

**FINANCIAL SECURITY IN RETIREMENT:
INNOVATIONS AND BEST
PRACTICES TO PROMOTE SAVINGS**

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FINANCIAL SECURITY IN RETIREMENT: INNOVATIONS AND BEST PRACTICES TO PROMOTE SAVINGS

WEDNESDAY, FEBRUARY 6, 2019

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

The Committee met, pursuant to notice, at 9:30 a.m., in Room 562, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, McSally, Hawley, Braun, Rick Scott, Casey, Blumenthal, Jones, Sinema, and Rosen.

OPENING STATEMENT OF SENATOR SUSAN M. COLLINS, CHAIRMAN

The CHAIRMAN. The Committee will come to order.

Good morning. Ten thousand Americans are turning 65 every day. It used to be that this was the traditional age of retirement, but today, as this Committee has examined in previous hearings, many older Americans continue to work well past the age of 65. Some of those who are healthy enough want to continue working because of the personal satisfaction it brings. Others, however, continue to work because they simply have no choice. They cannot afford to retire.

The Center for Retirement Research estimates that there is a \$7.8 trillion gap between what Americans have saved for retirement and what they will actually need. As Americans live longer, the risk that they will outlive their savings only increases.

Perhaps most startling are studies that show just how little Americans have in savings. According to the AARP, the typical working household in the State of Maine has just \$3,000 saved for retirement. In fact, one out of two Americans has less than \$1,000 in savings. For those living paycheck to paycheck, it can be difficult to cover the heating bill or afford much-needed medications, much less save for the future. For many, saving for retirement seems out of the question.

I am also particularly concerned about the impact of those who take time out from the workforce to care for others on their retirement security. We know that time spent caring for loved ones can have implications for lifetime earnings and retirement savings.

We are on the verge of a national crisis. We did not get here overnight. Over the past several decades, employment patterns in America have changed, creating new opportunities in some ways,

and in other ways challenging the notion of retirement as our parents and our grandparents knew it. Three emerging retirement trends, in particular, warrant our attention.

First, traditional pensions outside of the public sector are rare these days as employers have shifted away from employer-based “defined benefit” plans to “defined contribution” plans, such as 401(k)’s. This means that individuals are becoming increasingly responsible for their own retirement planning and are assuming more of the risk.

Second, Americans who look to employer-sponsored plans are finding that many companies simply do not offer this option. In Maine, about 46 percent of all private sector employees work for an employer that does not offer a retirement plan.

Third, it is increasingly clear that Social Security should not be the only source of retirement income that retirees count on to sustain their current standard of living. Nationwide, the Social Security Administration notes that among its beneficiaries, 48 percent of married couples and 69 percent of unmarried individuals receive half of their income for retirement, or more, from Social Security. Many seniors in my State rely almost solely on Social Security to cover their monthly expenses in retirement, despite the fact that the average annual benefit is just under \$16,000 a year.

Today we will examine the State of our Nation’s retirement system. The Government Accountability Office has done extensive work studying this issue, including issuing this very comprehensive report, which has been updated for our hearing, and I very much appreciate the Comptroller General’s personal interest in addressing the challenges that make it difficult for far too many Americans to have a comfortable retirement by adequately saving for the future.

At the Federal level, we must continue to look for ways to help employers who wish to do so to start their own retirement plans for their employees. The Small Business Administration estimates that about 60 million Americans work for small businesses. To help make it easier and less expensive for these employers to establish retirement plans, as well as to encourage individuals to save more of their own hard-earned money, Senator Hassan and I have introduced the Retirement Security Act, and to provide greater flexibility and access to both employees and their employers seeking to use the popular SIMPLE plans as an option for saving for retirement, I have also introduced a second bill, the SIMPLE Plan Modernization Act, with my colleague Senator Mark Warner of Virginia.

We know that when full-time employees have access to retirement plans, on average 85 percent will contribute. Clearly, increasing access to employer-sponsored plans is a vital part of ensuring retirement security.

This is a significant public policy problem that requires bipartisan solutions. The longer that we ignore the looming retirement crisis, the worse that it will become. After spending decades in the workforce, seniors should be confident that they will have the money needed to pay their bills and enjoy their retirement, without the fear that they will fall into poverty during their golden years. I look forward to our discussion today with the excellent panel that

we have assembled, and I am now delighted to turn to our Ranking Member, Senator Casey, for his opening statement.

**OPENING STATEMENT OF SENATOR
ROBERT P. CASEY, JR., RANKING MEMBER**

Senator CASEY. Thank you, Chairman Collins, for holding this hearing today on this critically important subject.

Having financial security in retirement is a goal for each and every family in America. All of us hope that when we reach old age, we will be able to enjoy retirement on our own terms, but the reality is that millions of American families are approaching retirement with almost nothing saved, and despite working hard their whole lives, too many seniors are finding themselves barely able to make ends meet.

According to the GAO, roughly one in four households ages 65 to 74 have zero—zero—retirement savings of any kind, and many others have managed to save only a fraction of what they will need. Some are living in fear of seeing significant cuts to a pension they have planned their lives around. The truth is that our retirement system does well for some, but it allows millions of Americans to fall through the cracks.

As we will hear today, this is particularly true when it comes to women, who on average have lower retirement incomes and are more likely to live in poverty when in old age, and it is true for people who lack access to savings options at work and those who did earn retirement benefits at work but now live in danger of seeing them cut.

Our Nation deserves better, more secure retirement options. We can start by strengthening the backbone of our Nation's retirement system, Social Security itself. We must ensure that Social Security is able to keep the promise—the promise—of financial security in retirement. We must not let Americans relying upon Social Security slide into poverty.

That is why today I am introducing a bill to boost Social Security benefits for women who are the most likely to end up in poverty. Widows and widows with disabilities are significantly more likely to live in poverty in old age than are other Social Security recipients. The bill is the Surviving Widow Income Fair Treatment Act, which would eliminate arbitrary claiming rules and caps that substantially reduce a widow's benefits. I am pleased that a number of my colleagues have joined in introducing this bill, two members of this committee, in fact, Senators Blumenthal and Gillibrand.

In addition to strengthening Social Security, we must ensure that promises to workers relying upon pensions are kept. Workers across the country, including tens of thousands in my home State of Pennsylvania, fear the pensions they have earned will be dramatically cut through no fault of their own. Congress must act immediately to keep multiemployer pensions solvent.

Finally, we must work to ensure that our retirement savings system works for all Americans. We must work to expand access to workplace retirement plans, and we must make tax incentives for retirement savings, like the Saver's Credit, useful to the families who actually need it the most.

We must approach these problems in a comprehensive fashion that ensures that all workers can participate and that all workers receive the benefits they have earned.

I would also like to quickly note that for today's hearing, we are pleased to be represented at the witness table by so many with Pennsylvania roots. Linda Stone is from Bryn Mawr, Pennsylvania, and does a lot of her work obviously in Pennsylvania. The Comptroller General is here who has roots in Pennsylvania and who graduated from Lycoming College. John Scott has two degrees from Pennsylvania schools, and we are happy about that, both Penn State and, I have here—Penn State and Swarthmore. Yes, those are the two, and before the hearing is over, probably someone else will stand up and claim Pennsylvania roots.

Chairman Collins, I will try not to dwell on that, but we are grateful for the time you set aside for this hearing on this critical issue. Thanks very much.

The CHAIRMAN. Senator Casey, I will say that you did manage to one-up me on the number of witnesses with ties to your State, but I would point out that I was Chairman of the Committee with responsibility for confirming the Comptroller General, so but for me—

Senator CASEY. I think you got me.

The CHAIRMAN. I do want to welcome a new member of our Committee, Senator Scott from Florida. Obviously, Florida is the State with the oldest percentage of seniors. Maine is the oldest State by median age, and Pennsylvania is not far behind, so all three of us have a deep commitment to the issue of improving retirement security, which is one of the four major focuses of our Committee.

Let me now turn to our witnesses, and, again, welcome, Senator Scott, for being a member of the Senate Aging Committee.

First, I am very pleased to welcome the much sought and fought over this morning Comptroller General of the United States, Gene Dodaro. Mr. Dodaro's career at the GAO spans more than 40 years. His testimony today is based on extensive work the GAO has done to examine the State of the Nation's retirement system, but I also know that this is a personal passion for him and that he has been sounding the alarm for many years, so we welcome you and look forward to your testimony.

Next we will hear from John Scott, the retirement savings project director at The Pew Charitable Trusts. Mr. Scott conducts original research to unlock barriers to retirement savings. He also develops policy initiatives that could lead to increased retirement savings and other strategies to encourage Americans to save more.

We will then turn to our next witness who happens to be from the great State of Maine, Denis St. Peter. Mr. St. Peter is the president and CEO of CES, an engineering firm in Brewer, Maine. CES employs around 100 people and was recently the recipient of this year's Bangor Regional Chamber of Commerce Business of the Year Award. He will describe the challenges of establishing effective retirement plans for small businesses and the benefits of such plans to employees.

I will now turn to our Ranking Member, Senator Casey, to introduce our final witness.

Senator CASEY. Thank you, Chairman Collins. I am pleased to introduce Linda Stone from Bryn Mawr, Pennsylvania, Montgomery County. Linda Stone is currently a volunteer fellow with the Women's Institute for Secure Retirement. She is an actuary, 26 years' experience advising companies on their retirement plans, a graduate of St. Joe's University. She travels across Pennsylvania to educate people on the challenges that women face in preparing for retirement. In fact, she spent her career working in retirement security. She will tell us about what can be done to help more Americans gain economic security in retirement.

Linda, we are grateful you are here. Thanks for traveling to Washington, and we are looking forward to your testimony.

The CHAIRMAN. Thank you very much.

I also want to welcome another new member to our Committee, Senator Jacky Rosen from Nevada. We are delighted to have you joining our Committee as well. Thank you.

Comptroller General, the floor is yours.

**STATEMENT OF HON. GENE L. DODARO, COMPTROLLER
GENERAL OF THE UNITED STATES, WASHINGTON, D.C.**

Mr. DODARO. Thank you very much. Chairman Collins, it is a pleasure to be here, Ranking Member Senator Casey, Senator Rosen. I greatly appreciate the opportunity to talk about GAO's work on this important subject.

The current retirement system is not well prepared to meet the 21st century needs of our country. All three pillars of the system—Government programs, employer-based solutions, individuals savings on their own—are under a lot of stress and face a number of challenges going forward.

In the Government domain, the Social Security Old-Age and Survivors Trust Fund will have enough to pay 77 percent of scheduled benefits by 2034, and it faces serious and substantial long-term solvency problems.

The multiemployer portion of the Pension Benefit Guaranty Corporation is expected at 90 percent certainty to be insolvent by 2025.

The Medicare Hospital Trust Fund by 2026 will only have enough funds to pay 91 cents on the dollar of scheduled Medicare benefits.

When you turn to the employer side, one-third of all working populations have no access to employer-based plans, so they are very limited, and you pointed this out in your opening comments very appropriately, and the shift, as Chairman Collins explained, to defined contribution plans from defined benefit plans has a number of implications.

On the positive side, it more fits the mobility of the workforce today because the benefits are portable. A number of people are using it to meaningfully save for retirement, particularly high-income workers.

On the other side, low-income workers tend to have much smaller balances in their accounts, and, importantly, as you point out, Chairman Collins, it shifted the responsibility to individuals to make many more complicated financial decisions on their own, in many cases without a lot of support in order to do so. It raises the risk for individuals.

Now, the third pillar has always been individuals saving on their own in addition to these vehicles by the Government and the employers, but there we see many challenges. Some people are doing very well, but many are not, and they are facing head winds of relatively low real wage growth, high household debt payments, and rising costs for out-of-pocket health care costs, which continue to rise faster than the economy, so they are struggling as well.

The bottom line in this case is that it has been over 40 years since the Congress commissioned a comprehensive commission to look holistically at the retirement system in the United States.

Many actions have been taken incrementally over the years—the establishment of the Social Security system in 1935, the ERISA law in 1974, and there have been a lot of incremental changes since then, but the demographics of the country have changed dramatically. We are aging as a population. We have low fertility rates, increased longevity—which is a good thing, but it is causing people to live a lot longer and, therefore, the financial models particularly for Social Security and some of the PBGC programs, are not well suited to meet these current needs and are really in imminent danger of not fulfilling the promise, Senator Casey, as you mentioned, that our country has made.

I would urge the Congress to act on GAO's recommendation, which would be to establish a comprehensive commission to look at all these things interrelated and not just look at Social Security alone or employer-based systems or individuals' efforts, but to look comprehensively at this, given the changing dynamics of our country and the changing nature of work in the United States, and unless the Congress acts soon, I am afraid many Americans will not face a safe and secure retirement, and also the fiscal pressures will mount on the Federal Government at a time when the Federal Government is already on a long-term, unsustainable fiscal path.

These are very weighty policy issues, both public policy and fiscal policy, and I really commend the Committee for focusing in on these issues and taking this very seriously. Whatever we could do at GAO to help, we will continue to do so.

I would be happy to answer questions at the appropriate time.

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

Mr. Scott.

**STATEMENT OF JOHN SCOTT,
RETIREMENT SAVINGS PROJECT DIRECTOR,
THE PEW CHARITABLE TRUSTS, WASHINGTON, D.C.**

Mr. JOHN SCOTT. Thank you, Madam Chairwoman and Ranking Member Casey, for the opportunity to testify on the importance of financial security in retirement. The Pew Charitable Trusts is an independent, nonpartisan, nonprofit organization that applies a rigorous analytical approach to improve public policy.

While workplace retirement plans are the primary vehicle for ensuring financial security in old age, as was noted, one-third of private sector workers still lack access to a retirement plan. Inadequate savings are not just bad for workers' retirement security, but also impose costs for Federal and State governments as well as on the larger economy.

A 2016 study by the University of Maine, for example, found that Maine's retirement age population is projected to increase 30 per-

cent by 2032. The associated costs of social services could grow to \$362 million by 2032, with the State's share growing to \$61 million, which would be double what the State covered in 2016.

A similar Pennsylvania study determined that net costs to the Commonwealth due to insufficient retirement savings are projected to grow to \$1.1 billion by 2030.

To understand the barriers to savings, our research focused on small businesses and their employees. Certain categories of workers at small firms have inadequate retirement coverage. For example, part-timers are almost half as likely as full-time workers to have access to retirement benefits, and Hispanic, black, and Asian workers have much lower access rates than whites, but given the importance of plan sponsorship, I want to focus my remarks on small employers.

Pew surveyed over 1,600 small business owners, both plan sponsors and those that did not sponsor a plan. We found that employers offered various reasons for providing retirement benefits. Nearly half cited a desire to help employees save for retirement as the main reason. Nearly a third said attracting and retaining workers was the reason they offered a retirement plan.

We also found that firm financial stability is strongly associated with plan sponsorship. For example, employers with increasing earnings are much more likely to offer a plan than if earnings were flat. Businesses then tend to adopt plans during a middle phase in their development after initial startup and during a period of expansion and growth.

We also asked about plan features that can improve workers' financial security, like employer contributions and automatic enrollment. Nearly all surveyed employers with retirement savings plans made employer contributions, but two-thirds of small business plan sponsors did not automatically enroll their workers. When asked why not, executives said either they were satisfied with their current set-up or they perceived employees would not like to be automatically enrolled.

We also surveyed employers that did not sponsor retirement plans, and we first asked why they did not offer one. Thirty-seven percent of employers cited startup costs as too expensive; another 22 percent cited a lack of internal administrative capacity to run a retirement plan. Unfamiliarity with retirement plan options may also be a barrier. For example, only 11 percent of survey respondents were very familiar with a SIMPLE IRA plan, which is designed for small businesses.

When businesses without a plan were asked what would motivate them to begin one, clear majorities cited increased business profits and increased tax credits for startup costs.

There are many promising ideas to address these and other challenges. Let me note that Pew does not endorse or oppose any particular legislative initiative. However, legislation such as introduced by Senator Collins and your colleagues emphasized critical areas such as automatic enrollment, multiple employer plans, or MEPs, improving SIMPLE IRA plans, and increasing tax credits for startup costs.

Initiatives that reduce plans' startup costs and improving awareness of SIMPLE plans and other plan options could be useful in en-

couraging new plan formation, and our research found that small businesses reacted very positively to the idea of MEPs, although it is not clear if they would actually join MEPs if they were made more widely available.

Auto-enrollment also could boost participation. For example, in the State of Oregon, where they are using auto-enrollment to cover workers who do not have a plan at their jobs, 70 percent of workers are participating and saving at a rate of just over 5 percent of pay, but as you know, more work needs to be done, and in that regard I want to commend the GAO for their 2017 report and for their call for a comprehensive examination of the retirement system.

Thank you again for the opportunity to testify.

The CHAIRMAN. Thank you very much, Mr. Scott, for all that great data. I appreciate it.

Mr. St. Peter.

**STATEMENT OF DENIS ST. PETER, PRESIDENT AND
CHIEF EXECUTIVE OFFICER, CES, INC., BREWER, MAINE**

Mr. ST. PETER. Chair Collins, Ranking Member Casey, thank you very much for inviting me here today to discuss our company approach to promoting retirement savings for our employees. My name is Denis St. Peter, and I am licensed professional engineer in the great State of Maine. I am also the president and CEO of our company, but I am not a finance expert, so more an engineering degree.

I have some additional information about our company in my written testimony, but for the sake of time, I am skipping through it. It includes our mission, vision, value statements, which I think are key to the approach that we took to improve our retirement plan. If you take the time to read through that, you will see that we do focus on and care about our employees, we care about our clients, and we care about the communities that we live and work in.

About 10 years ago, we went through an ownership and leadership transition in our company. That gave us an opportunity to re-evaluate our business approaches, one of which was our retirement plan. At the time we had a 401(k) plan with a profit-sharing component, but we did not have a match at the time, so there were really four key things that led us to change that.

The first one, the lack of matching, was really perceived by our key employees as a missing component to our benefit plan, so for us to retain top talent and recruit good people, we felt we needed to add that, and again, it was consistent with our mission, vision, values.

The second item was that, in general, we knew that our CES employees were underfunding their retirement. We had a participation rate at about 62 percent and an average employee contribution around 3.9 percent of base salary.

The third item was really my history. As the first job I had out of college, I worked for the Federal Government, and I had 5-percent match opportunity, and I remembered how that really made me think about saving for retirement at that point. I am not sure I would have saved if I did not have the match.

The fourth criteria really was the top-heavy testing that was required in our plan, and we were close to exceeding that 60-percent limit.

We set a course on improving our plan. Our goal was to get to the 4-percent match. We increased it 1 percent a year to get to that 4 percent. That was in the 2011 to 2014 timeframe. We also implemented several other best practices. We started an investment committee, including an investment adviser to participate in that committee. We fully utilized our third-party administrator. We also established our benefits committee and lots and lots of education and communication with our employees.

I have got four slides that show the results of our progress, the first one being participation rate. As I mentioned before, we were around 62 percent. We are up close to 90 percent. Our goal is 100 percent. We are getting there.

The next slide is average contribution as a percentage of base salary. We were averaging just under 4 percent, and now we are up to close to 14 percent.

The next slide is our 401(k) plan asset value. In 2010, we were at \$2.45 million. We are now at \$7.27 million. That includes a sizable distribution from one of our founding partners, so probably about closer to \$8 million.

Then the last slide is the top-heavy testing results. As I mentioned earlier, we were close to the 60-percent limit, at 59.8, and we have shown some pretty good results from our matching program and other best practices. We are down to 48.7 percent.

I would be willing to answer any questions later.

The CHAIRMAN. Thank you very much, Mr. St. Peter.
Ms. Stone.

**STATEMENT OF LINDA K. STONE,
FELLOW VOLUNTEER, WOMEN'S INSTITUTE FOR A
SECURE RETIREMENT (WISER), BRYN MAWR, PENNSYLVANIA**

Ms. STONE. Good morning, Chairman Collins, Ranking Member Casey, and distinguished members of the Committee. I appreciate the opportunity to appear before you today to discuss financial security in retirement, including the significant and unique retirement risks that many women face.

I am here today in my capacity as a volunteer Fellow with the Women's Institute for a Secure Retirement (WISER). WISER is a nonprofit organization that works to help women, educators, and policymakers understand the important issues surrounding women's retirement income. Through my work with WISER and the National Resource Center on Women and Retirement Planning, in cooperation with the Administration on Aging, I have presented workshops to diverse groups of women across the country and have heard directly about their experiences.

One reason that I am so passionate about this issue is the experience of my own mother. She was a "Rosie the Riveter" who worked in the shipyards in Chester, Pennsylvania, during World War II. After her divorce from my father, she was able to support our family while working as a machinist and later as a nursing home aide. She did not know to try to get a spousal benefit from my father's workplace retirement plan or to see if there were

spousal Social Security benefits that would be larger than her own. There is more that can be done to help women like my mother have a secure retirement.

First, I would like to address a question that WISER often receives: Why focus on women? Quite simply, there are 5.7 million more women than men at age 65, and 67 percent of the over-age-85 population are female. Many women over age 85 end up near-poor or in poverty even if they have never been poor before. Women face greater longevity risk than men due to their longer lives and the resulting need for more income. At age 65, women can expect to live an average of 21-plus years, 3 years Mr. St. Peter than men. One out of every two women in their mid-50's today will live until age 90.

Having more income during retirement starts with your earnings during your working years and your access to employer-sponsored savings and pension plans. Generally, no matter how you slice and dice it, women earn less than men throughout their lifetimes. Caregiving responsibilities for children, parents, as well as spouses cause women to spend years out of the job market or to work part-time without access to benefits. Social Security reports that, on average, women have 9 years with zero earnings. The zero earnings are compounded in the calculation of their Social Security benefit.

This all results in women having less in savings and employer-sponsored retirement benefits as most employer plans require full-time status to be able to participate and base benefits on pay, and many women who work have no access to employer-sponsored plans.

A long life increases the risk that inflation will negatively impact the ability to live on a limited income and increases the chance that women will outlive their assets. Women are more likely to need long-term care in these later years as they are less likely to have a family caregiver. Among women more than 85 years old, 87 percent are not married.

The bottom line is that women accumulate less money than men during their working years and have to make it last longer.

Women often have a planning horizon that is much too short. As a result, they underestimate their need for savings to support the many years they will be in retirement and the need to start saving as early as possible.

Women nearing retirement who do have savings have the burden of not only determining how to invest the money before retirement but also how to appropriately spend down their savings so that the assets last for their lifetime. As they change jobs, many do not appreciate how not cashing out balances, no matter how small, can make a big difference in the amount of money that is available at retirement.

The reality of today's retirement landscape for many is do-it-yourself, and do it right, or live at or below the edge of poverty. The nature of today's system of individual responsibility demands financial capability. Women are in the difficult position of making big decisions while being unable to afford even a small mistake. Divorce, widowhood, and needing to leave the workplace earlier than expected can derail even the best planners.

We need to strengthen existing programs wherever possible. That means focusing on Social Security and Medicare, expanding access to employer-sponsored retirement programs, and supporting and expanding individual savings initiatives.

In conclusion, thank you for including a focus on women's retirement issues today. We know from the women who have contacted WISER and attended our workshops that they want to take better control of their retirement. We need to make sure every woman is getting support they need through education and access to carefully crafted programs that will make a difference in their ability to have a secure retirement.

The CHAIRMAN. Thank you very much, Ms. Stone.

Comptroller General, I want to start with you, and I want to start with a very basic question. First, however, let me acknowledge that we have been joined by three more of our colleagues: Senator McSally, Senator Braun, and Senator Jones. You will find that members will be coming in and out throughout the hearing, as Mr. Dodaro is well aware of, but it may come as a surprise to others as Senators are trying to balance complicated schedules.

Comptroller General, I want to start with a very basic question, and that is, what are the biggest impediments that employees face in saving enough for retirement?

Mr. DODARO. There are a number of factors. I mentioned some earlier that I think are very important. One is that there is relatively low real wage growth, and many of the people in the country are earning about the same as they were in 1970 in real purchasing power, so that is number one.

Number two is the accumulation of debt, but also I would say rising health care costs. Health care costs continue to rise faster than the economy, so the out-of-pocket costs are really important, and this is a factor in planning for retirement because you have more health care costs when you are in retirement and through the rest of your life. There are also features of the individual plans. In a defined contribution plan, those plans that do not have automatic enrollment reduce participation. We find that if there is automatic enrollment and even in some cases an auto-escalation clause as employees earn more, that helps save.

