, and everyone at Blue Ridge Bank, know that as this account class grows people's lives are improving. This is a quintessential case of us being able to do good while doing well.

Jackpot Savings also created another opportunity to expand our efforts in this area. We are partnering with Long Game, a technology company startup focused on improving financial literacy and increasing personal savings through gamification. This partnership provides a tremendous tool to fundamentally improve the lives of consumers, and I suspect we are only at the very beginning of that trend. However, to fully capitalize on the potential we need to ensure that regulatory treatments offer accommodation and practicality to encourage financial literacy innovation while preserving a focus on safety and soundness of the banking system. Community banks like Blue Ridge Bank can be a nimble and able partner for so many looking to offer financial literacy solutions.

I commend this committee for looking at this issue. The Associated Press-NORC Center for Public Affairs Research released a survey just a few weeks ago showing two-thirds of Americans lack \$1,000 in savings to cover emergency expenses. This is appalling, and none of us should be willing to accept that so few people have any meaningful savings. We should be particularly motivated to work together as we think about the implications of deficient savings for an aging demographic in a society where defined-benefit plans become rarer each day. A crisis in emergency savings today is an unimaginable retirement savings problem tomorrow.

Blue Ridge Bank and I stand ready and willing to commit more time, energy, and insight for this committee and staff to make progress on this critically important topic.

Thank you so much for this opportunity.