You also have fees in those programs that are problematic in defined contribution plans, and in the defined benefit plans, there you have portability issues. If you change jobs frequently, there are the vesting requirements that are a problem in both kinds of plans, both defined contribution and defined benefit, and people do not understand that. Sometimes when they change jobs, they roll over or do not roll over their retirement accounts appropriately, so there are a lot of complicated factors.

There is a set of basic economic factors that are important impediments, and then there are features of these plans that also can be impediments as well.

The CHAIRMAN. Thank you.

Mr. St. Peter, Ms. Stone mentioned people taking money out of their retirement plans when they change jobs and using it for non-retirement purposes, and I think when people are in their 20's and 30's, retirement seems so far away that oftentimes bad decisions are made, and I will confess to the worst financial decision that I

ever made, which was when I left the Hill as a staffer with almost 12 years of retirement contributions, I withdrew all the money to buy a car instead of getting a car loan, and that was the worst financial decision I have ever made in my entire life, but I swear if just one person had said to me when I filed to withdraw the money, "Do you really want to do this? You are already vested, and the implications are enormous, and there is nothing wrong with getting a car loan." I was just thinking, "Oh, I cannot take on debt." And it was truly such a bad decision.

I think a really important part of what your company does, Mr. St. Peter, is helping to improve people's understanding, your workers' understanding of financial decisions. Could you explain a little bit what you do?

Mr. ST. PETER. Sure. It is a double-edged sword, I think, the borrowing component of our 401(k) plans. I think it helps attract participation because they know it is not locked forever, but we do see the urge to borrow from the plan, and the benefit that we have as an employer is that we have an H.R. director who is kind of the first line that can counsel our employees that want to borrow from it, educate them that way. If she feels like she needs more expert advice, we have our investment adviser that willingly gives his time to communicate with an employee and help educate them of the negative consequences, and then the third line is our direct supervisors.

We do have plenty of opportunities, and we just need to remind ourselves as a company to continue to take those opportunities to communicate with them.

The CHAIRMAN. Your participation rate of nearly 90 percent is really impressive and shows the effort that you have made.

Senator Casey?

Senator CASEY. Thank you, Chairman Collins.

I will start with Linda Stone. Ms. Stone, I wanted to start with part of your written testimony where you talked about the complexity of Social Security claiming rules, and that might be among the biggest understatements that we can utter.

Ms. STONE. Yes.

Senator CASEY. These issues get very, very little attention, and they warrant a spotlight, and I am grateful you are helping us with that today.

The bill I talked about earlier would ensure that recently widowed individuals receive better information on the benefits available to them and how their claiming decisions, these complex rules and the decisions that flow from them, can permanently affect their retirement income.

Based upon your experience talking with women in Pennsylvania saving for retirement, do you think there is a greater need for both more education and more guidance when it comes to these decisions?

Ms. STONE. Yes, I think both, Senator Casey. Social Security claiming strategies can be very complicated, as you said, and a lot of women do not even quite understand that 65 is not their Social Security full retirement age anymore. For some of them it is 67, and what does that mean if they take their benefit at 62? Because it is available at 62. That is quite a big reduction that lasts for

somebody's whole entire life, and there does not seem to be as much knowledge about that as there could be.

We get a lot of questions from women who are divorced, and one of the biggest “aha” moments that happens in some of our workshops is when we mention that if you have been married for 10 years, you are eligible to collect on your ex-spouse's Social Security benefit, and so questions around surviving spouse benefits are also something that comes up quite often. You know, how are you eligible and how do you coordinate that if you also have a worker benefit? And you are likely aware that last year there was a report by the Social Security Office of the Inspector General that showed widows are not getting all of their options explained to them when they claim their benefit, and this has cost women hundreds of millions of dollars, because the rules are just incredibly complicated, and women need more education and, you know, factual advice on the implications of their decisions when they are in the process of making that decision that is going to impact their benefit for the rest of their life.

Senator CASEY. I guess part of this, of course, is what—in the case where it is a husband and a wife, and the wife survives, the husband passes away, sometimes the problem is what decision the husband made that then binds or limits what happens with the surviving spouse, the widow. Can you just walk through that circumstance?

Ms. STONE. Yes. One of the things we talk about is that couples should figure out as a couple their claiming strategy, each of them, and then each of them as a couple, and obviously, they have different income levels, different life expectancies, and because the survivor benefit, you know, depends on the kind of highest benefit that the couple has, if the person making the most money—and for this we will say that is the husband—you know, can delay receipt of their benefit, that will leave more of a survivor benefit for their widow, but maybe they just want to collect it early, and they do not think as a couple we will be better off in the long run if you postpone getting your benefit so it does not get the early reduction or even increases it 8 percent a year if you wait past your full retirement age. That is a pretty good return to push that benefit back, and that means, you know, I will have as your widow a bigger survivor benefit, so let us think about what make sense for the family as we think about this, not just, you know, each of us as individuals, and that is something that, again, needs to be more education around a family discussion on that.

Senator CASEY. I know I have limited time, and I will try to do some followup, but, Comptroller General Dodaro, I wanted to ask you about the circumstance that you outline urging us to take action. If Congress does not take action, do you think it is likely that many current and future retirees in these multiemployer pension plans will see their benefits cut?

Mr. DODARO. Definitely. I mentioned it is 90 percent certain that PGBC's multiemployer insurance program will be insolvent by 2025. It goes up to 99 percent by 2026. If that happens, the amount of benefits that plan participants would receive will be even lower than what they are now. The single employer insurance program has a higher benefit. If you work 30 years, you can get about

\$13,000, but if they go insolvent, they could get less than \$2,000 a year, so that is not much of a retirement benefit, so they would definitely be hurt, so for the multiemployer portion, it is very urgent that Congress take action. I was pleased in the last Congress that a special committee was set up in order to address that, but they did not produce a final report, and I have been urging Congress on this for years. We have had the multiemployer program on our High-Risk List across the Government since 2009. We have had the single-employer program on it since 2003. That program is doing a little better now, but even the single-employer plan has reasonable expectations of losses of about \$175 billion, according to recent PBGC estimates, so both components of PBGC's programs are facing financial uncertainty, but for right now, the most urgent program is the multiemployer program, and Congress needs to act, or these people are not going to have any meaningful benefit at all.

Senator CASEY. Thank you.

The CHAIRMAN. Thank you.

Senator McSally?

Senator MCSALLY. Thank you, Madam Chair. Thanks for having this important hearing today and for all the testimony.

When I was over in the House, I started a working group on Women in the Workforce in the 21st Century, trying to identify what are the real issues that women are facing in the workforce and how we can close the pay gap on education and just choices that are happening in people's lives, and especially for women. As you mentioned, Ms. Stone, women are more likely to be caregivers for their children and their parents, and we had some testimony related to exactly what you are talking about today, and this is hearing is highlighting that it is not just impacting them through their whole lives, but as they are living longer, they have less income, less retirement, more likely to be in poverty, so I really appreciate all the work that you are doing to address this issue.

You know, it seems like we are in situation where those who are retiring now, those women, the Baby Boomers, they have less earnings throughout their whole life, less savings, less retirement, less Social Security. Yet my generation—which is, what, Gen X?—we are the ones that are more likely to be then caring for them, so we are coming behind them with the very same dynamics happening. Women are wanting more flexibility. Women are wanting to be able to move in and out of the workforce. We are seeing this with our generation, which then is going to perpetuate the challenges that you mentioned as our generation moves into retirement.

You mentioned in your testimony as some solutions, study ways to offer retirement protections to women with significant time spent as caregivers, including possibility of a provision for Social Security credits and credits for out-of-pocket expenses that may be preventing women from saving. Can you talk a little bit more about what you are proposing there and what that would look like?

Ms. STONE. Well, I am not making any specific recommendations. I think there are a number of recommendations or thoughts around how to reflect caregiving in Social Security, and I think that is good that the conversation is happening. I think one of the things that we try to do at WISER is have women understand, before they make the decision to leave the workplace to care for someone, the

actual kind of opportunity cost of that, that they are not only giving up their pay, they are giving up, you know, maybe their employer-provided benefits, other benefits that they may have, and are they going to be able to get back in the workplace?

Some of what we are trying to do is have people understand there may be other options that could be used to not give up your own financial security necessarily as your first reaction is, "I have to quit my job to go take care of Mom."

I think what we are trying to do is educate women, and I think to have kind of a policy decision about the facts, which is women do spend a lot of time out of the workplace, I think it is just good that that conversation is happening.

Senator MCSALLY. Great. Thanks. I want to followup with you maybe afterwards about any other specific ideas policy-wise, you know, related to what we are talking about.

Also in Arizona, 54 percent of women are family caregivers right now, and we have a growing aging population in Arizona, so this is something that is very real, and trying to keep individuals in their homes and allow a better quality of life in their older years, these financial barriers are very real for so many of the people that I represent.

I wanted to also ask about, you know, just the additional education we can have related to when someone becomes a widow or they are trying to make decisions with their own Social Security benefits. This is really complicated, as you said, and it is not—as is explained to you, I just went through this with someone close to me who lost her husband. It was like Mandarin Chinese; trying to understand what her options were and whether her own income and where the offset was and what month she might be able to get a benefit, it was really confusing.

What can we do to make sure that it is simplified in the way, you know, individuals understand their options when they are looking at what their Social Security benefits are as a survivor or as someone who is continuing to work.

Ms. STONE. Yes, I agree with you that is very complicated and more needs to be done, and I think it gets to how is the communication happening. You know, there used to be Social Security benefit statements mailed to people on an annual basis. That does not happen anymore, because then people could at least start getting used to like looking at their earnings: "Oh, I see zeroes there. What does that mean?" And, "What is my benefit?" And even to feel like when you call, you know, Social Security workers are doing their best, but it is very complicated, and to try to just get this explained to you over the phone, I do not know how anybody could really make decisions without really seeing something and, you know, can we have communications be done in a way that people can more easily read and understand them? Because some information is out there, and it is just making sure people know where to get that information and maybe having it, you know, kind of pushed to them versus having people out on the Internet trying to find some of this information themselves.

Senator MCSALLY. Great. Thank you. I am out of time. I appreciate it.

The CHAIRMAN. Thank you.

Senator Jones?

Senator JONES. Thank you, Chairman Collins. I appreciate it, and thank you all for coming today.

Just to pick up a little bit on what Senator McSally said, with regard to women, obviously, you know, the President talked last night about the women in the workforce now. More and more women entering the workforce will hopefully narrow that savings gap a little bit down the road, but at the same time, 50 years or more after the passage of the Equal Pay Act, 10 years after the passage of the Lilly Ledbetter Fair—Equal Pay for Equal Work Act, we still have a disparity between the income of men and the income of women. Recently, a number of Senators and Members of Congress reintroduced the Paycheck Fairness Act, which has been introduced now 12 times since 1997, to try to help narrow that gap.

I would assume that if we can also work as Members of Congress to narrow that pay gap, do what we can to make sure that women get the same pay as men, that is going to reap benefits down the road for women in retirement. Is that correct, Ms. Stone?

Ms. STONE. Yes, because as I mentioned, many employer plans are based on somebody's earnings, and so higher earnings means a higher benefit, and also, if you are making more money, you certainly have more of an ability to put more money away in savings and get that employer match if they are offering that match.

Senator JONES. It is not just for now. It is for the future when we are trying to do this, so thank you very much.

I also want to—you know, I really appreciate the hearing, Madam Chairman, because I am witnessing an issue with my parents. My Dad worked at U.S. Steel and then had another job. He had a retirement U.S. Steel. He had Social Security, about as much as he could make for his generation. He is 87. My Mom worked sporadically, did not do a whole lot, but they planned. They thought they had a very good plan. They were putting money aside. They took some money from an investment and paid off their mortgage. What they did not anticipate, though, was Dad's Alzheimer's and having to go in extended care. They are both 87 years old now, and their savings is dwindling rapidly because of that.

What can we do for people that are just the young people—I agree. Impulsively, I bought a similar car, but I bet mine is sharper than yours is, so I can relate. What can we do not just for the young folks of today, though, but for those folks that are 45, 50 years old that are also making these decisions, what can we do to educate so that they can understand that we are living longer and that we have got to make sure that we plan for that old age that may not be a healthy old age, that they are not just going to live to a point where they all of a sudden get sick and die and leave everything to their spouse or their families? What can we do to help those folks right now, educate them about the need for putting money back as much as they can, and looking at their monthly income, not just their bottom line: "Oh, I have got half a million dollars." You know, that is awesome, but where is that going to be and how long might that take to—I will leave that to the panel. Any suggestions on that?

Ms. STONE. Well, I will just start with one comment because you mentioned especially with everyone being in savings plans now,

people do not know how much to save and how much is going to be enough, because in the world of Social Security, you get a fixed amount a month. If I am saving something, how do I know how much money it is really going to take at 65 to be able to support the rest of my life? And if I have that lump sum, how do I know how much to spend each year? And you are right that there is definitely not enough planning around long-term care. People somehow still think that that is taken care of by Medicare.

I think truly what is happening is, generationally, people who had to deal with their parents get a real wake-up education fast, and you hope they change their own behaviors going forward, because they are learning through their parents and their friends' parents what the story is and how much money this really takes.

I think more education and information to people who are in savings plans about how that lump sum actually translates into a monthly income can have people either feel good that they are saving enough or maybe realize, "Oh, that is not very much. I better start putting some more money away," and try to incent some savings behaviors.

Senator JONES. Right. Anybody?

Mr. DODARO. I think financial literacy is a real issue in this country, regardless of age. Recent surveys from the Federal Reserve shows on five basic questions about financial matters, people get three out of the five wrong, if not more, and so this is a real issue, and many people, four out of ten people, cannot even cover a \$400 emergency now, and so I think on financial literacy, the Government has a role here to help empower people.

The federal government tries to do that through Social Security agents, IRS agents, and others, but people do not have enough of a resource, and so I think education has to go a long way, but the other thing I would say, is that we have called for a commission to look comprehensively at retirement security in the United States. One of the fundamental precepts that I think needs to be done is Congress needs to simplify the system. It is way too complicated, and continuing to make incremental changes make it even more complicated, so unless you both educate and bring up financial literacy and better simplify the system, I do not think there is going to be enough headway made in time to help people.

Senator JONES. Great. Well, thank you very much. Real quick. I am out of time. Mr. Scott, do you want to say something real quick?

Mr. JOHN SCOTT. Well, I would just say that, in line with the comment about a reexamination of the whole system, I think that would help elevate the issue and help understand that, you know, your private retirement savings can affect your Social Security benefits, so you could use part of your private retirement savings for a year, delay claiming of Social Security, and increase your benefits by 7 or 8 percent, so I think that sort of comprehensive conversation would be really useful to a lot of folks, and, just briefly, we have a lot of new technology coming online, robo-advisers and artificial intelligence, that could help simplify and get the message out there to help people through these complicated decisions.

Senator JONES. Great. Thank you.

Thank you, Madam Chairman.

The CHAIRMAN. Thank you.

Senator Braun?

Senator BRAUN. Thank you, Chairman.

I am going to give you an idea what I think besets the whole system, and then I have got a couple questions at the tail end of it. To me, largely what pales the fact that people are not preparing for their future is the underlying ethic of savings. You know, I come from an area where it is kind of inherently frugal, a German, Catholic community and you were taught early on, even out of your wages you made mowing grass or something, stick some in the cookie jar or save it. I have had a business for 37 years and have been all about the idea of trying to make life better for my employees through all the tools we have, so I want to come back to a question later about the historic—the evidence on how that has changed in terms of how people view savings versus consumption.

The tools we have got to address this would be Government, and I look at a statistic here that one-third of the budget was being spent on seniors through health care and Social Security in 2005. That is going to be 40 percent in 2029. We are running trillion-dollar deficits. We have got a balance sheet that looks terrible. You know, I come from a finance background. We are probably in the poorest position ever as a Federal Government to take on big issues like shoring up Medicare and Social Security, let alone things like infrastructure.

I am thinking that one thing that occurred recently was tax reform, and for any of us that have had businesses—and I preached this on the campaign trail and have done it here—I think it is incumbent upon employers to make sure you not only expose savings opportunities to your employees, but you actually raise 401(k) benefits, invest—if you are a successful business and you are paying taxes, invest in your employees, because I think the reference was made that real wages have not been doing well. I think we are seeing some of that because we are unleashing part of the economy that I think can be unleashed, but we have got many years to go before that really sinks in.

I am challenging folks that I think have businesses that are in the real economy out there to wake up, especially if you are successful, invest more in your employees. I do not feel confident in looking to Government in its current form of not living within its means as being a solution—not to say that we should not try to improve there.

I want to circle back to the ethic of savings. I was looking through the notes. I was not here for most of the testimony. How much of what we suffer from now where people do not seem to be prepared for the future, knowing that Social Security has got a lot working against it actuarially and demographically, what can you tell me—and this is addressed to anyone that would have a special insight into it. What has happened since World War II in terms of savings and the fact that we obviously are a consumer society—I do not think there were credit cards around back then. How much of it is related to that versus the fact that, you know, we now see that it is not working through Government programs and businesses maybe need to do a little more? Anybody that would want to jump in, please.

Mr. DODARO. I have a chart in my prepared testimony that shows the national savings rate and how it has declined over a period of time, and it hit a low around the Great Recession most recently. It is back up to 6.8 percent, but is nowhere near historic levels, so there is a national savings issue that needs to be dealt with, but which has a lot of ramifications for capital formation and other things beyond retirement.

Senator BRAUN. What was it historically, just out of curiosity?

Mr. DODARO. I think it was around 13 to 15 percent in the early 1970s, and now it is about half that.

Senator BRAUN. Isn't that the plug-in variable?

Mr. DODARO. It is part of the issue. I do not think it is totally the issue, but I think it is part of the issue. I think another part of the other issue, though, that has to be part of the discussion is health care costs. Health care costs are eating up into a lot of people's ability to save at all levels. As long as health care costs continue to rise faster than the economy, which they have, that is going to impede any progress for people to try to make accumulate savings.

Another part of the issue is that because of our economic model, a lot of time has been spent encouraging people to spend. Consumer spending is one of the main drivers of our economy, so there is this tension between encouraging people to spend to promote economic growth and encourage them to save and deal with rising health care costs, so it is complicated, but the savings issue is part of the equation.

Senator BRAUN. I am glad you mentioned health care costs. Another thing we did 9 to 10 years ago in our own business is the health care industry, specifically health insurance companies, totally dysfunctional. There is a really, I think, strong opportunity there to start growing costs out, because I think between health care costs and somehow figuring out how to get people to save more, look more to the future, would be the two things outside of Government that might make the most sense.

Thank you.

The CHAIRMAN. Thank you.

Senator Sinema?

Senator SINEMA. Well, thank you, Chairman Collins and Ranking Member Casey, and thank you to all of our witnesses.

You know, 10,000 Baby Boomers reach retirement age every single day, and many are unprepared for the financial challenges they face. An increasingly common challenge is how to balance retirement needs with caregiving obligations.

Recently, a 2018 report from the Center for Retirement Research found that more than 10 percent of adults ages 60 and over provide some type of care to their own elderly parents, and that is what happened to Norma, who is an Arizona educator who took early retirement at age 61 to first care for her father and then later for her mother, and it also happened to Larry, who is an Arizonan with a successful career in marketing. He became his mother's caregiver and found his bills piling up. In his 70's, he had to take on part-time, low-wage work just to make ends meet.

We know that preparing for retirement is challenging enough for many Americans, and those challenges are exacerbated when retir-

ees also care for their aging family members. While this is often a choice that is made out of love, it can impact employment and even Social Security benefits if the caregiver must spend years working outside of the working.

My question today is for Ms. Linda Stone with the Women's Institute for a Secure Retirement. Your testimony mentioned that retirement protections for caregivers within the Social Security system exist, and I previously supported legislation to provide tax credits to caregivers, but designing a caregiver retirement benefit would be more complicated, so how can we shift the conversation around caregiving from talking about it as a familial obligation to instead recognizing it as work, especially in the context of lost wages and the impact that it has on lifetime earnings? And how can we design an earned benefit to ensure that it reaches workers like Norma and Larry who have made these choices to care for their family members?

Ms. STONE. I appreciate your questions and your raising situations that we hear about a lot at WISER and, you know, women having to make these choices, as you said, and the ramifications of that. You know, I think from a policy perspective, that is not WISER's expertise, so I will leave that to all the actuaries and other policy experts around Social Security. I will only say that, you know, knowing the facts that people do have to spend this many years working but not working within work for the Social Security system is something that, you know, I would agree needs attention and evaluation for how to address that because it definitely impacts the ability of large groups of people to be able to have a good Social Security benefit as well as to continue working to be able to save and get retirement benefits.

Senator SINEMA. My own aunt took early retirement in order to have more time to care for my grandmother, who suffers from Alzheimer's, and while she still works part-time outside of the home, she now is facing a smaller long-term Social Security benefit because of the choice she was forced to make in order to care for my own grandmother.

The stories that I hear from Norma, Larry, and, indeed, in my own family continue to build and show the pressure that Arizonans are facing in the sandwich generation, caring for both younger family members and older family members.

What kind of conversations are happening within the private nonprofit community as well as in Government structures to help realistically make adjustments for family members who are making these very difficult decisions to reduce their unemployment to care for family members?

Ms. STONE. Really, I am sorry. I really cannot speak to that.

Senator SINEMA. Are there other members of the panel who might be able to address the issues of how to construct a benefit that would allow individuals who have taken time off of paid work to care for family members to retain the relevance of their work in Social Security?

Mr. JOHN SCOTT. I would just say that, you know, at Pew a different project other than mine is looking into caregiving issues, and we would be happy to followup with any information we can provide.

Mr. DODARO. At the request of Chairman Collins, we are doing work for this Committee now looking at this very issue of people providing caregiving and what the implications are for work. When we have completed our work, we plan to have some suggestions in that report associated with that.

Also, I think more conversation needs to be had. We have called for a national commission to be chartered by the Congress to look holistically at retirement security in the United States. The current system is not well prepared to meet 21st century needs, and that would be part of that conversation, too, so that it could be looked at holistically. I think we need to address it more comprehensively, but that issue would definitely be part of the conversation.

Senator SINEMA. Thank you.

Mr. Chairman, I yield back.

The CHAIRMAN. Thank you.

Senator Hawley?

Senator HAWLEY. Thank you very much, Madam Chair, and thanks to all of you for being here today to help us understand this very important issue.

I also want to talk about the costs of caregiving, but I want to ask some questions about caregiving for children and how that affects families' abilities to save and plan for the future, but first, let me just pick up on Senator Sinema's questions, which I thought were very good and whose concerns I share.

Ms. Stone, in your prepared testimony, you talk about the possibility of a provision for Social Security credits for those who take significant time, women in particular who spend significant time as caregivers. Would you like to say more about that? I think that is a very—I think Senator Sinema was asking about this. That is an important proposal.

Ms. STONE. Yes. Well, as I mentioned, I am not getting detailed into the policy. WISER and myself was making this statement only in that the fact exists, here is what happens with women who are taking time out of the workplace to care for children or older parents and how can the system address that fact without going into any policy details. That is not my area of specialty.

Senator HAWLEY. Just to pick up on that, it seems to me that when we think about care for children, this is a significant reason, we know from the data, that women in particular choose to, as you say in your prepared testimony, Ms. Stone, that women choose to opt for more flexible workforce options. They are often still the primary caregiver for children, and that, of course, has significant implications for savings, and the cost of raising children has significant implications for savings.

I want to ask—I will start with you, Ms. Stone, but direct this to the panel. Are there steps that can be taken that we should be considering to bring down the costs of raising children that would allow for greater savings for families in prime earning years when they perhaps have one spouse who has reduced his or her workload or is staying home completely to care for children and, therefore, their income is down for that reason, and just the costs of raising children which continues to grow? Are there proposals that you think we ought to be looking at to bring down those costs that

would allow families to save? Ms. Stone, we will start with you and just go down the line.

Ms. STONE. Yes, I am really not aware of anything.

Mr. ST. PETER. I can just speak from an employer, and we try to provide as much flexibility to our employees to take care of children or elders. We have parameters that we have to—with our 401(k) we have parameters of eligibility, and if there is—and I do not know exactly what those are, but if those could stay within the 401(k) and still be eligible, that may be a minor step in the process, but I think just in general, trying to be a good employer and provide them as much flexibility as we can.

Mr. JOHN SCOTT. Well, as a father, I can certainly appreciate the question, and I would just repeat that I do not really have any specifics to offer today, but this is an issue of importance to Pew. It is something that we are studying, paid and unpaid care for both children and older parents and close ones, so it is something we would be happy to followup at a later time when we have some more data.

Mr. DODARO. Our current work for this Committee is focused on caregiving for parents and spouses, not on children at that point, so I would be happy to take a look at that in the future, but one of the big issues from a Government standpoint, most of the assistance has been provided in the form of tax credits, and also the whole issue about education. I think the student loan issue not only a parent but a grandparent of seven now, I am trying to help my grandchildren prepare for college, and that is a huge cost, so there are costs of raising children, and there are big costs, and those big costs come later on.

Of course, you have the Medicaid program that allows children—you have the CHIP programs for health care costs, which are a big component of costs of raising your children if you confront a health issue.

The Federal Government has a lot of issues, but I commissioned a special study on was all the programs to help children. I am very concerned, as I am with retirement security, with the number of children in poverty. The federal government does not have a coordinated, comprehensive, governmentwide focus on children generally. You are bringing up one aspect of that issue in terms of caregiving and the implications for the parents, but we have one in five children in poverty in this country. In fact, there are more children probably in poverty now than the elderly people, and so this issue needs a lot broad examination.

Senator HAWLEY. Thank you for that. I would just say I am very concerned about the number of children in poverty, and as it bears on the subject of today's hearing, it seems to me that the costs of raising children both in child care and early years, the cost of lost income from a spouse or spouses who have to stay home or balance the workload that way, and also the costs of education is a very significant—I know from people in my State whom I have talked to, for families in my State, the rising costs of raising children and educating them and their health care and their child care is a significant barrier to savings that we then see manifest later in life when they find they have not been able from their private savings

or from participation in the workforce to be able to do what they would like to do.

At the same time, of course, we know that the reduced number of children, the reduced birth rate, has follow-on effects generations later in terms of the number of people we have in the workforce who are then able to support those who are retired and to support our important programs like Social Security and Medicare, so there is a bit of a Catch-22 here that I think we are coming to a reckoning with as our society ages, as the number of children born to us declines, and as the cost of raising children goes up, so these are issues that I would like to see us continue to address.

Thank you all for the important work you are doing, and thank you, Madam Chair.

The CHAIRMAN. Thank you.

Senator Blumenthal?

Senator BLUMENTHAL. Thanks. Thank you, Senator Collins.

I want to come back to Social Security, one of the key pillars of any retirement financially, and roughly half of seniors rely on Social Security for 50 percent of their income. One in five rely on it for 90 percent. Women are even more dependent on it generally than men, and many are living in poverty, but the news is not great looking to the future. As you say in your report, by—and I am going to read it to get it right, “current projections indicate that by 2034, the Old-Age and Survivors trust fund for Social Security’s retirement program . . . will only be sufficient to pay 77 percent of scheduled benefits . . .” That is a really startling statistic, and it is not sort of, well, if everything goes right or wrong. That is the reality, and for the first time, in 2005 Social Security is paying out more than it is taking in.

We are talking about all kinds of issues here that involve education and awareness and savings, but one of those key pillars very much within our direct control is Social Security, so the question is: What do we do?

I have introduced legislation—it is called “Social Security 2100”—along with Chris Van Hollen, my colleague here; John Larson in the House. We have really developed a complex and I think sophisticated approach that, in effect, increases the benefits that are going to be received to keep pace with the cost of living, not to reduce it. Far from it, to increase the benefits, but at the same time make it financially solvent through a series of changes in the tax structure and raising taxes, in effect, for people who earn more than \$400,000—I am not going to ask for a show of hands here, but my guess is a very small number in this room and generally in the American public make more than that amount—and really to update the Social Security system.

I would like to hear from the panel—after that somewhat long-winded introduction but incomplete because there is a lot more to say about Social Security—what you think about the importance of this kind of reform.

Mr. DODARO. I think it is essential to reform the Social Security system. I mentioned that the Social Security Old Age and Survivors Trust Fund will have only enough to pay 77 percent by 2034, but just to give you an idea of the magnitude of the issue, the net present value, the difference between expected expenditures for So-

cial Security and revenues coming in over the next 75 years is \$16.1 trillion, expenses over revenues, so you would have to make up that amount of money. Another way of looking at it, you would have to increase payroll taxes by 2.84 percent to cover that gap.

There are obvious policy decisions. There are benefits versus revenues, but you have a very significant issue here, and then if you think about in the Medicare program net present value of the projected deficit over the next 75 years is \$38 trillion, so if you look at Social Security and Medicare combined, the program is facing a \$54 trillion deficit in funding for those programs based on their current arrangements over the next 75 years. This is a huge cost, and there are alternative estimates for Medicare, if health care costs go higher, that number could go even higher over that period of time.

This is one of the factors driving the overall deficit situation in the Federal Government. Right now, as of Monday, the national debt stood at \$21.9 trillion, and the interest costs on that debt are rising and by 2028 it is projected to be over \$900 billion a year just paying interest on the debt, so there is a very serious long-term fiscal problem, and Social Security and Medicare are a central part that need to be dealt with in order to deal with this situation.

Senator BLUMENTHAL. Well, I would just point out, because my time has expired, put aside the Federal deficit, I am deeply alarmed about it. A number of us have raised important objections to the so-called tax reform to deficit spending in the budget because of it, but Social Security is a trust fund, and we have an obligation to make it solvent, and the costs of living, apart from the cost of medicine alone—and maybe we can do more to bring down the cost of pharmaceutical drugs and other costs of health care, but the cost of living we know is going to rise, and right now a lot of seniors will not be able to rely on Social Security to stay out of poverty, and I think that is something very much within our control. We need to address it now.

Mr. DODARO. I agree.

Senator BLUMENTHAL. Thank you.

The CHAIRMAN. Thank you.

Mr. Dodaro, I want to followup on a Social Security question also. Increasing the minimum Social Security benefit may be one option that Congress should examine to protect low-income beneficiaries who have little else to live on. I was surprised, as I started looking into this concept, to learn that the Social Security Administration's distribution analysis showed that raising the minimum benefits could also raise the benefits of many who are not actually low-income because they may, for example, be married to a high-earning spouse.

Do you have any thoughts preliminarily on what could be done to ensure that any increase in the minimum benefit, which I am inclined to think is a good idea, is targeted to just low-income beneficiaries and that it does not have this impact that we see in the analysis that SSA has done?

Mr. DODARO. I would be happy to take a more detailed look at that and give you some more detailed suggestions, but preliminarily, in our look at this issue, one of the key issues, I think, would be to try to understand from Social Security how many peo-

ple actually receive the minimum benefit. It has been a number of years since we looked at that issue, but the last time I think it was 2013. There were very few people who were at the minimum benefit. Most people with a spousal benefit, assuming your spouse did the right thing and you had that option, have a much higher benefit than the minimum amount.

I think the first thing to do is where should the minimum be if you want to adjust the minimum to make a meaningful difference. Then once you do that, the analysis that we have looked at quickly for Social Security shows that there are some high-income earners who would benefit from this, particularly those that have investment income, and so the difference would be to try to focus on earnings versus total income as a means of trying to keep it more targeted to the lower-income people, but we can study this a little bit further and give you some suggestions in that area, but those are two things I would suggest.

The CHAIRMAN. Thank you. That is very helpful, and I appreciate your offer to do some additional work for us in that area.

Mr. Scott, you discussed the challenges facing workers without employer-sponsored plans, and, understandably, it tends to be smaller businesses that are less likely to offer these plans.

What does your research show would prompt smaller employers to offer retirement plans?

Mr. JOHN SCOTT. That is a really, really good question and an important question, because we do know that the coverage is very low among small employers. I think the focus we have seen from our research is on the high cost of starting a plan, the sort of lack of internal administrative capacity or bandwidth to operate a plan. These are business owners who are, you know, doing more than one thing with their companies, and I think also just the lack of awareness of plan options. As I said in my testimony, only 11 percent are very familiar with SIMPLE plans and other options that are specifically designed for small business. Many are not aware of the existing tax credit for startup costs.

I think there are a number of things in terms of just raising awareness and helping them—you know, giving them the tools to start plans. You know, in our conversations in focus groups of small business owners, they want to do the right thing. They want to help their employees save for retirement. They told us that repeatedly, but I think they really just need—you know, so the motivation is there. I think they really just need the tools and awareness of what is available to them that works for their business.

The CHAIRMAN. Thank you.

Mr. St. Peter, you have illustrated how in just 10 years your company really transformed its retirement savings options for your workers, and it is a remarkable success story for a business that has only about 100 employees. That, by the way, in Maine is a pretty good-sized business, but from your perspective on the ground, how can we encourage other small employers to take the same kind of steps you did to offer matching contributions, which seems to have been the key in the transformation of your plan, and take other steps to offer retirement savings programs?

Mr. ST. PETER. Yes, I agree with you. I think our matching component of the best practices that we implemented was the reason

we were so successful. Any incentives that you can provide to businesses, tax-wise or other, education—I think education and outreach is really important, so I am not sure what the best instrument is there, but utilizing local Chambers of Commerce or other organizations that are in place.

I really like what I heard about the multiple-employer plans and removing the nexus requirement, I think that would go a long way. Within our engineering consulting industry, we have at least one association we could use for a multiple-employer plan, but if you remove that nexus requirement, you get someone like a Chamber of Commerce or other entities that are already in place to form some of these multiple-employer plans, I think that would go a long way.

The CHAIRMAN. Thank you very much.

And, Ms. Stone, your testimony was excellent. I deferred to Senator Casey to lead the questioning on you, but I do appreciate your testimony as well.

Ms. STONE. Thank you.

The CHAIRMAN. Senator Casey.

Senator CASEY. Thank you, Chairman Collins. I will actually ask a similar question or along a similar line about access to retirement plans that work.

Ms. Stone, we know that is a problem, obviously, for part-time workers as one category; small employers, as Mr. St. Peter was talking about, and the ways he and his company have confronted this challenge. Workers in low-wage industries might be another example.

Can you speak more to how difficult it can be for workers with no access or very limited access to workplace retirement plans to save and how we can bring more workers into workplace plans, how that could help?

Ms. STONE. Well, I think, as you mentioned, it is very difficult for somebody who does not have access to a workplace plan to try to figure this out for themselves, even if they want to save. You know, what is an IRA? How do you do that? Can I trust that person? How do I pick the investments? There is something about the structure of a workplace plan that gives people more assurance as well as providing the means and, frankly, the discipline to do ongoing savings.

We know from some of the work that WISER has done with child caregivers in Appalachia, so very, very low-income women, that if you give an incentive to save and put something in place, they want to save. You know, women want to save, and so I think it is getting to the access to a plan. There is, what, 30 percent—we heard some numbers today—of private sector employees who have no access to a workplace retirement plan, so if something could be put in place that they would have access and also perhaps to reflect the fact that many women are working part-time and that cuts them out of participating in a plan that has a thousand-hour requirement, can we do something to change those participation requirements so women who are working perhaps consistently on a part-time basis can have access to a workplace plan and be able to save?

Senator CASEY. The last question was about more of a demographic focus. I think it is still the case that the fastest-growing population is 85 and up overall, and in your testimony you talked about that there are 5.7 million more women than men at age 65, but you also said 67 percent of the over-85 population are women, so basically two-thirds of everybody over 85 is, in fact, a woman.

I have introduced legislation the last Congress—actually, Senator Wyden and Senator Brown and I introduced a bill that would strengthen Social Security benefits for the oldest among us and for those receiving particularly low benefits. Walk through, if you can, both the risks and the challenges that face retirees, especially those who live to that advanced age.

Ms. STONE. Well, as I had mentioned, when you are over 85, most of those—the majority of those folks are women. Many of them at that point are alone and living alone. They are not married at that point, and so they have spent time caregiving for their spouses, oftentimes using up the assets, the savings that they did have, and so when it comes time for their time, you know, it is less likely that there is a family person to take care of them, so they have to pay for assistance, and we also heard mention today, you know, of the cost of long-term care and what that can do to somebody's financial security when you have a shock like that that is unexpected, and so it is this group that is most likely to end up in poverty, and what was telling to me was they end up in poverty even though they have not been poor or near-poor in their life. It is just the circumstance of the longevity and no one expecting to live that long and not being able to plan to live that long, having very low Social Security benefits, and, frankly, at that point little or no assets to draw upon.

Senator CASEY. Thank you.

Thank you, Madam Chair.

The CHAIRMAN. Thank you.

Senator Braun?

Senator BRAUN. Thank you, Madam Chair.

Senator Blumenthal mentioned Social Security. I think that is so important because it is a structural thing that most people end up depending on when it comes to retirement. I disagree with the fact that—you know, he was talking about raising revenues. As an employer and knowing what the percentage is currently that employees and employers pay into it, I think you are going to have a tough time having that sell. You know, he mentioned tax reform. That, according to CBO, was, I think, \$150 billion per year, \$1.5 trillion over 10 years, and in the Budget Committee the other day, I asked Director Hall, and he said, you know, he did not agree with the fact that it is revenue neutral so far, but he said you at least need to look at the fact when you are growing 3 percent, tax reform, you know, might be closer to neutral than negative on the deficit—my point being it goes back to employers, you know, having that extra capacity paying less to the Federal Government, so I think anybody out there that is an employer, look at enhancing your 401(k). Take on your health insurance issues. We did it. You could lower costs dramatically, but you have got to take risks and have the nerve to do it, lowering health care costs, which is such a big deal because the Medicare component was as lot larger than

Social Security, so I think that those are the angles that are going to work better than what the Senator was referring to.

Here is something in health care. Senator Paul has talked about it, I believe it is necessary: pooling and associating so you do not have individuals stranded out there with the poorest buying power possible to try to get, you know, good advice and any of the economy of scale that would come from having 300, 500, 1,000 employees.

Is pooling and association, which has been kind of loath for health care to embrace, which they should? What about financial services? Maybe Mr. Scott or whoever would have some knowledge. Is that percolating out there to help individual folks planning for retirement?

Mr. JOHN SCOTT. Yes, I think there is a lot of interest in taking a pooled approach or an association approach to retirement savings, offering retirement benefits through sort of a pooled approach. I think, you know, in our polling, our survey work around the issue, we did raise the topic of multiple-employer plans, which is one pooled approach, and there is a lot of interest in that. A lot of the small business owners expressed or said that it would be very useful to them if they could sort of join in a multiple-employer plan.

Of course, it is still voluntary. They still have to sort of make that decision individually if it makes sense from a business perspective to join in, so it is not clear if they will at the end of the day, but I think that is certainly an important option to be considered.

Senator BRAUN. Do you see much of that happening out there? Is the impetus going to have to come from employers to push it? Or do you think the financial services industry will reach out to what to me looks like a big market to try to get an economy of scale there?

Mr. JOHN SCOTT. Yes, it is a really good question. I think Mr. St. Peter mentioned that, you know, there is some interest within the Government in terms of expanding the opportunity to join in multiple-employer plans, so you know, we are looking to see if there will be any guidance from the Department of Labor on this particular issue.

Then, of course, it is a question of whether the financial services industry will put together the products. You know, retirement plans are sold to employers, so they will have to follow through on their end to construct pooled products that make sense for the individual business owner.

Senator BRAUN. Thank you. Anybody else want to weigh in? Go ahead.

Mr. ST. PETER. Just a couple things. We have acquired some small firms in the last 5 years. Two of them had SIMPLE plans; one of them had a 401(k) profit plan, I think underachieving the success that we are having now, now that we are bigger, and then on health care, we did pool with our association, ACEC, and it was very successful for us for many years for our health care insurance.

Senator BRAUN. When did you start that?

Mr. ST. PETER. It was probably 5 years ago. The funny thing is we did just opt out of it to another plan, but during those 5 years, it was very successful for us.

Senator BRAUN. Measurable cost savings by doing it?

Mr. ST. PETER. Very, very much.

Senator BRAUN. Good.

Mr. ST. PETER. We have also implemented—not the H.R. director. We share deductibles. I think it is HRA, so it is a bit of self-insuring ourselves. We have higher-deductible plans, HSAs with an HRA to help share the cost of that deductible and out-of-pocket expense, and that has been very successful for us, too.

Senator BRAUN. Good. I am out of time. I yield back.

The CHAIRMAN. Thank you so much.

I would like to thank all of our witnesses for testifying today and sharing your analysis, recommendations, and insights on how Americans can better prepare for a secure retirement today and for generations to come. Your ideas, your expertise, your knowledge is extremely valuable to our Committee as we continue to work on how we can improve retirement security for all Americans.

I believe that this is an issue that Congress must grapple with, and yet it really has not received much attention despite all the red flags and warning signs that we are seeing.

This week, as I mentioned in my opening statement, I introduced two bipartisan bills that would better promote greater retirement security. Together, the Retirement Security Act and the SIMPLE Plan Modernization Act would encourage more employers to offer retirement plans and provide incentives for employees to save more for their own retirements.

The frustration that I feel is we know this crisis is looming. We know that the three traditional pillars of our system—Social Security, pension plans, and personal savings—are all three on very shaky ground, and yet it is an area that, because it is so difficult, Congress has tended to shy away from tackling what is a very important challenge, particularly given the changing demographics of our country with people living far longer and our population growing older.

This will remain a major focus of our Committee. I appreciate the work that Senator Casey has done as well, and I want to thank our staff, which has done an excellent job in putting together this hearing. That is always key to a successful hearing.

Committee members will have until Friday, February 15th, to submit any additional questions for the record, so some may be coming your way. I appreciate the fact that many of you have offered to keep in touch with the Committee and continue to assist us with our work on this important topic.

Senator Casey?

Senator CASEY. Thank you, Chairman Collins, for the hearing on this critical issue.

We have heard from our witnesses about our Nation's retirement system that works well for some but, as I said earlier, lets many others fall through the cracks. We do have to work together, as the Chairman said, to address the shortcomings of our retirement system. Part of that, of course, is strengthening Social Security and ensuring it keeps the promise of financial security in retirement.

Part of that I think would be passing legislation like my bill to help both widows but also widowers because of the arcane and destructive claiming rules and other problems with the system.

We have got to take action to ensure that workers depending on pensions that they have earned are not left struggling to make ends meet in their retirement years. We have got to work to improve access to retirement plans and to Government incentives to save so that our retirement system is serving every worker and not just some.

So we look forward to continuing this work, and I want to thank our colleagues on the Committee, Chairman Collins, and also, of course, our witnesses for being here. Really a good education for all of us.

Thanks very much.

The CHAIRMAN. Thank you. This hearing is now adjourned.

[Whereupon, at 11:14 a.m., the Committee was adjourned.]

APPENDIX

Prepared Witness Statements



United States Government Accountability Office

Testimony
Before the Special Committee on Aging,
U.S. Senate

For Release on Delivery
Expected at 9:30 a.m. ET
Wednesday, February 6, 2019

THE NATION'S RETIREMENT SYSTEM

A Comprehensive Re-evaluation Needed to Better Promote Future Retirement Security

Statement of Gene L. Dodaro, Comptroller General of the
United States

GAO Highlights

Highlights of [GAO-19-342T](#), a testimony before Special Committee on Aging, U.S. Senate

Why GAO Did This Study

Strengthening the U.S. retirement system to be more accessible and financially sound is important to ensuring that all Americans can retire with dignity and security, and to managing the fiscal exposures to the federal government from various retirement-related programs. Currently, the U.S. retirement system, and many of the workers and retirees it was designed to help, face major challenges.

This testimony discusses (1) the fiscal risks and other challenges facing the U.S. retirement system, and (2) the need to re-evaluate our nation's approach to financing retirement. It is based on a 2017 report, [GAO-18-111SP](#), on the nation's retirement system, with updated statistics when more recent estimates from publicly available sources were available.

What GAO Recommends

In the 2017 report, GAO recommended that Congress should consider establishing an independent commission to comprehensively examine the U.S. retirement system and make recommendations to clarify key policy goals for the system and improve how the nation promotes retirement security.

View [GAO-19-342T](#). For more information, contact Charles A. Jeszek at (202) 512-7215 or jeszekc@gao.gov.

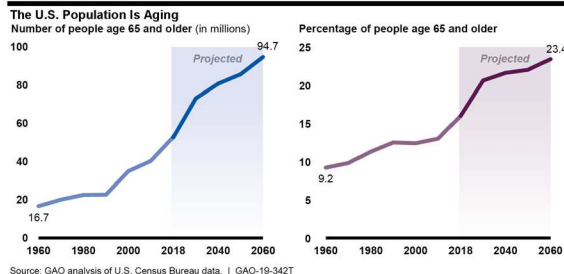
February 6, 2019

THE NATION'S RETIREMENT SYSTEM

A Comprehensive Re-evaluation Needed to Better Promote Future Retirement Security

What GAO Found

Fundamental changes over the past 40 years have led to various risks and challenges for the three main pillars supporting the U.S. retirement system. For example, current projections indicate that by 2034, the Old-Age and Survivors trust fund for Social Security's retirement program—the first pillar—will only be sufficient to pay 77 percent of scheduled benefits, due in part to the aging of the population (see figure). Other federal government retirement-related programs also face financial uncertainty. For example, the Pension Benefit Guaranty Corporation, which insures the pension benefits of most private sector defined benefit plans, estimates a greater than 90 percent chance the multiemployer program will be insolvent by 2025. Meanwhile, employer-sponsored plans—the second pillar—have experienced a shift from traditional defined benefit (DB) plans that generally provide set monthly payments for life, to defined contribution (DC) account-based plans, like 401(k)s. DC plans provide greater portability of savings that can be better suited to the needs of a more mobile workforce, but also require individuals to assume more responsibility for planning and managing their savings. While DC plans can provide meaningful retirement security for many, especially higher earners, lower earners appear more prone to having little or no savings in their DC accounts. Further, individuals' savings—the third pillar—may be constrained by economic trends such as low real wage growth and growing out-of-pocket health care costs. Combined with increased longevity, these challenges can put individuals at greater risk of outliving their savings and fiscal pressures on government programs will likely grow.



Congress generally has sought to address retirement-related issues in an incremental fashion. Also, no one agency is responsible for overseeing the U.S. retirement system in its entirety, so there is no obvious federal agency to lead a comprehensive reform effort. It has been nearly 40 years since a federal commission has conducted a comprehensive evaluation of the nation's approach to financing retirement. Without a more comprehensive re-evaluation of the challenges across all three pillars of the system, it may be difficult to identify effective, enduring solutions. Unless timely action is taken, many older Americans risk not having sufficient means for a secure and dignified retirement.

United States Government Accountability Office

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

Thank you for the opportunity to discuss the state of our nation's retirement system. Fundamental changes to the U.S. retirement system have occurred over the past 40 years. Traditional pensions have become less common, and the number of defined contribution plans, such as 401(k)s, has been growing. These types of plans can provide meaningful retirement security for many; however, the U.S. retirement system, and many of the workers and retirees it was designed to help, are facing major challenges. Social Security's financial outlook is threatened by demographic trends, certain large pension plans face insolvency, and individuals are increasingly responsible for planning and managing their own retirement accounts. Strengthening the U.S. retirement system to be more accessible and financially sound is important to better ensuring that all Americans can retire with dignity and security, and to managing the fiscal risks to the federal government from various retirement-related programs.

My statement today will focus on two topics: (1) the fiscal risks and other challenges facing the U.S. retirement system; and (2) the need to re-evaluate our nation's approach to financing retirement.

My statement is based primarily on a report we issued in October 2017.¹ For that report, we began with an examination of our recently published work and supplemented it with additional information from various federal agencies, organizations, and institutions. We also obtained insights from a panel of 15 experts that we convened in November 2016, representing a range of organizations, subject matter expertise, and views (see app. I for a list of the panelists). For this testimony, we updated statistics when more recent estimates from publicly available sources were available. A detailed description of the methodologies used is included in our prior report. We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

¹ GAO, *The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security*, [GAO-18-111SP](#) (Washington, D.C.: Oct. 18, 2017).

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background



Source: GAO. | GAO-19-342T.

Social Security has been the foundation of retirement security in the United States. Enacted in 1935, Social Security provides for the general welfare of older Americans by, among other things, establishing a system of federal old-age benefits, including a retirement program. Officially titled Old-Age and Survivors Insurance (OASI), the Social Security retirement program provides benefits to retired workers, their families, and survivors of deceased workers.² About 51 million retirees and their families received \$798.7 billion in Social Security retirement benefits in 2017, according to Social Security Administration (SSA), which is responsible for administering the program.³

About 40 years after the creation of Social Security, landmark legislation was enacted in 1974 that has played a major role in establishing the structure for private sector employers' involvement in sponsoring retirement plans for their workers: the Employee Retirement Income Security Act of 1974 (ERISA). ERISA is a complex law administered by multiple federal agencies including the Department of Labor (DOL), the Internal Revenue Service (IRS) within the Department of the Treasury (Treasury), along with the Pension Benefit Guaranty Corporation (PBGC), and has evolved with many significant amendments over the years (see app. II).

ERISA was enacted, in part, to address public concerns about the security of pension benefits, including the prominent failure of a couple of large, private sector pension plans. The act, as amended, does not require any employer to establish a retirement plan, but those who do must meet certain requirements and minimum standards. For example, ERISA establishes certain requirements for all employer-sponsored plans, including responsibilities for plan fiduciaries (those who manage and control plan assets, among others), as well as minimum funding standards for defined benefit (DB) plans, which traditionally promise to provide a monthly payment to retirees for life. ERISA also established the

² For more about Social Security, see GAO, *Social Security's Future: Answers to Key Questions*, GAO-16-75SP (Washington, D.C.: Oct. 27, 2015).

³ In addition, on the revenue side, about 174 million people were working and paying Social Security taxes in 2017. For more information, see The Board of Trustees, *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: June 5, 2018).

PBGC, the government corporation responsible for insuring the pension benefits of nearly 37 million American workers and retirees who participate in nearly 24,800 private sector defined benefit plans. Under ERISA, tax-qualified DB plans (or the employers who sponsor them) may have to pay insurance premiums to the PBGC, based on the funding level of their plans. The IRS also administers the Internal Revenue Code (IRC), which has provisions that affect pensions and retirement savings.

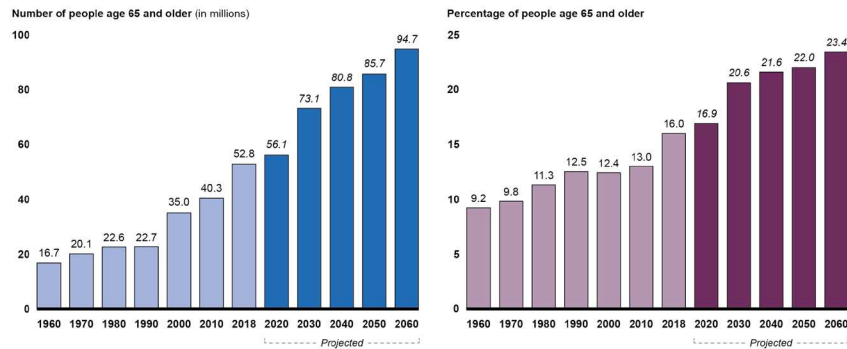
While SSA administers the Social Security program, and the DOL, PBGC, and IRS each are generally responsible for administering aspects of ERISA, several other agencies also have important roles in various parts of the retirement system. For example, the Department of Health and Human Services oversees the Centers for Medicare and Medicaid Services (CMS), which administers the major health care programs that provide coverage for retirees, as well as the Administration on Aging, which encourages and assists state grantees that provide services for older adults.

In addition, agencies such as the U.S. Department of Agriculture and the Department of Housing and Urban Development oversee food and housing programs for older adults. Other agencies also play a role in providing various services and supports for older adults. For example, the Department of Transportation administers a program that improves access and alternatives to public transportation for seniors and individuals with disabilities. The Consumer Financial Protection Bureau, as part of its mandate to provide financial literacy education, helps consumers navigate financial choices related to retirement. The Federal Trade Commission can have consumer protection and investor oversight roles and responsibilities related to individuals borrowing against their pensions. In addition, these federal agencies and others work together to help combat elder financial exploitation, which experts have described as an epidemic with society-wide repercussions. Citing our prior work on this topic, in October 2017, Congress enacted the Elder Abuse Prevention and Prosecution Act, calling on the Department of Justice to work with other federal, state, and local law enforcement agencies to improve data

collection and provide technical assistance focused on combatting elder abuse.⁴

The need for government services and support for older adults in retirement will continue to grow as the proportion of older adults in the United States continues to rise significantly in the future. In 1970, those age 65 and over accounted for about 10 percent of the population, but by 2060, they are expected to account for about 23 percent (see fig. 1). This reflects long-term decreases in birth rates and increases in life expectancy.

Figure 1: The U.S. Population Is Aging



⁴ Pub. L. No. 115-70, §§ 201-202, 131 Stat. 1208, 1211-12 (2017). For our prior work on this topic, see GAO, *Elder Justice: Stronger Federal Leadership Could Enhance National Response to Elder Abuse*, [GAO-11-208](#) (Washington, D.C.: Mar. 2, 2011) and *Elder Justice: National Strategy Needed to Effectively Combat Elderly Exploitation*, [GAO-13-110](#) (Washington, D.C.: Nov. 15, 2012).

Main Pillars of the U.S. Retirement System Face Fiscal Risks and Other Challenges

The U.S. retirement system is supported by three main pillars—Social Security, employer-sponsored plans, and individuals' savings—that serve as important sources of retirement income for Americans. Currently, each of these pillars faces various risks and other challenges. If left unchanged, these risks present the federal government with significant potential fiscal exposures, which may legally commit or create expectations for future federal spending.⁵

Pillar One: Social Security and Other Federal Programs

The first pillar, Social Security (specifically, Social Security's retirement program), is facing financial difficulties, as are other federal programs that provide essential supports to many older Americans, such as Medicare and the PBGC's insurance programs (see fig. 2). In addition, multiple federal agencies help fund a broad array of home and community-based services for older adults. As the number of older adults needing assistance continues to grow, the pressure to increase federal funding for these services is likely to increase.

Figure 2: Timeline of Projected Fiscal Risks for Certain Federal Programs



Source: GAO analysis of data from the Social Security Administration, the Centers for Medicare and Medicaid Services, and the Pension Benefit Guaranty Corporation. | GAO-19-342T

Notes: The Pension Benefit Guaranty Corporation insures most private sector defined benefit plans under one of two programs: the Single-Employer Insurance Program or the Multiemployer Insurance Program. Social Security's Old-Age and Survivors Insurance is Social Security's retirement program.

Social Security

As the foundation of retirement security in the United States, Social Security's retirement program, financed primarily by payroll taxes, helps reduce poverty among beneficiaries, many of whom rely on Social

⁵ Long-term fiscal projections show that, absent fiscal policy changes, the federal government is on an unsustainable path, largely due to a projected growing gap between federal revenues and expenditures, driven by demographic changes, health care costs, and interest costs on the public debt. For more information on the nation's fiscal exposure and fiscal health more generally, see GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future*, GAO-18-299SP (Washington, D.C.: June 21, 2018).

Security for the majority of their income once they retire.⁶ Our analysis of data from the Federal Reserve Board's most recent Survey of Consumer Finances (SCF) showed that in 2016, among households age 65 and over, the bottom 20 percent, ranked by income, relied on Social Security retirement benefits for 81 percent of their income, on average.

But Social Security is facing financial difficulties that, if not addressed, will affect its long-term stability. During the many years that the revenue for Social Security's retirement program exceeded costs, the program built up reserves in the trust fund. However, since 2010, Social Security has been paying out more in benefits than it received and has relied on interest income to help cover expenses. For 2018, the cost of the program was expected to exceed total income by \$2 billion and, as a result, asset reserves were expected to decline. If no changes are made, current projections indicate that by 2034, the retirement program trust fund will only be sufficient to pay 77 percent of scheduled benefits.⁷

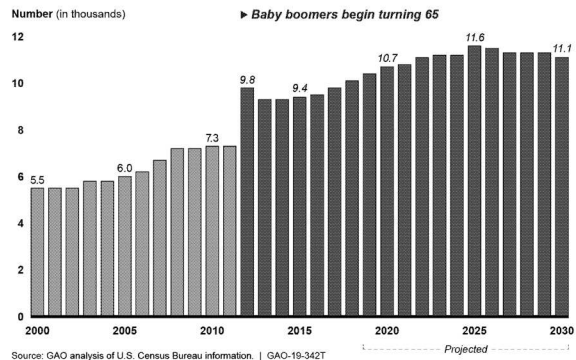
The underlying cause of Social Security's financial difficulties is the aging population, driven by lower fertility rates and increased life expectancy, and accelerated by the ongoing retirement of the baby boom generation.⁸ The first baby boomers began receiving Social Security retirement benefits in 2008, and growing numbers will become eligible for Social Security benefits in coming years. Our analysis indicates that the number of baby boomers turning 65 is projected to increase from an average of about 10,200 per day in 2018 to more than 11,000 per day in 2029 (see fig. 3).

⁶ Old-Age and Survivors Insurance, also known as Social Security's retirement program, provides benefits to retirees as well as their survivors and dependents.

⁷ The Board of Trustees, *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: June 5, 2018).

⁸ One measure of an aging population is the portion of a population above a certain age, such as 65. Two key drivers of the proportion of a population above a certain age are fertility rates and longevity.

Figure 3: Average Daily Number of People Turning 65



As with the Social Security retirement program, reserves had also built up over time in the trust fund for Social Security's disability program, but in 2005, the program began paying out more than it was taking in. To avoid benefit reductions, which were expected to begin in 2016, Congress passed a law in late 2015 that temporarily reallocated some payroll tax revenue from the retirement trust fund to the disability trust fund.⁹ Even with this added boost, if no further changes are made, reductions in

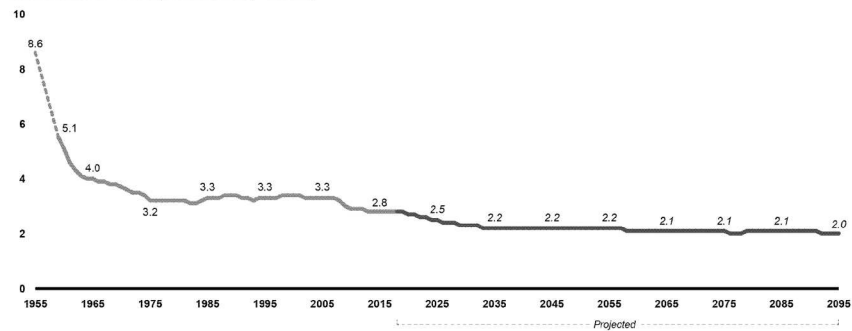
⁹ According to the Social Security Trustees, in 2016 and 2017, non-interest income and total income from the DI Trust Fund exceeded benefit payments due primarily to the temporary reallocation of some of the payroll tax revenue from OASI to DI for the years 2016 through 2018.

disability benefits are projected to be needed beginning in 2032, according to SSA's most recent report.¹⁰

For both the Social Security retirement and disability programs combined, the number of workers contributing to Social Security for each aged, disabled, dependent, or surviving beneficiary is declining, due to the aging population and other factors. While there are currently 2.8 workers contributing to Social Security per beneficiary, this ratio is expected to decline to 2.2 by 2035, and to 2.0 by 2095 (see fig. 4).

Figure 4: Past and Projected Social Security Covered Workers per Social Security Beneficiary

Number of covered workers per Social Security beneficiary



Note: Beneficiaries include all those receiving benefits from Social Security's Old-Age and Survivors Insurance program and its Disability Insurance program combined. Data for the years between 1955 and 1960 are not available.

¹⁰ According to recent SSA data, applications for SSA's Disability Insurance program have declined steadily in recent years from a peak of 2.9 million in 2010 to 2.2 million in 2017. At the same time the number of individuals being awarded benefits has also declined from a peak of 1 million in 2011 to 762,000 in 2017. Possible explanations for these trends include better labor market conditions, the availability of health care through the Patient Protection and Affordable Care Act, and lower award rates at all adjudicative levels of SSA's disability determination process. For more information, see Social Security, *Annual Statistical Supplement to the Social Security Bulletin, 2017*, SSA Publication No. 13-11700 (Washington, D.C. March 2018).

It is difficult to predict exactly what would occur if either Social Security's retirement or disability programs were to become insolvent because the Social Security Act does not provide for any procedure for paying less than full benefits. According to SSA, benefits could be reduced across the board by a set percentage, certain benefits could be prioritized, or benefits could be delayed.

Medicare and Medicaid

The major health care programs that include coverage for retirees, Medicare and Medicaid, also face increasing financial challenges due to program and demographic changes. For example, over the years, Congress has made changes to Medicare so that more people have become eligible, even if under age 65.¹¹ Also, Congress has added two more parts to Medicare: one part allowing insurance under private plans approved by Medicare (Medicare Advantage),¹² and another part providing prescription drug coverage. As of 2017, over 58 million people were enrolled in one or more parts under Medicare. Projections indicate that in the coming decade, as more members of the baby-boom generation become eligible for benefits, the number of Medicare beneficiaries will rise to 75 million in 2027. Similar to the challenges facing Social Security, spending for Medicare Part A (Hospital Insurance) is projected to outpace revenue over time,¹³ and the trust fund for Medicare Part A is projected to be unable to pay full benefits beginning in

¹¹ These changes included covering individuals with specific illnesses, such as end stage renal disease. In addition, Medicare beneficiaries also include individuals under age 65 who are receiving benefits from Social Security or the Railroad Retirement Board on the basis of a disability.

¹² Medicare Advantage Plans (also known as Medicare Part C) are a type of Medicare health plan offered by a private company that contracts with Medicare to provide certain benefits. Medicare Advantage Plans include health maintenance organizations, preferred provider organizations, private fee-for-service plans, special needs plans, and Medicare medical savings account plans.

¹³ Medicare is funded primarily by payroll taxes, general revenue, and premiums paid by Medicare beneficiaries.



Source: GAO. | GAO-19-342T.

2026. At that time, the Hospital Insurance trust fund will only be sufficient to pay 91 percent of hospital-related Medicare spending.¹⁴

Medicaid, which provides health care coverage and financing for millions of low-income individuals, including those age 65 or older, also faces financial challenges. Medicaid is the nation's primary payer for long-term services and supports, and the elderly—along with those with disabilities—are among the highest cost Medicaid beneficiaries. The federal government and states share in the financing of the Medicaid program, with the federal government matching most state expenditures for Medicaid services using a statutory formula. Estimated Medicaid outlays for fiscal year 2017 were \$592.2 billion, of which \$370.6 billion was financed by the federal government and \$221.6 billion by the states. Over the next 7 years, Medicaid expenditures are expected to increase significantly, reaching just over \$1 trillion in 2026.

PBGC

The PBGC insures the pension benefits of most private sector DB plans through one of its two programs: the Single-Employer Insurance Program and the Multiemployer Insurance Program. The single-employer program is the larger of the two programs. As of the end of fiscal year 2018, the single-employer program insured about 26 million workers and retirees participating in about 23,400 private sector single-employer DB plans. As of the end of fiscal year 2018, the multiemployer program insured about 11 million workers and retirees in about 1,400 private sector DB plans created through a collective bargaining agreement between two or more employers and a union.

Although PBGC is one of the largest of any federal government corporations, with over \$110 billion in assets, its pension benefit guarantees are increasingly at risk due to its substantial liabilities. At the end of fiscal year 2018, PBGC's net accumulated financial deficit was over \$51 billion, and its exposure to potential future losses for underfunded retirement plans was estimated to be nearly \$185 billion.¹⁵

¹⁴ The Boards of Trustees, 2018 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Washington, D.C.: June 5, 2018). GAO designated Medicare as a high-risk program in 1990 due to its size, complexity, and susceptibility to mismanagement and improper payments, and it remains on GAO's high-risk list for these reasons. See GAO, High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others, [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017).

¹⁵ PBGC, *Annual Report 2018* (Washington, D.C.: Nov. 15, 2018).

We designated the single-employer program as high risk in July 2003 and added the multi-employer program to our high-risk list in January 2009. Concerns about PBGC's financial future have kept both programs on GAO's high-risk list. As long as PBGC's long-term financial stability remains uncertain, the retirement benefits of millions of U.S. workers and retirees are at risk of greater reductions should their benefit plans be terminated below PBGC's current guaranteed benefit levels.¹⁶

In contrast to Social Security, PBGC is not funded by tax revenues, but by the premiums paid by plans or their sponsors, the assets acquired from terminated plans, and investment returns on these funds. The primary drivers of the government's fiscal exposure related to PBGC's deficit are the collective financial risk of the many underfunded pension plans insured by PBGC and the long-term decline in the number of participants covered by traditional DB plans. Since 1985, there has been a 78 percent decline in the number of plans insured by PBGC and more than 13 million fewer workers actively participating in PBGC-insured plans. There has also been a recent trend of single-employer plan sponsors transferring the liability for some of their participants to insurance companies via group annuity "buy-outs," further reducing the number of participants in PBGC-covered plans. As a result of these trends, even though PBGC premium rates have increased significantly in recent years, PBGC's premium base has been eroding over time as fewer sponsors are paying premiums for fewer participants.

In addition, more recently, PBGC's net accumulated financial deficit has escalated dramatically due to the critical and declining status of a number of large multiemployer pension plans.¹⁷ As we previously reported, PBGC's multiemployer plan is projected to become insolvent in approximately 6 years, and if that happens, participants in the insolvent multiemployer plans who rely on PBGC guarantees will receive only a small fraction of current statutory guarantees. According to PBGC, most participants would receive less than \$2,000 a year, and in many cases less.

¹⁶ For more information on PBGC and the high-risk list, see [GAO-17-317](#).

¹⁷ GAO, *Central States Pension Fund: Investment Policy Decisions and Challenges Facing the Plan*, [GAO-18-106](#) (Washington, D.C.: June 4, 2018) and *Central States Pension Fund: Department of Labor Activities under the Consent Decree and Federal Law*, [GAO-18-05](#) (Washington, D.C.: June 4, 2018).

Social Safety Net Programs

Our prior work has found that federally-funded services for older Americans were not reaching many older adults who may need them, and that the funding for these programs had decreased while the number of older adults had increased.¹⁸ The federal government helps provide state and local governments with funding for a broad array of home and community-based services for older adults through multiple federal agencies and programs.¹⁹ In addition to long-term care services funded by Medicaid, these programs also include services funded under the Older Americans Act of 1965, as amended, which provides grants to states for such services as home-delivered and congregate meals, home-based care, transportation, and housing. In our 2015 report, we recommended that the Department of Health and Human Services (HHS) should facilitate development of a cross-agency federal strategy to help ensure that federal resources are used effectively and efficiently to support a comprehensive system of home and community-based services and related supports for older adults. While HHS agreed with our recommendation, the agency has yet to develop a cross-agency strategy involving all five agencies that fund these services.²⁰

As the number of older adults needing assistance continues to grow, the gap in services can only be expected to widen. Absent any changes, state and local governments are facing—and will continue to face—a gap between receipts and expenditures in the coming years, putting greater pressure on the federal government to increase funding.²¹

¹⁸ See GAO, *Older Adults: Federal Strategy Needed to Help Ensure Efficient and Effective Delivery of Home and Community-Based Services and Supports*, [GAO-15-190](#) (Washington, D.C.: May 20, 2015); and *Older Americans Act: Updated Information on Unmet Need for Services*, [GAO-15-601R](#) (Washington, D.C.: June 10, 2015).

¹⁹ GAO, *State and Local Governments' Fiscal Outlook 2018 Update*, [GAO-19-208SP](#) (Washington, D.C.: Dec. 13, 2018).

²⁰ GAO is currently conducting a study on the accessibility of home and community-based services in rural areas. The report is expected to be issued in Spring 2019.

²¹ Since 2007, GAO has published simulations of long-term fiscal trends in the state and local government sector, which have consistently shown that the sector faces long-term fiscal pressures. For the most recent of these reports, see [GAO-19-208SP](#).

Pillar Two: Employer-Sponsored Retirement Plans

The second pillar of the U.S. retirement system, employer-sponsored retirement plans, is also an important source of income relied upon by many Americans in their retirement. However, not everyone has access to employer-sponsored plans, and among those who do, certain provisions and requirements of the plans can make it difficult for individuals to accumulate savings over time.²²



Source: GAO. | GAO-19-342T.

Bureau of Labor Statistics data indicate that about one-third of private sector workers in the United States did not have access to an employer-sponsored retirement plan in 2016, and about two-thirds did.²³ Of those with access, the vast majority (about 76 percent) participated in the plan, either because they were automatically enrolled by the plan sponsor or they chose to participate.

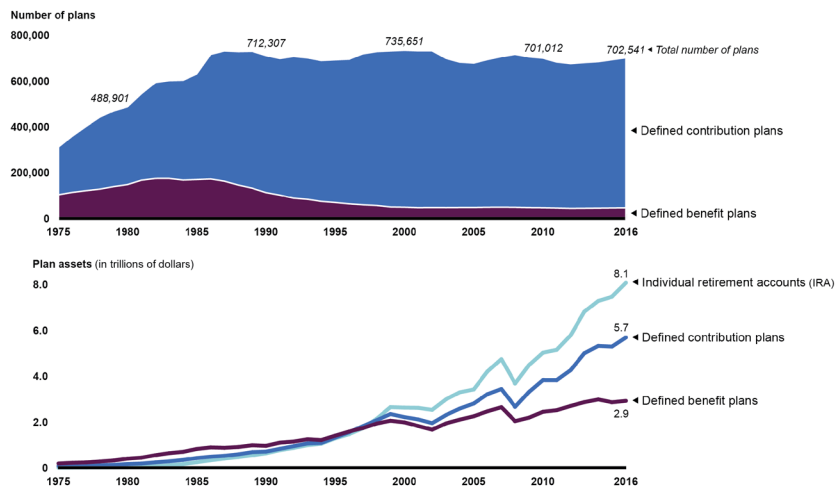
Although individuals without access to an employer-sponsored plan can save for retirement on their own, having access to an employer-sponsored retirement plan makes it easier to save, and more likely that an individual will have another source of income in retirement beyond Social Security. Our prior work found that employees working for smaller firms and in certain industries, such as leisure and hospitality, are significantly less likely to have access to an employer-sponsored plan compared with those working in larger firms and in certain other industries, such as information services. Also, we found that low-income workers are much less likely than high-income workers to have access to an employer-sponsored plan.

²² The challenges discussed here about employer-sponsored plans are applicable primarily to private sector workers, as the challenges faced by public sector workers are somewhat different. Virtually all public sector workers have access to employer-sponsored retirement plans, and in most cases, defined benefit plans. However, public sector plans are not governed by most of the substantive requirements under ERISA, including PBGC insurance.

²³ Bureau of Labor Statistics, *National Compensation Survey, Access, participation, and take-up rates for retirement benefits* (Washington, D.C.: July 2017). In this testimony, we define "access to an employer-sponsored retirement plan" to mean that a worker's employer is offering a plan and that the worker is eligible to participate in the plan. In our 2015 report on retirement plan coverage, we found similar results using Survey of Income and Program Participation (SIPP) data matched with V2 tax data. We calculated that 61 percent of private sector workers had access to an employer-sponsored retirement plan, while 39 percent did not. In addition, in our 2015 report, we estimated that another 15 percent chose not to participate, even though they had access so that, overall, about half of private sector workers lacked coverage from a workplace plan. See GAO, *Retirement Security: Federal Action Could Help State Efforts to Expand Private Sector Coverage*, [GAO-15-556](#) (Washington, D.C.: Sept. 10, 2015).

Among those individuals who have access to employer-sponsored plans in the private sector, the structure of plans has changed over time, with a shift from traditional DB pension plans to defined contribution (DC) plans, such as 401(k)s, as the primary type of retirement plan (see fig. 5). DB plans are traditional retirement plans that generally promise to provide a benefit for the life of the participant, based on a formula specified in the plan that typically takes into account factors such as an employee's salary, years of service, and age at retirement. DC plans are employer-sponsored account-based retirement plans, such as a 401(k) plan, that allow individuals to accumulate tax-advantaged retirement savings in an individual account based on employee and/or employer contributions, and the investment returns (gains and losses) earned on the account. The amount of assets held in individual retirement accounts (IRA) also has increased significantly. Most of the assets in IRAs are funded by assets rolled over from DC plans, and sometimes DB plans, when individuals change jobs or retire.

Figure 5: Trends in Private Sector Retirement Plans since 1975



Source: GAO analysis of data from the U.S. Department of Labor and the Investment Company Institute. | GAO-19-342T

With DB plans, participants can accumulate retirement savings simply by continuing to work for the employer offering the plan, and the employer is responsible for ensuring that the amount in the plan is sufficient to pay promised benefits at retirement. However, even when DB plans were more prevalent, many workers did not have access, and those with access to DB plans could still face challenges under certain circumstances. For example, when DB plan participants change employers, their accrued benefits are less portable than accrued savings in a DC plan. If the change in employers takes place before they have met vesting requirements, DB plan participants can lose all the benefits accumulated from employer contributions to that point, which in the

private sector, generally means everything.²⁴ Also, for DB plans that base benefits on final average salary, benefit accruals are significantly "backloaded." As a result, if a DB plan participant changes employers mid-career, it could result in missing out on the time when the biggest benefit accruals would have occurred. In addition, when entering retirement, although those with DB plans can generally rely on receiving a set monthly benefit for life, they may still face challenges. For example, participants in certain financially troubled plans—such as those in the multiemployer plans discussed earlier—could see their benefits being suspended or cut. In addition, if a DB plan participant is offered and accepts a lump-sum payment in place of a lifetime annuity, the participant may face challenges similar to those with DC accounts in terms of managing the spend down of their retirement savings.

With DC plans, responsibility for planning and managing retirement savings is shifted from employers to employees. Participants in DC plans are often required to make complex financial decisions—decisions that generally require financial literacy and that could have significant consequences for their financial security throughout retirement. For example, workers with DC plans have to decide whether to participate in the plan, how much to contribute to their accounts and how to manage their investments to strike the right balance between risk and returns.

One way DC plan enrollment and contribution levels can be encouraged is by putting automatic mechanisms in place. For example, DC plan sponsors can encourage participation in the plan by adopting auto-enrollment, whereby eligible workers are enrolled into a plan automatically, unless they choose to opt out. DC plan sponsors can also encourage increases in contribution rates by adopting auto-escalation, whereby the employee's contributions are automatically increased to a predetermined level on a set schedule, unless they choose to opt out.

Participants in DC plans also have to decide whether to borrow from their accounts if other needs arise, or cash out their accounts when they change jobs. When leaving an employer, those with DC accounts may be allowed to transfer their accumulated balances into a new employer plan or an individual retirement account (IRA), but they may also be tempted to

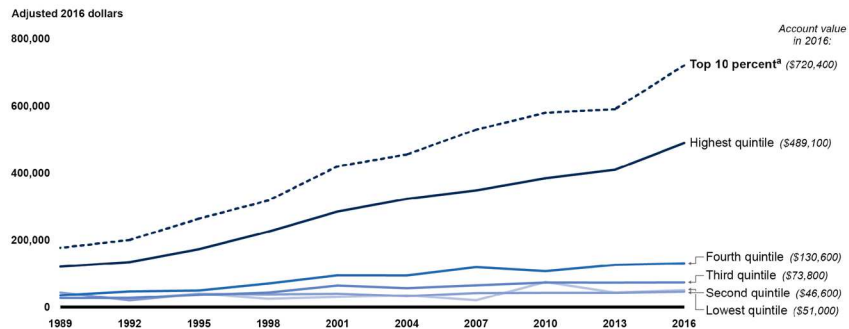
²⁴ ERISA requires that retirement plan participants' rights to their accrued benefit derived from their own contributions be nonforfeitable. However, as noted earlier, employees with private sector DB plans generally do not contribute to these plans, so, in most instances, all unvested accrued benefits would be lost when a change of employment takes place.

cash out their accounts, even though they may face associated tax consequences. Similarly, when entering retirement, those with DC accounts may decide to transfer the account balance into an IRA, or they may decide to receive the funds in a lump-sum payment. While some DC plans also offer monthly payments through an annuity, most do not provide lifetime income options or other options that can help participants draw down their retirement funds in a systematic way.

Findings from the most recent SCF indicate that an individual's ability to accumulate retirement savings depends on the individual's income level. In addition, the disparities in average account balances by income level have increased markedly over time (see fig. 6). For example, according to SCF data, households in the top 10 percent of income level appeared to be substantially better prepared for retirement than most others, with an average account balance of more than \$720,000 in 2016. In contrast, households with below average income, in the second quintile, had an average account balance of about \$47,000. Among lower-income households, our prior work suggests that cashing out accounts when changing jobs may be a significant drain on retirement savings, along with unexpected events that may also cause them to withdraw funds from their accounts prior to retirement.²⁵

²⁵ GAO, *Retirement Security: Low Defined Contribution Savings May Pose Challenges*, [GAO-16-408](#) (Washington, D.C.: May 5, 2016).

Figure 6: All Households' Average Retirement Account Balances, by Income Quintiles, 1989-2016



Note: Retirement account balances include savings in individual retirement accounts as well as 401(k) or other defined contribution account savings. The changes over time are cross-sectional comparisons, not longitudinal ones—that is, the households in a particular quintile in one year may not be the same households in that quintile in another year.

*The top 10 percent is also included in the highest quintile.

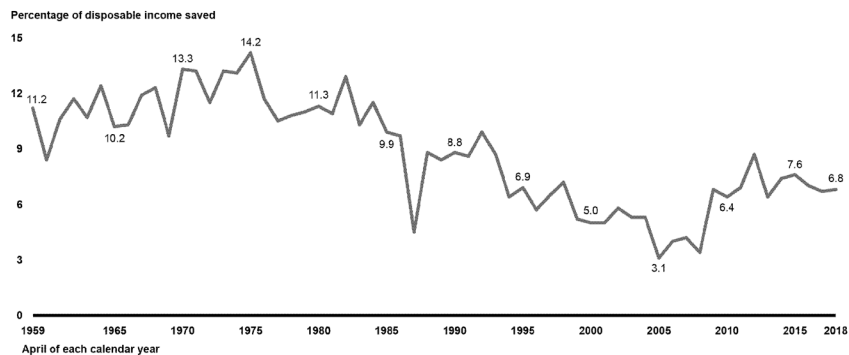
Retirement experts have posited a variety of reasons for employers' shift to DC plans. One oft-cited reason is that the structure of DC plans gives employers better control over how much they spend on wages and benefits packages. With DC plans, employers may choose whether to make contributions to participants' individual accounts; in contrast, DB plans promise a certain future monthly benefit to employees in retirement, and the employer must bear the risk of making adequate contributions to the plan to make good on that promise. Another reason retirement experts cite for the shift to DC plans was the introduction of 401(k) accounts in the Internal Revenue Code in 1978, which they credit with fostering the adoption of account-based plans by sanctioning the use of salary deferrals as a source of contributions. Some retirement experts have also suggested that employees' preferences and demands have changed over time, making DC plans more feasible and, in some respects, more appealing. For example, some analysts have noted that the portability of an account-based plan can be better suited to meet the needs of a more mobile workforce.

Pillar Three: Individuals' Savings and Other Resources

The third pillar of the retirement savings system—individuals' personal savings—is the remaining important source of retirement income, and it also faces certain risks and challenges. Personal savings can include a variety of assets, such as amounts saved from income or wages; contributions to accounts outside of a retirement plan; non-retirement financial wealth that is inherited or accumulated over time; and equity from tangible assets such as a home. These savings are expected to augment any income from the first two pillars: Social Security and employer-sponsored retirement plans.

Over the past several decades, however, the personal saving rate—which is calculated as the proportion of disposable income that households save—has trended steeply downward, from a high of 14.2 percent in 1975, to a low of 3.1 percent in 2005, before recovering somewhat to 6.8 percent in 2018 (see fig. 7).²⁶

Figure 7: Trend in U.S. Personal Saving Rate, 1959-2017

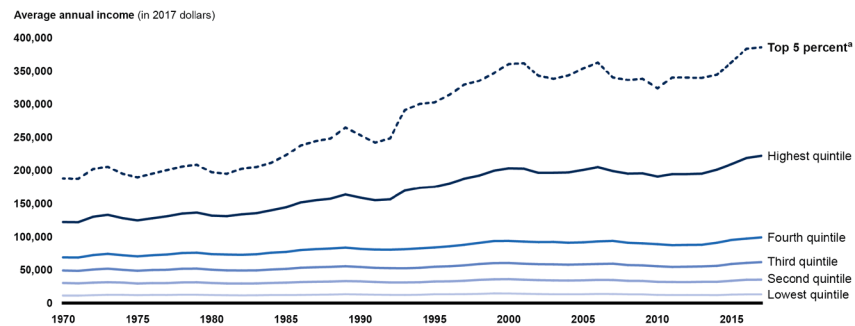


Sources: U.S. Bureau of Economic Analysis. | GAO-19-342T

²⁶ It is important to note that the saving rate is an average, reflecting all households in the United States, across various stages of life.

While the specific implications of a historically low national saving rate on any current or future retiree are less clear, the decline in the U.S. personal savings rate over time is concerning and could have implications for retirement security, particularly when coupled with the recent trend of low wage growth. After accounting for inflation, average wages remain near the levels they were in the 1970s for most individuals (see fig. 8), adding to the difficulty of increasing their level of saving.

Figure 8: Mean Household Incomes, by Quintiles and Top 5 Percent, 1970–2017



Note: The changes over time are cross-sectional comparisons, not longitudinal ones—that is, the households in a particular quintile in one year may not be the same households in that quintile in another year.

^a The top 5 percent is also included in the highest quintile.

In addition, many households have accumulated little wealth. SCF data show that among households in which the head of the household was working, the average value of all financial assets, excluding savings in retirement accounts, was \$70,700 in 2016.²⁷ For households in which the head was retired, this average was \$89,700.

²⁷ This estimate includes retirement savings, which cannot be easily separated out. All amounts are in 2016 dollars.

For those who become home owners and build up equity in a home, this equity can serve as an important asset, providing a potential income source in retirement either by selling the home or obtaining a reverse mortgage. However, increased household debt levels may affect the amount of income available from this source, as well as from other assets. Data on the make-up of debt indicate that home ownership has been declining, while education debt has been rising, especially since 2013.

Another challenge with implications for individuals' ability to accumulate personal savings is that economy-wide, aggregate health care expenditures are projected to continue to grow as a percentage of the overall economy, and individuals have to contend with rising health care costs as they strive to save for retirement. CMS projections estimate that the annual growth rate of out-of-pocket health care spending for the U.S. population, per capita, will increase from 3.0 percent in 2018 to about 3.8 percent by 2026. While these costs are projected to rise for the population as a whole, individuals age 65 and over face the highest out-of-pocket health-related expenses. Further, health care expenses can be larger relative to other expenses for many retirees and hard to predict, making the amount of income retirees need to plan to spend on health care difficult to determine.



Source: GAO. | GAO-19-342T.

Simultaneously, trends in longer life expectancy have the potential to increase economic vulnerability for retirees. Specifically, life expectancy for those age 65 or older has increased significantly over the past century and is projected to continue to increase. For example, a man turning 65 in 2030 is expected to live to age 85.0, on average, an additional 5.3 years compared to a man who turned 65 in 1980, who was only expected to live to age 79.7, on average. A woman turning 65 in 2030 is expected to live to age 87.2, on average, an additional 3.5 years compared to a woman who turned 65 in 1980, who was only expected to live to age 83.8, on average.

Moreover, these life expectancies are averages, with some individuals living well beyond their life expectancy. As a result, people must now prepare for this greater longevity risk—that is, the risk that they will spend more years in retirement and potentially outlive their savings. For those who lack sufficient personal savings or other assets to augment their Social Security benefit or income from any employer-sponsored plan, the only option to maintain a desired standard of living may be to continue working past age 65. Our prior work has found that labor force participation among older workers has increased during the last decade

and that, compared to current retirees, workers age 55 or older were more likely to expect to retire later and to work during retirement. Our prior work has also identified challenges maintaining retirement savings should older workers become unemployed.²⁸

The Need to Re-evaluate the Nation's Approach to Financing Retirement

Over the past 40 years, the nation has taken an incremental approach to addressing the U.S. retirement system; however, such an approach may not be able to effectively address the interrelated foundational nature of the challenges facing the system today. Without a more comprehensive re-evaluation of the myriad challenges across all three pillars of the retirement system, identifying effective, enduring solutions may be difficult, and the consequences could be significant. Unless timely action is taken, many older Americans risk not having sufficient means for a secure and dignified retirement in the future.

Retirement Issues Have Been Addressed with an Incremental Approach

Congress has generally sought to address retirement-related issues and concerns one issue at a time. As highlighted in appendix II, at least 25 laws pertaining to retirement have been enacted since ERISA.²⁹ Some laws—such as the Social Security Amendments of 1983 and the Pension Protection Act of 2006—made large changes to the retirement system. Other laws were more targeted. For example in 1984, Congress amended ERISA to address concerns that women were not receiving their share of private pension benefits by, among other things, permitting certain breaks in service without loss of pension credits, and changing treatment of pension benefits for widowed and divorced spouses. Similarly, in 1996, Congress created a simplified retirement savings vehicle for employers with 100 or fewer employees to help address concerns that smaller employers were not sponsoring plans.

The number of agencies that play roles in the current retirement system has also contributed to the incremental approach to addressing concerns, with no single federal agency being responsible for taking a broad view of the system as a whole. As described earlier, there are at least 10

²⁸ See GAO, *Retirement Security: Most Households Approaching Retirement Have Low Savings*, GAO-15-419 (Washington, D.C.: May 12, 2015) and *Unemployed Older Workers: Many Experience Challenges Regaining Employment and Face Reduced Retirement Security*, GAO-12-445 (Washington, D.C.: Apr. 25, 2012).

²⁹ For further details and examples, see the chronology of retirement-related legislation since 1960 in app. II.

agencies that have a role in overseeing some part of the system, or that are involved in providing supports and services to older Americans. In addition to DOL, IRS, and PBGC, which are the agencies generally responsible for administering ERISA, SSA administers the Social Security program; and the Department of Health and Human Services oversees CMS, which administers the health care programs for retirees. In addition, various other agencies play a role in providing a range of services and supports to assist older adults through retirement.

Having multiple agencies involved in the system has also contributed to a complex web of programs and requirements. For example, our prior work identified more than 130 reports and disclosures stemming from provisions of ERISA and the Internal Revenue Code. Although each plan sponsor is required to submit only certain of these reports and disclosures, determining which ones can be challenging, and we found that the agencies' online resources to aid plan sponsors with this task were neither comprehensive nor up to date.³⁰ We made several recommendations to address these issues that have not been fully implemented.

**Need for More
Comprehensive Reform of
the U.S. Retirement
System**

While three federal commissions have focused on various retirement issues (see app. III), it has been nearly 40 years since the last comprehensive evaluation of the nation's approach to financing retirement by a federal commission. The 1979 President's Commission on Pension Policy conducted a broad study of retirement-related issues and made a series of over-arching recommendations, such as creation of a minimum universal pension system that would provide a portable benefit for all workers that would be a supplement to Social Security. Other recommendations included federal protections for participants in state and local government plans, more consistent tax treatment of pension plans and retirement savings vehicles, provisions to strengthen Social Security, as well as proposals regarding employment of older workers and disability programs.³¹ However, many of the commission's recommendations were not implemented.

³⁰ GAO, *Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved*, GAO-14-92 (Washington, D.C.: Nov. 21, 2013).

³¹ For more details on the 1979 commission, see app. III.



Source: GAO. | GAO-19-342T.

The issues identified nearly 40 years ago by the 1979 commission's comprehensive re-evaluation of the U.S. retirement system continue to be issues facing the nation today. In fact, these issues have only become more complex and more urgent due to fundamental changes that have occurred since 1979—especially the growing fiscal exposure to the federal government and the shift from DB to DC plans, with its associated increase in risks and responsibilities for individual workers. Taken together, these changes may make it harder for retirees to achieve financial security in retirement, especially for those without access to employer-sponsored plans and at the lower end of the income scale.

A panel of 15 retirement experts convened by GAO in November 2016 agreed that there is a need for a new comprehensive evaluation of the U.S. retirement system.³² They noted weaknesses in the current system's ability to help ensure that all individuals can provide for a secure retirement. They also discussed the burden that the current system's complexity places on individuals, employers, and federal government. Although there was agreement among many panelists that a more comprehensive approach would be needed to provide a secure retirement for future retirees, opinions varied on the types of solutions needed. For example, some panelists suggested that a new government-sponsored savings vehicle should be created, while others supported modifying the existing employer-sponsored system to make any needed changes.

In addition, several panelists commented on how the current system can be overly complex and confusing for employers, especially small employers. They discussed how the current private sector system poses financial and litigation risk for employers, especially with respect to investment decisions, fiduciary duty, and fees. For example, one panelist suggested that DC plan sponsors may welcome the federal government providing more guidance on the types of investments that would be regarded as prudent and safe as a way to reduce their litigation risk.

Panelists also noted that the experiences of other countries can provide useful insights for ways to improve U.S. retirement programs and policies. For example, some panelists described the approach being taken by the United Kingdom (UK) as a potential model for expanding access to retirement savings plans. In the UK model, universal access for workers was implemented by mandating that all employers automatically enroll

³² For more information on the panelists, see app. I.

employees in either their own or the government-sponsored retirement savings plan, the National Employment Savings Trust.³³

In our 2017 report, we suggested five policy goals for a reformed U.S. retirement system as a starting point for discussion: (1) promoting universal access to a retirement savings vehicle, (2) ensuring greater retirement income adequacy, (3) improving options for the spend down phase of retirement, (4) reducing complexity and risk for both participants and plan sponsors, and (5) stabilizing fiscal exposure to the federal government (see table 1 for more detail on these goals).

Table 1: Policy Goals for Evaluating Potential Options for Reforming the U.S. Retirement System

Goals	Reasons for considering reform
Promote universal access to a retirement savings vehicle	About one-third of U.S. private sector workers do not have access to an employer-sponsored retirement plan
Ensure greater retirement income adequacy	Many Americans are at risk of relying solely on Social Security in retirement
Improve options for the spend down phase of retirement	Plans may not provide sufficient tools to aid retirees in the spend down of their savings, including the absence of lifetime income options in most defined contribution plans.
Reduce complexity and risk for both plan participants and plan sponsors	Decisions related to managing retirement savings and plan sponsorship have reached a level of complexity that participants and plan sponsors, respectively, find difficult to navigate
Stabilize fiscal exposure to the federal government	As the number of retirees increases, so does the financial stress on government programs serving the aging population

Source: GAO analysis. 1 GAO-19-342T

Reforming the nation's retirement system to create a system that meets all of these goals, or others identified by the Congress, will require a careful and deliberative approach. For example, some type of consensus about the goals would need to be established as a first step. Broad questions are likely to be raised about how each of the goals should be achieved. The examination of relevant issues by past federal commissions, the discussions at our November 2016 panel, as well as what we can learn from the experiences of other countries, further illustrate how complex any reform effort is likely to be. Also, we recognize that some of these goals may compete with each other—in particular, ensuring greater retirement security and minimizing fiscal exposure to the federal government. Therefore, a balanced approach will be required,

³³ For further discussion of NEST, see [GAO-15-556](#).

which can only result from a more holistic examination of the issues by those representing a broad range of perspectives.

As a result, we recommended that Congress consider establishing an independent commission to comprehensively examine the U.S. retirement system and make recommendations to clarify key policy goals for the system and improve the nation's approach to promoting more stable retirement security. We suggested that such a commission include representatives from government agencies, employers, the financial services industry, unions, participant advocates, and researchers, among others, to help inform policymakers on changes needed to improve the current U.S. retirement system.

Chairman Collins, Ranking Member Casey, and Members of the Committee, this concludes my prepared remarks. I would be happy to answer any questions that you may have.

GAO Contacts and Staff Acknowledgments

For further information regarding this testimony, please contact Charles A. Jeszeck at (202) 512-7215 or jeszeckc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

In addition to the contact above, Margie K. Shields, Assistant Director; Jennifer Gregory, Analyst-in-Charge; Justine Augeri; and Gustavo O. Fernandez made key contributions to this publication. Also contributing to this report were Barbara D. Bovbjerg, Managing Director, Education, Workforce, and Income Security Issues; Oliver Richard, Chief Economist; Frank Todisco, Chief Actuary; James Bennett, Deborah Bland, Corinna Nicolaou, and Adam Wendel, with assistance from others who worked on our 2017 report.

Appendix I: GAO's Expert Panel on the State of Retirement

We convened a panel of retirement experts in November 2016 to obtain their insights on the condition of retirement in the United States and various options for a new approach to help ensure that all individuals can provide for a secure retirement. This appendix provides a description of our methodology for selecting the panel. (See text box for final list of 15 experts participating in our panel.)

State of Retirement Panel Participants (Positions are as of November 2016)

William Bortz Michael S. Gordon Fellow Pension Rights Center	Regina Jefferson Professor of Law Columbus School of Law The Catholic University of America
Phyllis Borzi Assistant Secretary of Labor Employee Benefits Security Administration	David John Senior Strategic Policy Advisor AARP
Harry Conaway President & CEO Employee Benefit Research Institute	Melissa Kahn Managing Director, Retirement Policy Strategist State Street Global Advisors
Warren Cormier CEO and Founder Boston Research Technologies	Hank Kim Executive Director & Counsel The National Conference on Public Employee Retirement Systems
Teresa Ghilarducci Professor of Economics and Director of the Schwartz Center for Economic Policy Analysis The New School for Social Research	Diane Oakley Executive Director National Institute on Retirement Security
Bill Hallmark Vice President for Pensions American Academy of Actuaries	Virginia Reno Deputy Commissioner for Retirement and Disability Policy Social Security Administration
Will Hansen Senior Vice President for Retirement Policy ERISA Industry Committee	Sita Nataraj Slavov Professor of Public Policy, Schar School of Policy and Government George Mason University
Cindy Hounsell President Women's Institute for a Secure Retirement	

Source: GAO. | GAO-19-342T

Methodology for Selecting the Panel and Analyzing Their Remarks

To identify the experts to invite to this meeting, we compiled an initial list based on interviews with experts conducted during recent GAO retirement income security work and the organizations invited to participate in a 2005 GAO forum on the future of the defined benefit

system and the Pension Benefit Guaranty Corporation.¹ Potential experts were identified based on the following criteria:

- Organizational type: To ensure that we considered the unique roles or situations of various entities involved in retirement income policy, we selected panelists from the federal government, state or local government, research institutes or universities, advocacy or membership organizations, and financial services firms.
- Organizational reputation: To ensure that our panelists span political perspectives, we selected panelists from organizations known to be conservative, moderate, and liberal (to the extent the reputation for the organization could be easily identified).
- Subject matter expertise: To ensure that the discussion considered as many aspects of retirement income security as possible, we selected panelists with expertise across a range of areas, including defined benefit (DB) plans, defined contribution (DC) plans, individual retirement accounts (IRA), demographic trends, vulnerable populations, actuarial science, income in retirement, financial literacy, and behavioral finance.
- Range of views: To ensure that our discussion was inclusive of different philosophies regarding the role of government with regard to the population and the economy, we selected panelists to represent the viewpoints of individuals and business.
- Representation of diverse groups: To ensure that the discussion benefited from different viewpoints, we selected panelists to reflect gender, racial, and ethnic diversity.

An initial list of 41 potential experts was shared with GAO management officials with expertise in retirement issues, actuarial science, and strategic planning, as well as GAO methodologists, for their comments and suggestions. From this, we developed a shorter list eventually arriving at our final group of 15, listed above. These final 15 panelists were also evaluated for conflicts of interest. A conflict of interest was considered to be any current financial or other interest that might conflict with the service of an individual because it (1) could impair objectivity and (2) could create an unfair competitive advantage for any person or organization. All potential conflicts were discussed by GAO staff. The 15

¹ GAO, *Highlights of a GAO Forum: The Future of the Defined Benefit System and the Pension Benefit Guaranty Corporation*, [GAO-05-578SP](#) (Washington, D.C. June 1, 2005).

experts were determined to be free of conflicts of interest, and the group as a whole was judged to have no inappropriate biases.

Panelists engaged in a day-long discussion about our nation's approach to retirement policy (see text box). The discussion was guided by a list of questions developed in advance, and the meeting was conducted by a GAO moderator to ensure that all panelists had an opportunity to participate and provide responses.

State of Retirement Expert Panel Agenda**Welcome and Opening Remarks****Session 1: How Well Is Our Current National Approach to Retirement Security Working?**

Preamble: Retirement income sources in the United States have often been referred to as a three-legged stool – Social Security, employer-sponsored retirement plans, and personal savings.

1. Can the U.S. retirement system today still be accurately described by these three retirement income sources? Why/why not?
2. Are there aspects of our nation's approach to retirement income security that are working well? If so, are these aspects functioning well for all, or only for particular populations?
3. Are there aspects of our nation's approach to retirement income security that are concerning? If so, what are your biggest concerns?
4. Are there any specific populations you are particularly concerned about? If so, which ones and why?

Session 2: Reevaluating the Roles of the Federal Government, Employers, and Individuals

Preamble: Key actors in assuring a secure retirement have traditionally included the federal government, employers, and individuals, but their roles have evolved over time.

- Are there ways roles could or should be adapted or modified to address the strengths and weaknesses that have been identified for:
 - Federal government?
 - Employers?
 - Individuals?

Session 3: Reevaluating Our Nation's Approach to Retirement Policy

Preamble: Various proposals for a broader, more cohesive approach to retirement policy have been made over time.

1. Do you believe there is a need for some type of national retirement policy?
2. If such a policy were to be proposed—
 - 2a. What could or should be the primary goals of such a policy?
 - 2b. What could or should be the roles of key actors in achieving those goals?
3. What do you believe could be the greatest benefits of a national retirement policy?
4. What do you believe could be the greatest risks or potential downsides of a national retirement policy?

What barriers exist to creating a national retirement policy and how could the federal government best address these barriers?

Appendix II: Selected Federal Legislation Related to Retirement Security from 1960-Present

The chronology highlights below selected federal legislation related to retirement security in the United States since 1960. It is based on a larger chronology included in our prior special product on the nation's retirement system ([GAO-18-111SP](#)). The chronology is intended to illustrate the incremental approach that the nation has taken to improving the U.S. retirement system and to convey the changes that the legislation enacted at the time. It is not intended to provide an exhaustive list of legislation that has impacted retirement in the United States, to make statements about current provisions of the law, or to provide comprehensive descriptions of each law.

Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)	
1961	Social Security Amendments of 1961 Selected provision: Enacted a provision for men, comparable to the provision enacted for women in 1956, concerning early retirement at age 62.
1962	Self-Employed Individuals Tax Retirement Act of 1962 Selected provision: Imposed minimum distribution requirements for self-employed participants in a qualified plan generally beginning at age 70 ½.
1965	Social Security Amendments of 1965 Selected provisions: Enacted new titles to the Social Security Act for Medicare and Medicaid. Medicare provided hospital, post-hospital extended care, and home health coverage to almost all Americans age 65 or older; Medicaid provided states with the option of receiving federal funding for providing health care services to certain low-income and medically needy individuals.
1967	Age Discrimination in Employment Act of 1967 Selected provisions: Made it unlawful for an employer to discriminate against any individual with respect to compensation, terms, conditions, or privileges of employment because of age; and required the Secretary of Labor to carry on a continuing program of education and information, which could include research with a view to reducing barriers to the employment of older persons.
1974	Employee Retirement Income Security Act of 1974 (ERISA) Selected provisions: Regulated private sector employers who offer pension or welfare benefit plans for their employees. <ul style="list-style-type: none"> • Title I: Imposed reporting and disclosure requirements on plans; imposed certain responsibilities on plan fiduciaries. • Title II: Strengthened participation requirements for employees age 25 and over; established vesting rules; required that a joint and survivor annuity be provided; and established minimum funding standards. In addition, provided individual retirement accounts (IRAs) for persons not covered by pensions. • Title IV: Required certain employers and plan administrators to fund an insurance system to protect certain kinds of retirement benefits (i.e., to pay premiums to the federal government's Pension Benefit Guaranty Corporation (PBGC)).
1978	Revenue Act of 1978 Selected provisions: Established qualified deferred compensation plans called 401(k) plans after 26 U.S.C. § 401(k), which allowed for pre-tax employee contributions to such plans (known as elective deferrals).
1980	Multiemployer Pension Plan Amendments Act of 1980 Selected provisions: Strengthened the funding requirements for multiemployer pension plans; authorized plan preservation measures for financially troubled multiemployer plans; and revised the manner in which insurance provisions applied to multiemployer plans.

**Appendix II: Selected Federal Legislation
Related to Retirement Security from 1960-
Present**

Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)	
1982	<p>Tax Equity and Fiscal Responsibility Act of 1982</p> <p>Selected provisions: Reduced the maximum annual addition (employer contributions, employee contributions, and forfeitures) for each participant in a defined contribution (DC) plan; reduced the maximum annual retirement benefit for each participant in a defined benefit (DB) plan; introduced special rules for “top heavy” plans (i.e., plans in which more than 60 percent of the present value of the cumulative accrued benefits under the plan for all employees accrue to key employees, including certain owners and officers); and expanded minimum distribution requirements to all qualified plans.</p>
1983	<p>Social Security Amendments of 1983</p> <p>Selected provisions: Gradually raised the normal retirement age from 65 to 67, depending on an individuals’ year of birth; expanded coverage; increased the self-employment tax for self-employed persons; subjected a portion of Social Security benefits to federal income tax for the first time; and changed how cost-of-living adjustments are calculated when trust funds are low.</p>
1984	<p>Deficit Reduction Act of 1984</p> <p>Selected provisions: Amended nondiscrimination testing requirements for 401(k) plans and required minimum distribution rules, and restricted prefunding of certain employee post-retirement welfare benefits (such as disability and medical benefits).</p>
1984	<p>Retirement Equity Act of 1984</p> <p>Selected provisions: Changed participation rules by lowering the minimum age that a plan may require for enrollment (from age 25 to 21), and permitted certain breaks in service without loss of pension credits. Also, strengthened treatment of pension benefits for widowed and divorced spouses.</p>
1986	<p>Single-Employer Pension Plan Amendments Act of 1986</p> <p>Selected provisions: Raised the per-participant PBGC premium from \$2.60 to \$8.50; established certain distress criteria that a contributing sponsor or substantial member of a contributing sponsor’s controlled group must meet in order to terminate a single-employer plan under a distress termination; established certain criteria for PBGC to terminate a plan that does not have sufficient assets to pay benefits that are currently due (referred to as “involuntary terminations”); and created a new liability to plan participants for certain non-guaranteed benefits.</p>
1986	<p>Federal Employees’ Retirement System Act of 1986</p> <p>Selected provisions: Established the Federal Employees’ Retirement System (FERS). Unlike the existing Civil Service Retirement System (CSRS), retirement and disability benefits under FERS were structured to be fully funded by employee and employer contributions and interest earned by the bonds in which the contributions were invested. The DB under FERS was lower than under CSRS, but FERS also included a DC plan component: the Thrift Savings Plan.</p>
1986	<p>Omnibus Budget Reconciliation Act of 1986</p> <p>Selected provisions: Required employers that sponsor pension (DB plans) and retirement savings plans (DC plans such as a 401(k)) to provide benefit accruals or allocations for employees who work beyond their normal retirement age.</p>
1986	<p>Tax Reform Act of 1986</p> <p>Selected provisions: Established faster minimum vesting schedules; adjusted limitations on contributions and benefits for qualified plans; limited the exclusion for employee elective deferrals to \$7,000; and amended nondiscrimination coverage rules. Also, restricted the allowable tax-deductible contributions to IRAs for individuals with incomes above a certain level and who participate in employer-sponsored pension plans, and imposed an additional 10 percent tax on early distributions (before age 59 ½) from a qualified retirement plan.</p>
1987	<p>Omnibus Budget Reconciliation Act of 1987</p> <p>Selected provisions: Strengthened funding rules for pension plans and the level and structure of PBGC premiums.</p>
1993	<p>Omnibus Budget Reconciliation Act of 1993</p> <p>Selected provisions: Reduced compensation taken into account in determining contributions and benefits under qualified retirement plans, and expanded taxation of Social Security benefits.</p>

**Appendix II: Selected Federal Legislation
Related to Retirement Security from 1960-
Present**

Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)	
1994	Retirement Protection Act of 1994 Selected provisions: Strengthened funding rules for pension plans.
1996	Small Business Job Protection Act of 1996 Selected provisions: Created a type of simplified retirement savings vehicle for small employers; added a nondiscrimination safe harbor for 401(k) plans; amended the definition highly compensated employee; and modified certain participation rules for DC plans.
1997	Taxpayer Relief Act of 1997 Selected provision: Established Roth IRAs, under which contributions are after-tax, but distributions after age 59½ are tax-free.
2000	Senior Citizens' Freedom to Work Act of 2000 Selected provision: Amended the Social Security Act to eliminate the earnings limit for individuals who have reached their normal retirement age.
2001	Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) Selected provisions: Increased the individual elective deferrals that may be made to a 401(k) plan; added "catch-up contributions" that allow individuals age 50 or older to make additional contributions; increased the maximum annual contributions to DC plans and individual retirement accounts; increased the maximum annual benefits under a DB plan; increased the compensation limit for qualified trusts; reduced the minimum vesting requirements for matching contributions; and changed the rules that permit plans to cash-out, without consent.
2002	Sarbanes-Oxley Act of 2002 Selected provision: Added a new requirement that individual account pension plans provide notice to participants and beneficiaries in advance of periods during which the ability of participants or beneficiaries to take certain actions with respect to their accounts will be temporarily suspended, limited, or restricted (referred to as "blackout periods").
2005	Deficit Reduction Act of 2005 Selected provisions: For plan years that begin after December 31, 2005, set the PBGC flat-rate premium for multiemployer plans at \$8.00; and, for each plan year that begins after 2006, indexed future premium levels to the national average wage index.
2006	Pension Protection Act of 2006 (PPA) Selected provisions: Strengthened the minimum funding requirements for DB plans; set certain benefit limitations for underfunded DB plans; enhanced the protections for spouses; amended plan asset diversification requirements; changed provisions concerning the portability of pension plans; allowed the adoption of automatic enrollment and target date funds for DC plans; and increased reporting and disclosure requirements for plan sponsors.
2008	Worker, Retiree, and Employer Recovery Act of 2008 Selected provision: Modified PPA's funding requirements to grant relief for single-employer DB plans.
2012	Moving Ahead for Progress in the 21st Century Act (MAP-21) Selected provisions: Provided funding relief for single-employer DB plans by changing the interest rates used to reflect a 25-year historical average; increased premium rates for sponsors of single-employer and multiemployer DB plans; and included other provisions intended to improve the governance of PBGC.
2012	American Taxpayer Relief Act of 2012 Selected provisions: Extended the tax-free treatment of distributions from IRAs made for charitable purposes; allowed for certain in-plan transfers to a Roth account.
2014	Multiemployer Pension Reform Act of 2014 (MPRA) Selected provisions: Allowed severely underfunded multiemployer plans, under certain conditions and with the approval of federal regulators, the option to reduce the retirement benefits of current retirees to avoid plan insolvency; and expanded PBGC's ability to intervene when plans are in financial distress.

**Appendix II: Selected Federal Legislation
Related to Retirement Security from 1960-
Present**

Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)	
2018	Bipartisan Budget Act of 2018 Selected provisions: Established a temporary Joint Select Committee on Solvency of Multiemployer Pension Plans. The goal of the Joint Select Committee was to improve the solvency of multiemployer pension plans and PBGC.

Source: GAO | GAO-19-342T

Appendix III: Structure, Scope, and Recommendations of Three Past Federal Commissions on Retirement Issues

Since the enactment of ERISA, there have been three federal commissions on retirement issues: The President's Commission on Pension Policy, the National Commission on Social Security Reform, and the President's Commission to Strengthen Social Security (see table 2). We examined these commissions to gain insights on possible structures for federal commissions, the scope of work these commissions can take on, and the types of recommendations they can make.

Table 2: Federal Commissions Addressing Retirement-related Issues since 1974

Commission	President's Commission on Pension Policy	National Commission on Social Security Reform (known as the Greenspan Commission)	President's Commission to Strengthen Social Security
When and how established	In 1978, President Carter signed an executive order authorizing this commission and it was established when committee members were appointed in 1979, 5 years after the enactment of the Employee Retirement Income Security Act of 1974 (ERISA).	Established by the president and appointed by the Congress and President Reagan in 1981.	This bipartisan commission was established in May 2001 by President Bush.
Appointment of members	President Carter appointed all 11 commission members.	The President, the Majority Leader of the Senate and the Speaker of the House of Representatives at the time were each responsible for selecting five members of the commission in a bipartisan way.	President Bush appointed all 16 commission members.
Scope of study	The commission was called upon to conduct a 2-year study of the nation's pension systems and the future course of national retirement-income policies, and issue a series of reports on short-term and long-term issues with respect to retirement, survivor, and disability programs.	The commission was to conduct a study and make recommendations regarding the short-term financing crisis faced by Social Security at the time.	The commission was to study and report, using six guiding principles, specific recommendations to preserve Social Security for seniors while building wealth for younger Americans.
Final report	The final report was issued in February 1981.	The final report was issued in 1983 and was the basis for the Social Security Amendments of 1983 which addressed the long-term financing problem by gradually increasing the retirement age from 65 to 67, among other things, and made other significant changes to Social Security such as expanding coverage.	The final report, "Strengthening Social Security and Creating Personal Wealth for All Americans," was issued in December 2001.

Source: GAO. | GAO-19-342T

Carter Commission (1979-1981)

In 1978, President Carter signed an executive order authorizing the Carter Commission, which was established when committee members were appointed in 1979. The commission was to conduct a 2-year study of the nation's pension systems and the future course of national retirement income policies. President Carter appointed all 11 commission members. The commission also had an executive director and 37 staffers. Its final report, *Coming of Age: Toward a National Retirement Income Policy*, was released in February 1981.¹

Charge to the Carter Commission

The commission was ordered to:

- Conduct a comprehensive review of retirement, survivor, and disability programs existing in the United States, including private, federal, state, and local programs.
- Develop national policies for retirement, survivor, and disability programs that can be used as a guide by public and private programs. The policies were to be designed to ensure that the nation had effective and equitable retirement, survivor, and disability programs that took into account available resources and demographic changes expected into the middle of the next century.
- Submit to the President a series of reports including the commission's findings and recommendations on short-term and long-term issues with respect to retirement, survivor, and disability programs. The commission was charged with covering the following issues in its findings and recommendations:
 - overlaps and gaps among the private, state, and local sectors in providing income to retired, surviving, and disabled persons;
 - the financial ability of private, federal, state, and local retirement, survivor, and disability systems to meet their future obligations;
 - appropriate retirement ages, the relationship of annuity levels to past earnings and contributions, and the role of retirement, survivor, and disability programs in private capital formation and economic growth;
 - the implications of the recommended national policies for the financing and benefit structures of the retirement, survivor, and disability programs in the public and private sectors; and

¹ President's Commission on Pension Policy, *Coming of Age: Toward a National Retirement Income Policy* (Feb. 26, 1981).

Carter Commission's
Recommendations

- specific reforms and organizational changes in the present systems that may be required to meet the goals of the national policies.

In its final report, the Carter Commission prescribed a goal for retirement income policy and made numerous recommendations. According to the report, a desirable retirement income goal is the replacement of pre-retirement income from all sources. Recommendations focused on strengthening four areas: employer pensions, Social Security, "individual efforts" (personal savings, employment of older workers, and disability), and public assistance. Recommendations were also made regarding the administration of the U.S. retirement system. Examples of ways to strengthen each area follow:

- **Strengthening Employer Pensions.** The commission recommended establishing a Minimum Universal Pension System (MUPS) for all workers. MUPS was intended to provide a portable benefit that was supplemental to Social Security. It would have built upon existing employer plans and existing plans that did not meet the requirements would have needed to be amended. Another recommendation was to establish a Public Employee Retirement Income Security Act (i.e. a public sector version of ERISA) so that public and private sector employees would receive similar protections.
- **Strengthening Social Security.** The commission recommended mandatory universal coverage, raising the retirement age for workers who were not approaching retirement, re-examining or making adjustments to the special minimum benefit as well as the spousal benefit and other miscellaneous benefits.
- **Strengthening Individual Efforts.** The commission recommended that contribution and benefit limitations for all individuals should be treated more consistently for all types of retirement savings. The commission also recommended a refundable tax credit for low- and moderate-income individuals to encourage saving for retirement. For older workers, recommendations included improving unemployment benefits to provide short-term income maintenance and keep them in the labor force. The commission also recommended further in-depth study of the Disability Insurance program.
- **Strengthening Public Assistance.** The commission made recommendations to address inflation protection for retirement income and setting Social Security's Supplemental Security Income at the poverty line level and eliminating its assets test.

Appendix III: Structure, Scope, and
Recommendations of Three Past Federal
Commissions on Retirement Issues

- **Administration.** The commission recommended consolidating the administration of all federal retirement systems as well as consolidating ERISA administrative functions under one entity. It also recommended an interdepartmental task force to coordinate executive branch agencies dealing with retirement income.
-

Greenspan Commission
(1981-1983)

In 1981, President Reagan signed an executive order establishing the Greenspan Commission. The President asked the commission to conduct a 1-year study and propose realistic, long-term reforms to put Social Security on sound financial footing and to reach bipartisan consensus so these reforms could be passed into law. The President, the Senate Majority Leader, and the Speaker of the House of Representatives each made five appointments, with no more than three of the five appointments coming from one political party to ensure a bipartisan commission. The President was responsible for appointing the commission's chair. The commission had a staff of 23. The final report, *Report of the National Commission on Social Security Reform*, was issued on January 20, 1983.²

Charge to the Greenspan
Commission

The commission was ordered to

- Review relevant analyses of the current and long-term financial condition of the Social Security Trust Funds
- Identify problems that could threaten the long-term solvency of such funds
- Analyze potential solutions to such problems that would both assure the financial integrity of the Social Security system and appropriate benefits
- Provide appropriate recommendations to the Secretary of Health and Human Services, the President, and Congress.

Greenspan Commission's
Recommendations

In its final report, the Greenspan Commission found both short and long-term financing problems and recommended that action should be taken to strengthen the financial status of the Social Security program. Twelve commission members voted in favor of a consensus package with 13 recommendations to address Social Security's short-term deficit, including, for example:

² National Commission on Social Security Reform, *Report of the National Commission on Social Security Reform* (Washington, D.C.: Jan. 20, 1983).

Appendix III: Structure, Scope, and
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Commissions on Retirement Issues

- Expand Social Security to include coverage for nonprofit and civilian federal employees hired after January 1, 1984, as well as prohibiting the withdrawal of state and local employees.
- Shift cost-of-living adjustments to an annual basis.
- Make the Social Security Administration its own separate, independent agency.
- Make adjustments to spousal and survivor benefits.
- Revise the schedule for Social Security payroll taxes.
- Establish the taxation of benefits for higher-income persons.

In addition, these 12 commission members agreed that the long-range deficit should be reduced to approximately zero, and their recommendations were projected to meet about two-thirds of the long-range financial deficit. Seven of the 12 members agreed that the remaining one-third of the long-range financial deficit should be met by a deferred, gradual increase in the normal retirement age, while the other 5 members agreed that it should be met by an increase in future contribution rates starting in 2010.

After the Greenspan Commission's final report was issued, Congress enacted the Social Security Amendments of 1983. The amendments incorporated many of the Greenspan Commission's recommendations and made comprehensive changes to Social Security coverage, financing, and benefit structure. These changes included addressing Social Security's long-term financing problems by gradually increasing the retirement age from 65 to 67, among other things.

President's Commission to
Strengthen Social Security
(2001)

In 2001, President Bush signed an executive order establishing the President's Commission to Strengthen Social Security. The President asked the Commission to produce an interim report describing the challenges facing the Social Security system and the criteria by which the Commission would evaluate reform proposals, as well as a final report to set forth the Commission's recommendations regarding how to strengthen Social Security with personal accounts. The commission had a staff of sixteen members appointed by the President, of which no more than eight members were of the same political party. The final report,

	<p><i>Strengthening Social Security and Creating Personal Wealth for All Americans</i>, was issued in December 2001.³</p>
Charge to the President's Commission to Strengthen Social Security	<p>The commission was asked to submit to the President bipartisan recommendations to modernize and restore fiscal soundness to the Social Security system according to the following principles:</p> <ul style="list-style-type: none"> • Modernization must not change Social Security benefits for retirees or near-retirees; • The entire Social Security surplus must be dedicated to Social Security only; • Social Security payroll taxes must not be increased; • Government must not invest Social Security funds in the stock market; • Modernization must preserve Social Security's disability and survivors components; and • Modernization must include individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net.
The President's Commission to Strengthen Social Security Recommendations	<p>In its final report, the Commission offered three models for Social Security reform. All three models shared a common framework whereby voluntary individual accounts were established in exchange for a reduction in the Social Security defined portion of benefit. According to the report:</p> <ul style="list-style-type: none"> • Reform Model 1 would have established a voluntary personal account option, but did not specify other changes in Social Security's benefit and revenue structure and was intended to achieve full long-term sustainability. • Reform Model 2 would have enabled future retirees to receive Social Security benefits that would be at least as great as then current retirees and increased Social Security benefits paid to low-income workers. Model 2 would have established a voluntary personal account without raising taxes or requiring additional worker contributions. It was intended to achieve solvency and balanced Social Security revenues and costs. • Reform Model 3 would have established a voluntary personal account option that generally enabled workers to reach or exceed then-current

³ President's Commission to Strengthen Social Security, *Strengthening Social Security and Creating Personal Wealth for All Americans* (Washington, D.C.: Dec. 21, 2001).

Appendix III: Structure, Scope, and
Recommendations of Three Past Federal
Commissions on Retirement Issues

scheduled benefits and wage replacement ratios. It was intended to achieve solvency by adding revenues and by slowing benefit growth less than price indexing.

GAO's Mission	The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
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**Written Statement of John Scott
United States Senate Special Committee on Aging
February 6, 2019**

The Pew Charitable Trusts

Thank you, Madam Chairwoman and Ranking Member Casey, for the opportunity to testify on the importance of financial security in retirement. My name is John Scott, and I am the director of the retirement savings project at The Pew Charitable Trusts (Pew). Pew is an independent nonpartisan, non-profit organization that applies a rigorous analytical approach to improve public policy. I want to commend the chair and the ranking member for holding this hearing on a topic of great importance to our country.

For many Americans, saving through a workplace retirement plan is the primary vehicle for ensuring financial security in old age, but coverage is not universal. Overall, one-third of private sector workers lack access to a retirement plan at their jobs, and some workers do not participate even when their employer offers a plan. Only [28 percent](#) of full-time workers without access to employer-sponsored plans report having any other retirement savings through alternative approaches, such as an IRA or a 401(k) from a previous employer.

Gaps in retirement plan coverage affects not just workers' retirement security. Federal, state and local governments—as well as the larger economy—will likely face higher costs and reduced output.

A [study](#) by the University of Maine, for example, found that in 2016 spending for Mainers between 65-79 years old receiving social services such as Medicaid, SSI, SNAP and housing

assistance reached \$164 million, with about \$28 million financed by the state. Maine's retirement age population, those persons over 65, was projected to increase 30 percent between 2016 and 2032. The cost of those social services is expected to increase to \$362 million in 2032, with the state's share growing to \$61 million or 2.2 times greater than in 2016.

A similar Pennsylvania [study](#) found that the commonwealth spent an estimated \$702 million in public assistance costs and lost about \$70 million in tax revenue in 2015 due to insufficient retirement savings by Pennsylvania residents. Net costs for inadequate retirement savings are projected to grow to \$1.1 billion by 2030 and total a cumulative \$14.3 billion from 2015-2030.

Increasing the number of workers saving for retirement, and boosting their rate of savings, would have a substantial and positive impact on individual financial security as well as on the country's fiscal and economic situation.

Barriers facing workers

To help provide guidance on what encourages or prevents people from saving for retirement, Pew conducted a nationally representative [survey](#) of private sector workers at small to midsize businesses with five to 500 employees. Workers at small businesses have especially low levels of access to a retirement plan. According to the [Department of Labor](#), only 49 percent of employees at firms with less than 50 workers have a workplace retirement plan, compared to 83 percent of those at firms with more than 100 workers.

Pew's survey found that whether workers have access to employer-sponsored retirement plans differs by type of work and worker characteristics. Among the key findings:

- Part-time workers, those with lower wages, and those who had experienced unemployment for an extended period are less likely than other employees to have access to a workplace plan.
- Access to a retirement plan also varies by education level. For example, full-time workers with at least a bachelor's degree are more than twice as likely as those with less education to have any retirement plan.
- Race, ethnicity and gender can also affect retirement plan coverage. Hispanic full-time workers have less access to plans than white full-time workers. Specifically, across racial groups, white full-time workers are three times as likely as Hispanics to have any plan (even when controlling for industry in regression models). And women are more likely than men to have any retirement savings.
- Plan access can vary by industry: Workers in wholesale and retail trade businesses, for example, are less likely to have a workplace plan than those in other industries.

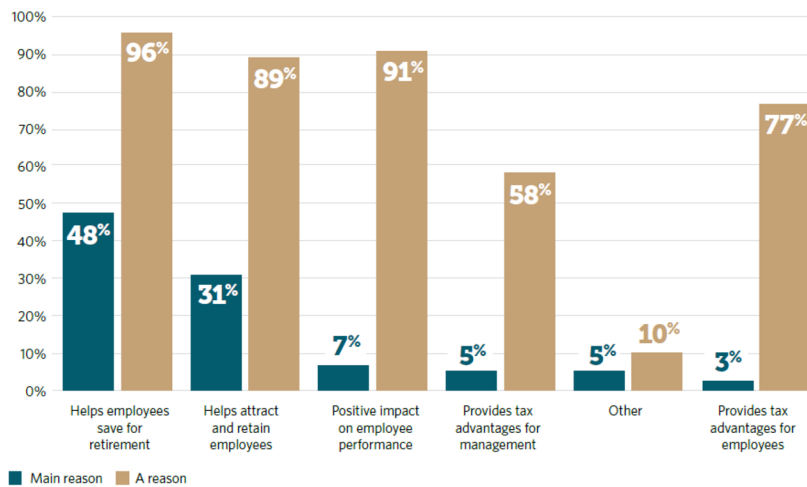
Employer characteristics also matter.

To improve retirement security and to reduce future government spending on social services for the elderly, policymakers are looking at ways to increase access to private sector employer-sponsored retirement plans, particularly among small businesses. When crafting their approaches, understanding why some small employers offer plans and others do not may be useful to policymakers. In 2016, Pew conducted a [survey](#) of owners, top executives, and human resource managers at more than 1,600 private sector, small and midsize businesses nationwide—one of the first high-quality small business surveys conducted in 10 years. One focus of the survey was to identify the obstacles to, and motivations for, offering plans and to gather data on what plans are currently offered and plan characteristics.

First, the survey found that employers offered various reasons for providing retirement plans. Almost all—96 percent—cited a desire to help employees save for retirement, and 48 percent identified it as the main reason. In Pew focus groups conducted prior to the survey, small to midsize employers repeatedly said that offering a retirement plan helped them to attract quality employees. In the survey, 91 percent said they felt that offering a retirement plan had a positive impact on employee performance, while 89 percent said doing so helped attract and retain employees. Nearly a third—31 percent—said attracting and retaining workers was the main reason they offered a plan. Tax advantages for management and employees were cited much less often as main reasons (5 percent and 3 percent, respectively).

Reasons Employers Offer a Retirement Plan

Helping employees save most frequently cited



Source: The Pew Charitable Trusts

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In terms of characteristics associated with plan sponsorship, firm financial stability emerged as a key factor. For example, employers that reported that earnings increased over the past 2 years were 41 percent more likely to offer a plan than if earnings had remained flat.

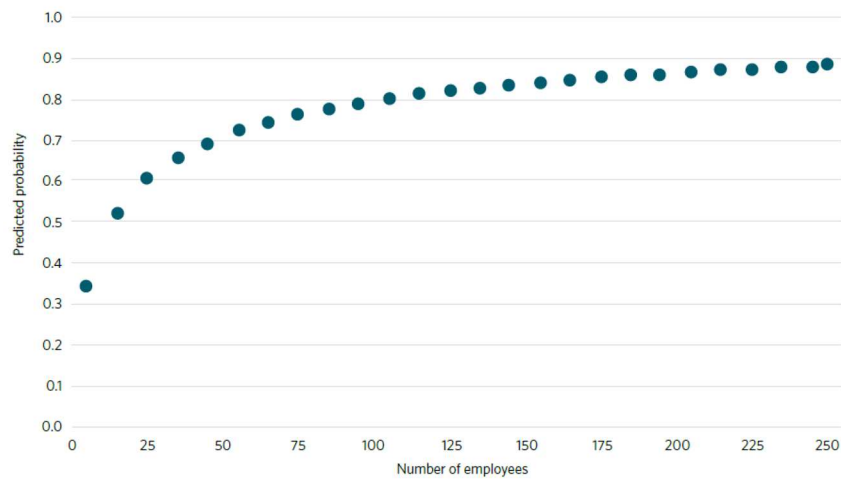
The type of business matters, too. Incorporated businesses are 1.8 times more likely to offer a plan than nonincorporated businesses, even when controlling for the number of employees.

Corporate status may signal that a firm is growing or stable enough to support offering more benefits.

Not surprisingly, larger, older businesses are more likely to offer plans, but the relationship is not linear. Businesses are more likely to adopt plans in the early stages of growth, but that likelihood tapers off after a certain point. For example, the probability that the average business with five employees offers a retirement plan is just 34 percent, while the probability for the average business with 55 employees to do so is a little more than twice that—72 percent. The probability continues to grow as staffing increases, but at a much lower rate.

Probability of Offering a Retirement Plan by Number of Employees

The likelihood increases most rapidly among smaller businesses



Note: In the left-hand column, a probability of 1 represents a 100 percent likelihood that a business offers a retirement plan. The probability rises fastest as a business's staffing grows to about 75 and then levels off as the number of employees increases.

Source: The Pew Charitable Trusts

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Businesses with a higher percentage of full-time workers also are more likely to offer a plan than those with more part-time employees. On average, there is a 66 percent likelihood that a firm that employs all full-time workers will offer a plan compared with a 44 percent chance for a company with a workforce divided evenly between full- and part-time workers.

Meanwhile, a 3-year-old firm is 25 percent more likely to offer a retirement plan than a 1-year-old firm. That increase in probability diminishes as companies age. For example, one in business for 13 years is only 3 percent more likely than one in business for 11 years to offer one.

These results suggest that businesses tend to adopt plans during a “middle” phase in their development, after startup and during a period of expansion and growth. At such a time, retirement benefits may be an attractive tool for hiring and retaining talented employees when an employer already has provided other benefits to workers, such as health insurance. When addressing barriers, such as limited knowledge and startup costs, state policies could specifically target younger, less established businesses.

Several plan features such as employer contributions can improve workers’ financial security. Employers in the Pew survey were likely to contribute to workers’ plans. Among those with defined contribution plans, 89 percent contributed to their plans, and 82 percent of those that contributed said they match worker contributions.

Automatic enrollment is another feature that can affect participation. When a worker is automatically enrolled in a plan, contributions are set at a default rate, such as 3 percent of his or her wages or salary, with the employee able to opt out of the plan or change the contribution level. Auto-enrollment serves to overcome a worker’s inaction, since many workers are stymied by the complex or overwhelming information retirement plans provide. The Pension Protection Act of 2006 authorized employers to automatically enroll workers and, increasingly, private sector employers are automatically enrolling new hires into 401(k) plans.

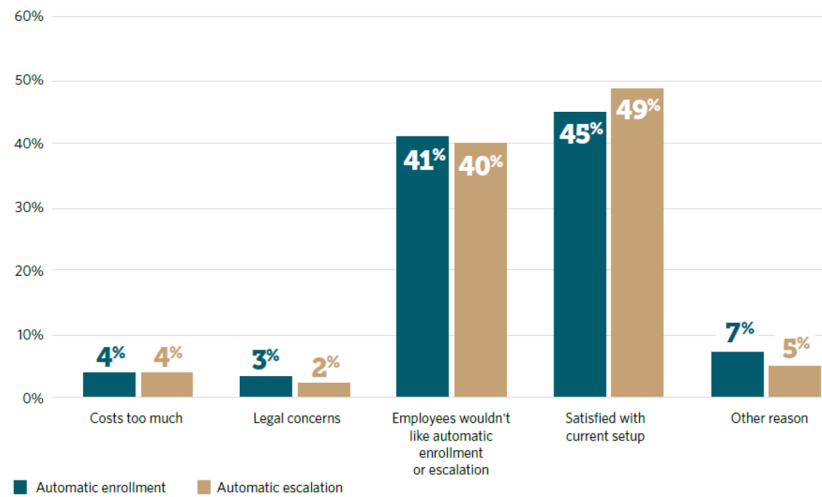
According to client [data](#) from the mutual fund company Vanguard about the plans it manages, 46 percent of retirement plans use automatic enrollment, up from 20 percent in 2008, with the percentage varying greatly by company size: 65 percent of plans with 5,000 or more participants use auto-enrollment, but only 30 percent of plans with 500 or fewer participants do so. The effect is dramatic: Looking again at Vanguard’s database, 92 percent of employees participated in auto-enrollment plans, with only a small percentage opting out, while 57 percent enrolled in voluntary plans.

Relatively small percentages of small business plan providers, however, use plan options such as automatic enrollment. In Pew’s survey of small employers, about a third automatically enroll their workers, while about a sixth use automatic escalation, which increases employee contributions annually until a certain maximum percentage is met. About 48 percent of employers said they offered retirement benefits primarily to help their workers save. Still, those who said this was a reason were no more likely to use these pro-savings features than those who did not cite this as a reason they offer benefits.

When asked why they do not offer features that encourage participation and savings such as automatic enrollment or automatic escalation, executives were most likely to say their businesses were satisfied with their current setup (45 percent in response to automatic enrollment and 49 percent in response to automatic escalation). In addition, about 4 in 10 said that employees would not like automatic enrollment (41 percent) or automatic escalation (40 percent). Few cited legal or cost concerns.

Reasons Employers Do Not Offer Automatic Enrollment or Automatic Escalation

Many unsure that employees would like either approach



Source: The Pew Charitable Trusts

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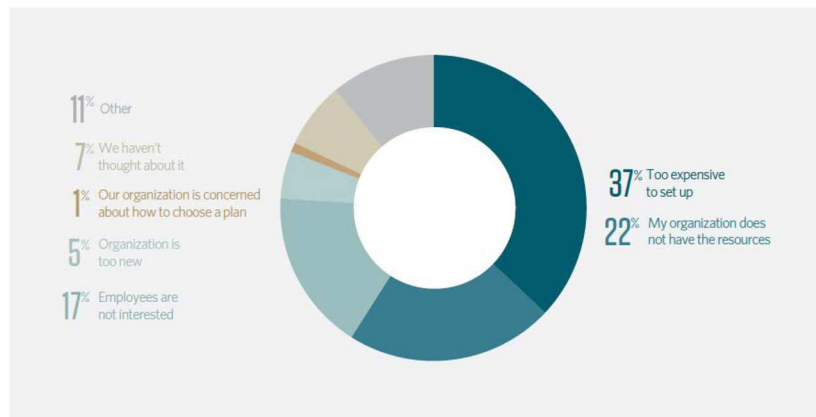
Smaller business owners and their workers may not be as familiar with the workings and benefits of auto-enrollment and auto-escalation. Even if familiar with them, however, small employers may have concerns about how their employees would react to these features. Unlike larger corporations, these employers have more direct involvement with employees and are more aware of their attitudes and specific preferences.

Small employers without retirement plans

Many employers said they would like to offer retirement savings options but feel they face numerous barriers to doing so. Some business representatives in focus groups held as part of the survey cited limited demand for retirement benefits because their workers earned low wages or were working short term, in addition to the costs and resources required to start and maintain a plan. The survey data generally support all these focus group findings regarding barriers. Policies that take a multipronged approach can help to address the range of possible barriers.

Most commonly, employers without plans said that starting a retirement plan is too expensive to set up (37 percent). Another 22 percent cited a lack of administrative resources. In focus groups, some business representatives said their mix of workers—especially if they included low-wage or short-term employees—translated into limited employee interest in or demand for retirement benefits. But in the survey, only 17 percent cited lack of employee interest as the main reason they did not offer a plan.

Main Reason Cited by Employers for Not Offering a Retirement Plan Setup cost chosen most often

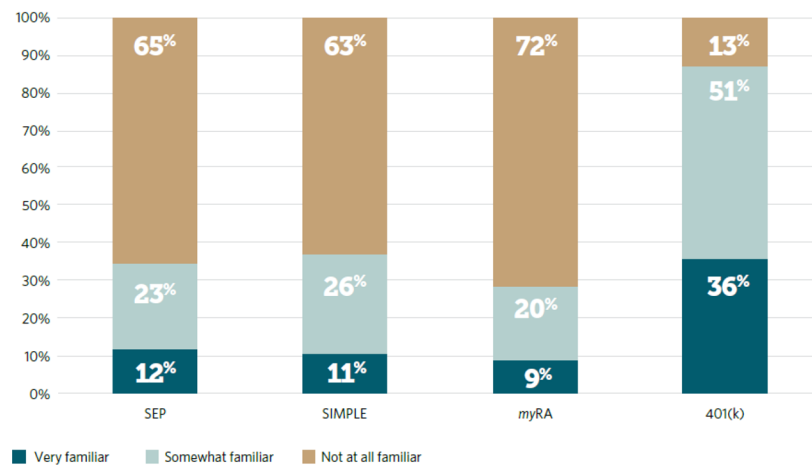


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Lack of familiarity with retirement plan options also can prove to be a barrier to providing one. In the survey, 11 percent of employers said they were not familiar with 401(k) plans, SEPs, and SIMPLE plans. Just 13 percent said they were at least somewhat familiar with all options, while 34 percent said they were only familiar with the 401(k). Leaders of small and midsize businesses were much less familiar with the other three alternatives, even though SEPs and SIMPLE programs are specifically intended to appeal to smaller employers because they are cheaper to establish and administer.

Familiarity With Retirement Plan Types

Employers do not know about most options



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When businesses without a retirement plan were asked which circumstances were most likely to motivate them to begin one, the most common responses were a change in their financial situation or government incentives. Some 67 percent said increased business profits would make them somewhat or much more likely to start a retirement plan. Similarly, 60 percent said they would be somewhat or much more likely to start a plan if there were increased business tax credits for doing so. On the other hand, majorities said that availability of easy-to-understand information (58 percent), tax advantages for key executives (55 percent), or reduced administrative requirements (53 percent) would make them no more likely to offer plans.

Policy innovations

The research has several implications for policy, and there are many promising ideas and initiatives being worked on today. Let me note that Pew does not endorse or oppose any particular initiative.

However, I want to commend Chairwoman Collins for her leadership in introducing legislation, such as the Retirement Security Act (S. 1383 in the 115th Congress), that emphasize key areas for action such as encouraging auto-enrollment, opening up multiple employer plans, improving SIMPLE IRA plans, and increasing tax credits for startup costs.

As noted above, many small business owners are not familiar with plan options that are designed for small firms. In addition, the perceived high cost of starting a plan is deterring small employers from offering retirement benefits. Policy initiatives that reduce plan startup costs and improving awareness of SIMPLE and SEP plans could be useful in encouraging new plans.

And our research has found that executives of small to midsize businesses also saw benefits to the idea of a multiple employer plan (MEP), which allows employers to combine to offer a single plan that achieves economies of scale and lower costs. Despite covering multiple businesses, MEPs are structured similarly to a traditional plan, meaning employers can make matching contributions. Under a MEP, service providers take on much of the fiduciary responsibility, which reduces, but does not eliminate, an employer's own fiduciary duties. Because employers take a more active role in a MEP, states cannot require participation—unlike a state-sponsored auto-IRA where employer responsibilities are more limited.

Pew's survey of small business executives found that 85 percent of employers said they would find a MEP somewhat or very helpful. Most businesses without a plan strongly or somewhat supported each of the individual elements of the MEP. Ninety-two percent liked the idea that the plan would allow employees to have choices in how their contributions are invested. But although employers said they would find such a plan helpful, it is unclear how many would voluntarily adopt one if offered. Some 61 percent of employers without plans said they would definitely be or might be interested in participating in such a program.

Expanding the use of auto-enrollment in particular could boost participation, as noted above. At the state level, several states—California, Connecticut, Illinois, Maryland and Oregon—are in various stages of implementing an automatic enrollment payroll deduction IRA program for private sector state residents who do not have a retirement plan at their work. To date, the use of auto-enrollment at the state level is encouraging: For example, in the State of Oregon, 2,899 employers have registered to facilitate OregonSaves for their employees. In total, 62,888 employees (72 percent of those eligible) have enrolled in the program. On average, employees

contribute about \$100 per month, and assets in the program now exceed \$12.5 million. The average savings rate is currently 5.6 percent.

In summary, while improving retirement plan coverage among small employers remains difficult, we have a better sense from research of what improvements could be effective in increasing coverage and participation. But as you know, more work needs to be done, and in that regard I would commend the 2017 GAO report that calls for a comprehensive examination of the retirement system.

Thank you again for the opportunity to testify, and I would be pleased to answer your questions.

Written Testimony of Denis St. Peter
U.S. Senate Special Committee on Aging
Financial Security in Retirement: Innovations and Best Practices to Promote Savings
February 6, 2019

Chair Collins, Ranking Member Casey, and Members of the Senate Special Committee on Aging, thank you for inviting me to discuss our Company's approach to promoting retirement savings.

Name: Denis St. Peter, PE (Maine)

Position: President and CEO

Personal/Professional Background:

- Wife and two sons (ages 19 and 21)
- Bachelor of Science, Civil Engineering, University of Maine, College of Engineering, 1990
- 1991 - 2000, Environmental Engineer with U.S. Air Force, Civilian Service
- 2000 - 2010, Project Engineer/Manager, CES, Inc.
- 2010 - 2019, President & CEO, CES, Inc.

Company: CES, Inc. – Engineers, Environmental Scientists, and Surveyors

Description of Company: CES is a consulting firm founded in 1978 by two professional engineers in the Greater Bangor Region of Maine. CES provides engineering, environmental, and surveying consulting services. CES has steadily grown our staff to approximately 100 highly qualified personnel, including registered professional engineers, environmental professionals and scientists, licensed land surveyors, licensed site evaluators, certified environmental inspectors, wetland and soil scientists, CADD designers and operators, technicians, as well as support personnel. Company headquarters is in Brewer, Maine, with offices throughout the State of Maine from Presque Isle (Northern) to Saco and Lewiston (Southern) to Machias (Down-East) to Waterville (Central), and one newly acquired office in Fort Myers, Florida. We proudly recently celebrated the 40th anniversary of our Company last year.

Our Mission Statement

To provide sensible solutions and exceptional service that achieve the goals of our clients, our employees, and the communities we serve.

Our Vision

To be recognized in Maine as the leading consulting firm providing engineering, surveying, sciences, planning, and other related services.

As the leader, we will:

- improve our ability to provide our clients with tailored solutions built upon quality service, responsiveness, and expertise;
- be recognized as one of the most desirable places to work in the State of Maine;
- grow our expertise and geographic service area; and
- serve as the model to which our competitors will aspire to become.

Our Values

As a Company, we:

- are committed to our clients, employees, and colleagues;
- value integrity, honesty, collaboration, openness, personal responsibility, continual self-improvement, and mutual respect;
- have a passion for problem-solving and remain flexible to take on any challenge;
- strive to continuously meet or exceed the expectations of our clients;
- hold ourselves accountable to our clients, employees, colleagues, and shareholders by honoring our commitments, providing responsive service, and achieving quality results;
- recognize that effective communication is the foundation to strengthen relationships with our clients, employees, and colleagues;
- contribute positively to our communities and our environment; and
- recognize that sound financial performance is essential to sustainable growth and our future success.

As you can see, we focus on and care about our clients, our employees, and the communities in which we live and work. We have received several awards in the past five years that affirm our commitment to and implementation of our mission, vision, and values. These have included: Best Places to Work in Maine Awards; ACEC of Maine Engineering Excellence Award; Governor's Environmental Excellence Award; AGC Build Maine Awards; United Way of Eastern Maine Gold Awards; and 2019 Bangor Region Chamber of Commerce Business of the Year Award.

Our History of Innovating and Implementing Best Practices to Promote Retirement Savings

Over 10 years ago, we started an ownership and leadership transition for our company. The two founding partners were approaching retirement and I was a candidate to become a shareholder and the incoming president. I recall a conversation with the decision-makers at the time about their approach to retirement planning for employees. At the time, we had a 401(k) Plan with periodic profit sharing for employees and no matching. One of the decision-makers explained that their approach was to provide what would be considered a match as

compensation to the employee, and the employee would decide how much of that compensation that they would defer into the 401(k) plan.

I respected and understood the logic of this approach; however, there were four reasons that contributed to our decision to pursue a change to this approach. These were:

- I knew from discussions with some employees at that time that the lack of a matching program was perceived by some employees to be a missing component of our benefits package. An attractive employee benefits program is a critical to our mission, vision, and values.
- I understood that CES employees, in general, appeared to be underfunding their retirement savings. In 2010, we had a 62.3% participation rate and average employee contribution at 3.9% of base salary. These results were better than I had anticipated and likely was due to the excellent work of our experienced Human Resource (HR) Director who worked hard at educating our employees about the importance of saving for retirement and the tax advantages of deferring income.
- My first professional job after obtaining my engineering degree was as a federal government employee. I remember that I was motivated to contribute the necessary amount to the Thrift Savings Plan to secure the 5% match. I did not want to lose that money. As a newly graduated college student without much money and some college debt, I may not have started my retirement savings as early as I did without this extra match incentive. As we all know, starting early is so important to retirement saving due to compounding interest.
- Lastly, our annual 401(k) top heavy testing was in jeopardy of not passing, which was another indication that our retirement savings planning approach was not working well enough for our employees and could limit some of our key employees from contributing as much as they would want in the future.

Our team assembled, budgeted, and implemented an approach to improve our employee retirement savings. Our team included our HR Director, our Chief Financial Officer (CFO), other key employees, me, our 401(k) financial advisor, and our 401(k) third party administrator (TPA). This planning process occurred during the 2009 - 2010 timeframe during the recovery from the last recession. Early in the process we were uneasy about committing to matching due to the uncertainty of the economy. We benchmarked against other retirement saving approaches in our industry to help us establish our goals. This research led us to the conclusion that firms our size within our industry generally match up to 4% of salaries. Also, the Safe Harbor 401(k) provision is a 4% match (100% of the first 3% and 50% of the next 2%), which results in a total retirement savings rate of 9% of eligible compensation for those employees who commit to the deferral rate needed to receive the full match.

Our plan included a step-up increase in the matching contribution of 1% of the employees' eligible compensation (base salaries plus performance bonuses) per year for four years (2011 to 2014). We communicated to our employees that this 1% match was in addition

to their current compensation. Due to our uneasiness about the economy and the increased operating cost of the new matching contributions (projected to be at least \$30,000 per year for each 1% match and \$120,000 per year for the 4% match), we told them that we were optimistic about the four-year plan but that we would be making an annual decision about each year's increase based on the economy, the Company's performance, and our annual budgeting process. We also implemented a communication plan with employees that involved private discussions with employees and our HR Director, other key managers of our staff, and our 401(k) financial advisor, to help them understand the importance of retirement saving and the advantage of tax-deferred savings; the benefit of the additional matching funds that they would receive if they elected to make deferral contributions to their 401(k) accounts; and education on different investment strategies available to them through the 401(k) Plan..

We have implemented several other best practices during the past ten years to help promote retirement savings. These include:

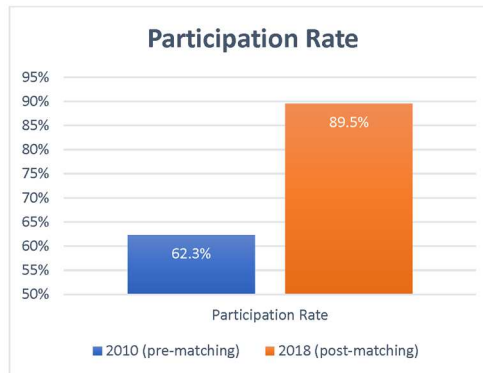
- **Matching Plan** - We implemented our matching plan as described above.
 - **Investment Committee** - An investment committee of CES employees meets semiannually to review the performance of the investment funds offered through the 401(k) Plan and our investment advisor. The committee is authorized to take actions (e.g., placing a fund on a watch list due to lack of performance with its peer group) in the best interest of the 401(k) participants. Other best practices we have implemented for our investment committee include:
 - Each committee member is required to read *Best Practices of Investment Committees* by Rocco DiBruno.
 - We prepared Investment Committee By-laws.
 - We prepared an Investment Policy Statement that includes: Purpose of Plan, Investment Objectives, Selection of Investment Classes and Options, Default Investment Option, Monitoring Investments, Watchlist.
 - The investment committee is made-up of employees spanning several age groups.
 - Fiduciary Acknowledgement letters are signed by all investment committee members.
 - Meetings are documented with meeting minutes.
 - An Investment Advisor attends the committee meetings.
 - **Third-Party Administrator** – We use a Third-Party Administrator for compliance testing and administrative advice.
 - **Benefits Committee** – We have a benefits committee in order to advise us on plan structure.
 - **Education and Communication** – We work very hard at education and communication with all employees. The following are some of the methods that we use:
 - Our Investment Advisor comes to CES offices for one-on-one meetings with employees (e.g., risk and fund allocation, retirement age, advantages of matching plan and tax deferral).
-

- During onboarding, our HR Director spends time with employees educating them on how our 401(k) plan works and the benefits of the plan (i.e., better prepared for retirement, tax deferral advantages, and match is “free money”!)
- HR Director periodically follows up with those employees who are not taking advantage (or not fully taking advantage) of the matching contributions to encourage them to maximize the “free money” available to them.
- We discussed the 401(k) Plan at annual and quarterly company meetings.

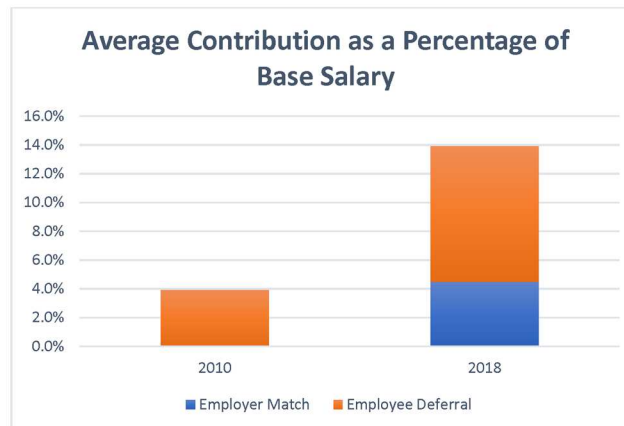
The results of our attempts to innovate and implement best practices to promote employee retirement savings are summarized in the table below. The table includes some key performance indicators from the year before we started our matching plan (2010) and the last full year (2018). The key performance indicators are participation rate, employee deferral, employee match, contribution as percentage of base salary, and 401(k) plan asset value.

Year	Eligible Employees	Participation Rate	Annual Contribution to Plan			401(k) Plan Asset Value
			Employee Deferral	Employer Match	Average Contribution as % of Base Salary	
2010 (pre-matching)	61	62.3%	\$118,835	\$0	3.9%	\$2,454,000
2018 (post-matching)	95	89.5%	\$464,337	\$223,412	13.9%	\$7,270,000

Participation Rate – Our participation rate increased **27.2%** from 62.3% participation in 2010 to 89.5% participation in 2018.



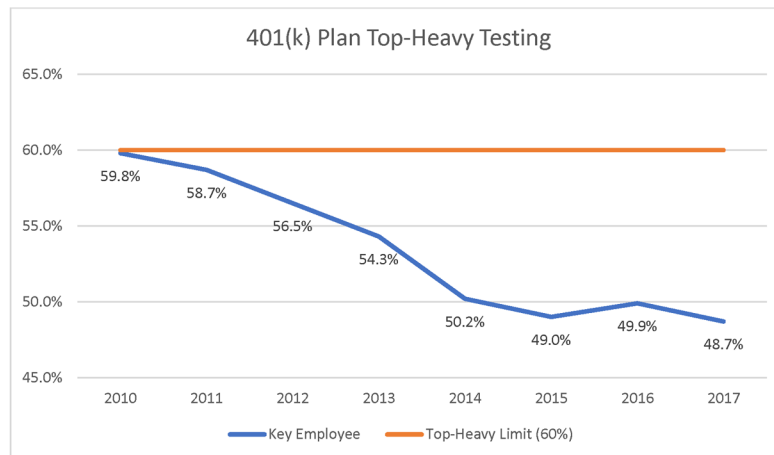
Annual Contribution to Plan – The employee deferral **increased 391%** from \$118,835 in 2010 to \$464,337 in 2018 with the employer match of \$0 in 2010 to \$223,412 in 2018. This resulted in an **increase of 356%** to the average annual contribution as a percentage of base salary from 3.9% to 13.9%.



401(k) Plan Asset Value – The plan asset value **increased 296%** from \$2,454,000 in 2010 to \$7,270,000 in 2018.



The 401(k) Plan top-heavy testing result was 59.8% in 2010 to 48.7% in 2017. In accordance with applicable regulations, a plan is top-heavy when the value owned by key employees is more than 60% of the total value of the plan assets. The compliance testing in 2017 still includes the full balance of founding partners within the key employee asset value.



Recommendations for changes to the tax rules governing 401(k) plans to facilitate greater employee retirement savings:

- Increase the annual deferral limits and catch up contribution to promote and incentivize more retirement savings.
- Eliminate Required Minimum Distribution (RMD) starting at age 70 ½.
- Increase the ADP and ACP limits so that those employees who are in a position to save for retirement are not as limited by the savings rates of those employees who are less able to save for retirement.
- Incentivize very small employers (1-25 employees) to create and maintain retirement programs by increasing contribution limits (including catch-up contributions) under the SIMPLE plan.
- Allow higher contribution limits under SIMPLE programs for other small employers 26-100 employees).

Testimony of Linda K. Stone

**Senate Special Committee on Aging
Hearing on "Financial Security in Retirement: Innovations and Best Practices to Promote Savings"
February 6, 2019**

**Women's Institute for a Secure Retirement (WISER) Fellow and Society of Actuaries Committee on
Postretirement Needs and Risks Volunteer**

Good Morning, Chairman Collins, Ranking Member Casey and distinguished members of the Committee. I appreciate the opportunity to appear before you today to discuss financial security in retirement and to ensure that Committee members recognize the significant and unique retirement risks that many Americans face but particularly older women.

Introduction

My name is Linda Stone and I am an actuary who has spent my career consulting on retirement plans. I am here today in my capacity as a volunteer Fellow with the Women's Institute for a Secure Retirement (WISER) as well as a volunteer on the Society of Actuary's (SOA) Committee on Postretirement Needs and Risks. WISER is a nonprofit organization that works to help women, educators and policymakers understand the important issues surrounding women's retirement income. WISER is dedicated to the education and advocacy that will improve long-term financial quality of life for women. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure adequate retirement income through research, workshops, and partnerships. WISER and the Administration on Community Living's Administration on Aging operate the National Education and Resource Center on Women and Retirement Planning. Through my work with WISER, I have presented workshops to diverse groups of women across the country and have heard directly about their experiences. The program is successful because it is tailored for the appropriate audience. Nearly every experience is positive and shows that women want to take more control of their future even as they are hindered by the many factors that I will discuss below.

My testimony will focus primarily on the unique challenges that women face in trying to achieve retirement financial security. I will discuss women's need for targeted information, their experiences in navigating the retirement system, and the gaps many fall through. I will also make some suggestions for addressing these challenges by expanding access and education. We believe that there needs to be a range of solutions that will help people today

and help various segments of the workforce and aging population who are facing differing challenges.

One reason that I am so passionate about this issue is the experience of my own mother. She was a “Rosie the Riveter” who worked in the shipyards in Chester, Pennsylvania during World War II. After her divorce from my father, she was able to support our family while working as a machinist for a small business. She later worked as an aide in a nursing home, not retiring until she was 68 years old and no longer able to physically do that job. She did not know to try to get a spousal benefit from my father’s workplace retirement plan or to see if there were spousal Social Security benefits that would be larger than her own. There is more that can be done to help women like my mother have a secure retirement.

Unique Challenges Women Face

First, I’d like to address a question that WISER often receives – why focus on women? Quite simply, there are 5.7 million more women than men at age 65 and 67% of the over age 85 population are female. Many individuals age 85 and over end up near-poor or in poverty even if they have never been poor before. Women face greater longevity risk than men due to their longer lives and the resulting need for more income. At age 65, women can expect to live an average of 21+ years while men can expect to live an average of 18+ years. One out of two women in their mid-50s today will live until age 90.

Having more income during retirement starts with your earnings during your working years and your access to employer-sponsored savings and pension plans. Generally, no matter how you slice and dice it, women of all races and ethnicities earn less than men throughout their lifetimes. Caregiving responsibilities for children and/or parents as well as spouses causes women to spend years out of the job market or to work part-time without access to benefits. Social Security reports that, on average, women have nine years with zero earnings, and women’s careers average 29 years compared to 39 years for men. The zero earnings are compounded in the calculation of their Social Security benefit. Women, often because of their need for flexibility for caregiving, are twice as likely to work on a part-time basis as are men, with the resulting lower wages. Women are more likely to work in industries that pay lower salaries and also have no or less generous retirement plans.

This all results in women having less in savings and employer-sponsored retirement benefits as most employer plans require full-time status to be able to participate and base benefits on pay.

Women often retire at the same time as their older husbands do and spend more years in retirement. Due to the gender mortality difference and the fact that many women marry older men, they are more likely to outlive their partner and to be living alone which increases the likelihood of falling into poverty. While many women are caregivers for their husbands, many

women do not have a spouse to care for them in their retirement years. Half of women over age 65 are single.

A long life increases the risk that inflation will negatively impact a person's ability to live on a limited income and increases the chance that women will outlive their assets. Women have more years of health care costs. Women are more likely to need institutional long-term care in these later years as they are less likely to have a family caregiver. Among women more than 85 years old, 75% are widowed and 87% are not currently married.

I noted above that half the women over age 65 are single but younger Boomer women are also more likely to be single and never-married. Divorce is especially harmful to women's financial security in retirement. Women must proactively take appropriate action to secure their rights to spousal workplace retirement benefits. Divorced women who are married less than ten years are not eligible for spousal Social Security benefits.

The bottom line is that women accumulate less money than men during their working years and need more money to finance a longer life with higher health care costs as they age.

Issues with Understanding Risks and Navigating the System

WISER speaks at various conferences throughout the year, for example, to Area Agencies on Aging and Adult Protective Services groups that serve women of all ages and income levels. Many women reach out directly to WISER for assistance. The SOA Committee has conducted focus group research, in-depth interviews and risk surveys. Based on these interactions, I will discuss specific areas where women could use more assistance in attaining knowledge and navigating the existing complicated retirement system.

Women often have a planning horizon that is much too short. A woman who is age 65 today can expect to live over 5 years longer than a woman who was age 65 in 1950. As a result, they underestimate their need for savings to support the many years they will be in retirement and the need to start saving as early as possible. Often, they are taking care of others instead of themselves.

Women nearing retirement who do have savings have the burden of not only determining how to invest the money before retirement but also how to appropriately spend down their savings so that the assets last for their lifetime. As they change jobs, many don't appreciate how not cashing out balances, no matter how small, can make a big difference in the amount of money that is available at retirement.

The reality of today's retirement landscape is do-it-yourself, and do it right, or live at or below the edge of poverty in what are supposed to be your golden years. The nature of today's system of individual responsibility demands financial capability. This is WISER's primary area of focus. We focus on women because of the challenges I described earlier. Women are in the

difficult position of making big decisions while being unable to afford even a small mistake. Women, along with their male counterparts, tend also to lack basic financial knowledge, which is often the reason for making serious financial mistakes. Women (and many men) need the best information and opportunity to access information to ensure that they do not make costly decisions. This information should be targeted to women as spouses and caregivers, as well as to women as employees.

For example, women make decisions to stop working and become caregivers often without a full understanding of how much more difficult it may be to save without an employer-sponsored plan or how difficult it may be for them to reenter the job market at their previous earnings level. Many women exit the workforce earlier than expected which can derail even the best savers.

Women are also often surprised to learn the financial implications, i.e. the reduction in their benefits, of claiming Social Security early at age 62. If they are married, they often don't plan as a couple for possible widowhood and do not know how to maximize the benefit for the surviving spouse. When we speak with them, many women learn for the first time of their ability to get a spousal Social Security benefit if they were married for at least 10 years. Women need to understand the impact of continuing to work and increasing your Social Security benefit by replacing "zero" years with "earnings" years along with delaying the start of their Social Security benefit if they are able to.

Suggested Solutions

As mentioned, one of WISER's key initiatives is a program administered cooperatively with and funded by the U.S. Administration on Aging—the National Education and Resource Center on Women and Retirement Planning. The AoA/WISER Resource Center's primary goal is to educate the most women we can possibly reach with information that can assist them in their retirement planning.

We seek to provide average and low-income women the opportunity to take the first step toward controlling their financial futures. WISER's approach is to bring financial planning back to the basics. Our goal is to help women make the best decisions they can with the limited resources they may have. We train trainers who assist women in their communities. The Center has directly reached tens of thousands of women through our own and our partners' workshops, and we've reached millions with our publications, media and website. The Center's strength is providing women with core financial knowledge that encourages them to make financial and retirement planning a priority in their lives. We focus on such issues as health and retirement benefits at work (or the implication of the lack of such benefits), the financial implications of providing care for children, parents and spouses, and the risks of inflation and longevity.

Planning for retirement is effective and workplace seminars are helpful, but there is a need for more basic resources to help people figure out how much they need to increase their savings by in order to retire with security. We have included below a list of several issues that women are in particular need of learning about or better understanding.

1. The impact of future inflation and taxes is often not included in planning for retirement despite the significant impact it can have on retirement income.
2. Asset to income ratios are often not well understood and individuals are often confused about how much is needed for a secure retirement.
3. Many individuals struggle to plan how they will draw down assets and need greater access to flexible income distribution options and guaranteed lifetime income options.
4. Longevity risk is poorly understood and not widely planned for.
5. Many women assume they will just keep working beyond normal retirement age, but more than 40 percent of Americans end up retiring earlier than they planned to, usually due to job loss, family needs including health issues, or personal poor health.

Finally, we need to strengthen our existing programs wherever possible. That means focusing in particular on Social Security and Medicare, employer-sponsored retirement programs and individual saving initiatives.

The following are suggested actions for building and supporting increased economic and financial security for women (and men) of all ages.

- Protect, preserve and strengthen Social Security – a program critical to the financial well-being of women, minorities and disabled workers
 - Preserve Social Security as an income-based social insurance system;
 - Provide basic benchmarks so people are not confused about their full retirement age and when to sign up for Medicare;
 - Improve programs for those with very low benefits such as those who are primarily low-wage, unmarried and widowed women;
 - Provide some form of longevity bump-up for those 85+;
 - Study ways to offer retirement protection to women with significant time spent as caregivers, including the possibility of a provision for Social Security credits and credits for out-of-pocket expenses that may be preventing women from saving;
 - Provide all workers access to Social Security estimated benefit statements.
- Support employer plans, recognize the difference in men's and women's employment and provide information to alert both men and women to their social security statements
 - Encourage more employers to offer a retirement program and make it easy for employers to do so;
 - Extend retirement savings opportunities so that part-time and temporary workers can participate;

- Expand the concept of emergency savings as part of employer wellness plans;
- Improving the Savers Tax Credit and make it a staple of retirement saving for middle-income as well as for moderate- and low-income workers.
- Enhance knowledge of the three pillars of the nation's retirement systems by helping individuals understand the importance of having access to each of the pillars. Help individuals learn what they need to know about their Social Security benefits, about preserving their employer sponsored benefits and about taking advantage of individual savings programs available to them.

Conclusion

Thank you for including a focus on women's retirement issues as part of this discussion. As we hope our testimony has highlighted, women face many challenges in securing their financial security in their retirement years. They need to be empowered to make the right decisions by having access to the rules of the systems they will need to navigate and by having an understanding of the amount of savings they will need to do on their own. Knowledge can build confidence to make better decisions at every point along the way as well as at critical inflection points.

There is no single or easy solution to these issues. If we understand the specific challenges facing each cohort from Gen Z to Millennials to Boomers to those already well into their retirement years, targeted solutions can be developed. These can range from financial education to policy changes.

We know from the women who have contacted WISER and attended our workshops that they want to increase their knowledge and take better control of their retirement. They have often seen the difficult situations that their parents were in and saw, in hindsight, what they could have done to make better choices if they had known what to do. We ask women to leave the workshop with one actionable item they can do. We need to make sure every woman is getting the support they need through education and carefully crafted programs that will make a difference in their ability to have a secure retirement.

Statements for the Record



The Bipartisan Policy Center's Commission on Retirement Security and Personal Savings

For millions of Americans, retirement is an uncertain prospect. At a time when people are living longer, and incomes are stagnant, many are at risk of outliving their savings. Even with income from programs like Social Security, nearly 1 in 10 elderly Americans live in poverty, and the Employee Benefit Research Institute projects that over 40 percent of Gen Xers will run short of money in retirement. The personal savings situation is dire for many working-age households as well; in a recent survey, nearly half of all adults said they would be unable to come up with \$400 in an emergency without selling their possessions or borrowing.

These are complex issues, but some of the causes are clear. Many workers lack access to workplace retirement savings plans and others are not taking advantage of them. Emergency expenses often lead people to drain their retirement accounts early, and even when Americans successfully build up a nest egg, there is no clear path to make sure those savings last. To top it all off, Social Security faces significant financial challenges, with a large cut in benefits on the horizon if no action is taken. These problems will only grow worse if Congress does not act.

The Bipartisan Policy Center's Commission on Retirement Security and Personal Savings, led by former Senator Kent Conrad and Jim Lockhart, tackled these challenges head on in its recent report.¹ The comprehensive, bipartisan package of recommendations would increase retirement savings for tens of millions of Americans and reduce old age poverty. Further details can be found in the report, but the proposals can be grouped into three main categories for improving retirement security:

1. Improve Access and Make Saving Easier

A major component of the solution comes down to the fact that we must increase access to and participation in workplace retirement savings plans. Despite the ability of these plans to help people save, in the [private sector](#) 32 percent of working Americans do not have access to them and another 24 percent are not participating. Policy reforms ought to remedy these barriers to retirement security, helping people accumulate and preserve assets during their working years.

The Commission's recommendations include several policy changes to achieve this goal, such as enabling a version of open multiple employer plans ("open MEPs") for small businesses to offer their workers, renewing and improving the myRA program for those without other options at work, enhancing tax and regulatory policy that improve

¹ <http://bipartisanpolicy.org/wp-content/uploads/2016/06/BPC-Retirement-Security-Report.pdf>

employer and worker incentives for saving, and making it is easier for savers to keep funds within tax-preferred plans and more difficult to withdraw them prematurely without good reason.

2. Help Transform Nest Eggs into Retirement Income

Longer life expectancies and the erosion of traditional pensions means that Americans need new ways to make their savings last and turn them into a lifetime of income. Unfortunately, many households underestimate their needs, and others lack easy access to financial tools that can reduce the risk of outliving their savings. Informed policymaking can help address these issues and provide solutions to make savings last.

The Commission's recommendations include encouraging the provision of more information and retirement income options within employer plans, making it easier for individuals to purchase guaranteed lifetime-income products, facilitating the use of home equity for financial stability in retirement, and improving Americans' financial capability by encouraging financial knowledge and planning from an early age. This includes communicating the consequences of claiming Social Security too early, which results in lower monthly benefits for life.

3. Strengthen and Modernize Social Security

Social Security is the foundation of retirement security in our country, and its success in reducing and limiting poverty among older Americans is well documented. While we have known for decades that the system in its current form is unsustainable, policymakers have failed to address the problem. These decades of inaction now threaten the solvency and future viability of the program. The Social Security trust funds are projected to run dry by 2034, at which point beneficiaries would face across-the-board cuts to their benefits. Every year that policymakers delay action, the costs of fixing the program increase for workers and retirees alike. We need to save our Social Security system for today's seniors and for generations to come.

The Commission's recommendations, which reflect a balanced blend of new revenue and restraints on benefits, include updating the benefit formula to make it more progressive, indexing the retirement age to longevity, changing the measure of inflation used to determine the annual cost-of-living adjustment, updating spousal and survivors benefits, raising the cap on taxable wages, gradually raising the payroll tax, increasing taxes on benefits for high-income beneficiaries, replacing the windfall elimination and government pension offset, and improving the Disability Insurance program.

We believe that implementing these recommendations will significantly increase the wellbeing of millions of current and future Americans in retirement.

To build on this important work and that of dozens of other experts and practitioners, the Bipartisan Policy Center has launched the Funding Our Future campaign,² which is a diverse coalition of more than 35 partner organizations that all support strengthening retirement security in America. The campaign is working to highlight the challenges surrounding retirement security in this country and to demonstrate that solutions exist. All of the partner organizations agree that policymakers must focus their energies on this issue and act to make a more secure retirement possible for millions of Americans across the country.

The Bipartisan Policy Center is committed to working across the aisle to solve difficult problems, and we hope that you will view us as a resource as you continue to debate policies and legislation that will improve retirement security for American families.

² <http://fundingourfuture.us>

Summary of Recommendations – Commission on Retirement Security and Personal Savings

Improve Access to Workplace Retirement Savings Plans

- **Create Retirement Security Plans to serve any business with fewer than 500 employees.** Smaller businesses could adopt a Retirement Security Plan that serves multiple employers. To make it easier for businesses to offer plans, most administrative and fiduciary responsibilities would be transferred from the employers to the Retirement Security Plan organizer.
- **Establish an enhanced, more-flexible, automatic-enrollment contribution safe harbor.** This new alternative would enable plan sponsors to bypass complex nondiscrimination and top-heavy testing requirements by adopting automatic enrollment and automatic escalation.
- **Reinstitute an improved version of the myRA program to provide coverage for workers unlikely to have access to a workplace retirement savings plan.** Establish the program in statute, allow employers to automatically enroll workers, and allow optional employer contributions.
- **Introduce a nationwide minimum-coverage standard to pre-empt a disjointed patchwork of state-by-state regulation.** Beginning in 2020, employers with 50 or more employees would be required to do one of the following: (1) offer a fully qualified retirement plan, such as a 401(k) plan or a defined benefit plan; (2) automatically enroll employees into a Retirement Security Plan; or (3) automatically enroll employees into myRA. Employees would have the ability to change contribution amounts or opt out of contributing entirely.
- **Establish Lifetime Income Plans as a new, more-sustainable retirement plan design that would be available for multiemployer defined benefit plans to voluntarily adopt.** This new design would feature contribution rates that are stable for employers, professional investment management, and benefits in the form of a monthly income for life.
- **Create a private-sector Retirement Security Clearinghouse to help individuals consolidate their retirement assets.**
- **Promote workplace retirement savings by increasing the new-plan-startup tax credit for employers and offering a new tax credit for employers that add auto-enrollment.**
- **Change the present Saver's Credit into a refundable Starter Saver's Match to provide better incentives for younger savers.**

Promote Personal Savings for Short-Term Needs and Preserve Retirement Savings for Older Age

- **Harmonize early withdrawal rules for IRAs and 401(k)-type plans.**
- **Simplify the process for transferring retirement savings from plan to plan.**

- **Clear barriers to automatic enrollment in multiple savings accounts.** Employers should be allowed to auto-enroll employees into a payroll-deduction arrangement with contributions split between a tax-advantaged retirement plan and a federally insured savings account.

Facilitate Lifetime-Income Options to Reduce the Risk of Outliving Savings

- **Encourage plan sponsors to integrate easy-to-use, sophisticated lifetime-income features.** Provide new safe harbors, modify regulations, and give additional guidance to plan sponsors that wish to incorporate lifetime-income options within a defined contribution plan.
- **Implement specific policy changes that would enable more plans to offer automatic installment purchases (i.e., laddering) of guaranteed lifetime-income products.**
- **Implement specific policy changes to promote active-choice methods of selection among retirement-income features.** An active-choice framework requires individuals to make a decision from a simplified menu of retirement-income options (including an option to decline).
- **Encourage plan sponsors to offer information and features designed to help workers claim Social Security benefits later, thereby increasing monthly income.**

Facilitate Use of Home Equity for Retirement Consumption

- **End subsidies that encourage the use of home equity for pre-retirement consumption.**
- **Strengthen programs that support and advise consumers on reverse mortgages.**
- **Establish a low-dollar reverse-mortgage pool for retired homeowners.**
Allowing retirees to tap into small amounts of home equity could reduce risk and lead to lower fees.

Improve Financial Capability (the knowledge, ability and opportunity to manage one's own finances)

- **Expand personal financial education in K-12 and higher-education curricula.**
- **Better communicate the advantages of claiming Social Security benefits later.**

Fix Social Security's Finances and Improve the Program

- **Adopt a package of reforms, roughly balanced between changes to revenues and benefits, to improve the financial strength of the program, increase benefits for lower earners, reduce old-age poverty, and prevent abrupt changes to benefits. Provisions include:**
 - Increase the progressivity of the benefit formula.

- Apply the benefit formula to earnings annually to more evenly reward continued work and allow workers to count more years of earnings in the benefit formula.
- Establish a basic minimum benefit to enhance Social Security for beneficiaries with low incomes.
- Index the retirement age to longevity to reflect ongoing increases in average life expectancy.
- Use a more-accurate measure of inflation for Social Security's cost-of-living adjustments and for indexing income-tax parameters.
- Cap the spousal benefit and re-index to a slower growing rate.
- Enhance survivors benefits to help widows and widowers maintain their standard of living.
- Raise the maximum taxable earnings level and re-index to a faster growing rate.
- Gradually increase the payroll-tax rate by 1 percentage point.
- Replace the windfall elimination provision and government pension offset with a pro-rated benefit for workers with non-covered earnings.