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A FINANCIALLY SECURE FUTURE: BUILDING A STRONGER RETIREMENT SYSTEM FOR ALL AMERICANS

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C O N T E N T S

A FINANCIALLY SECURE FUTURE: BUILDING A STRONGER RETIREMENT SYSTEM FOR ALL AMERICANS

THURSDAY, OCTOBER 28, 2021

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

The Committee met, pursuant to notice, at 9:34 a.m., via Webex and in room SD–562, Dirksen Senate Office Building, Hon. Robert P. Casey, Jr., Chairman of the Committee, presiding.

Present: Senators Casey, Gillibrand, Blumenthal, Rosen, Kelly, Warnock, Tim Scott, Collins, Braun, Rick Scott, and Lee.

OPENING STATEMENT OF SENATOR ROBERT P. CASEY, JR., CHAIRMAN

The CHAIRMAN. The Senate Special Committee on Aging will come to order.

Today, the Committee convenes to discuss a critically important issue to the American people, the state of retirement security in our country. We will include both information about and discussions about for whom this system works well and then, also as well, those who the system leaves behind.

I think it is true of all of us, no matter where we live or what point of view we have, that we all hope that when we reach old age we will be able to enjoy a retirement on our own terms. The reality is that millions of American families approach retirement with almost nothing saved. Despite working too hard their whole lives, too many seniors are barely able to make ends meet.

In 2020, for example, one-fourth of adults who had not yet retired did not have any—any—retirement savings. One-fourth of adults.

Many others have managed to save only a fraction of what they will need and the truth is that our retirement system does very well for some but it allows millions of Americans to fall through the cracksme workers do not have access to retirement plans because their employers do not offer it. For example, in my home state of Pennsylvania, 44 percent of workers aged 18 to 64 in the private sector, work for businesses that do not offer a retirement plan. 44 percent. In my home state, that amounts to about 2.2 million Pennsylvanians.

Others face student loan debt or job changes or caregiving responsibilities that disrupt their ability to save for retirement.

In 2019, I was proud to vote for the SECURE Act to help close some of these retirement gaps and expand financial security for hard-working Americans. This year, Congress is considering many bipartisan proposals to build upon the SECURE Act and expand access to retirement plans, including auto enrolling workers and making it easier to carry a retirement plan with you when you change jobs.

As we consider these proposals, let us not forget about continuing to both protect and strengthen Social Security, which is the bedrock of our retirement system. Social Security is the most common source of income for most retirees and provides critical protections against poverty for older Americans.

We must also consider the foundational issues that prevent people from saving for retirement in the first place. Here is one example from my home region of Northeastern Pennsylvania. Sophia Samuel of Wilkes-Barre, Pennsylvania, Luzerne County, who faced the difficult choice that millions across our Nation are forced to confront.

Sophia built a successful career as a professor, but her professional success coincided with a decline in her parents' health. As her parents battled cancer and other chronic health conditions, Sophia made a very touch choice. That choice was to leave her job.

She accepted work with a home care agency where she would be able to be paid to provide care for her parents. Here is the problem, despite that act of love by Sophia for her parents, that came with a reduction in pay. Her salary went from $80,000 as a professor to just $22,000 as a caregiver.

Unfortunately, Sophia is not alone. Millions of Americans face choices like this. Millions of these family caregivers, mostly women, endure financial shocks like these, undermining their ability to save and plan for the future.

That is why legislation like my Better Care Better Jobs Act is critical. This bill would raise wages for home care workers while allowing them to save more for retirement. It would also help family caregivers like Sophia. It would give them options that they do not have right now, so they do not have to leave their jobs. It would also allow them, of course, to continue to contribute to their retirement plans.

Among other policies Democrats are working on, this policy would expand support for family caregivers as part of the Build Back Better budget and we are working to help at the same time, in a larger sense, help American families build economic security in their working life and into retirement.

I look forward to our witnesses' testimony today and the wisdom that they bring to us, the ideas they are sharing.

With that, I would yield to the Ranking Member, Senator Scott.

OPENING STATEMENT BY SENATOR TIM SCOTT, RANKING MEMBER

Senator TIM SCOTT. Thank you, Mr. Chairman.

I appreciate you holding a hearing on such a very important topic today. Seniors across the country will benefit from hearing what we are having to day today and hearing from our witnesses.

More importantly, or at least not more importantly buy equally as important, folks who are in their 30's and 40's should benefit from the conversation we have about the importance of retirement.

Having spent 25 years in the insurance and financial services industry, one of the things I realized is that we do not talk often enough about the importance of retirement security and how we achieve retirement security.

For so many of our seniors today, retirement security when you are working from paycheck to paycheck seems to be outside of your grasp. It seems to be a little too far when you have too little money left at the end of the month.

One of the reasons why I cosponsored a resolution designating October as National Retirement Security Month is because I want to make sure that we continue to emphasize the importance of focusing on retirement security for our seniors and, frankly, for those in their 40's and 50's.

Over the course of the past decade, the population of those 65 years and older has grown by more than one-third in just 10 years, a trend that we expect will continue.

Today, I am releasing a report entitled the American Dream and Our Golden Years: Improving Retirement Security and Building Independence. The report reviews the current trends and gaps in retirement savings, recent reforms, and proposals to strengthen America's retirement system.

One important issue outlined in this report is retirement account leakage and auto portability. Roughly 15 million retirement plan participants change jobs every year. When my grandparents and my mom, when they started working, they literally stayed at the same employer for a very long time. My mother has been with her employer for 45-plus years.

That trend is something in the rear-view mirror. The average person today will work for between seven and 11 employers. That means that every time you change jobs you have a chance to withdraw your money from your 401(k) and that is what we mean by leakage. About $92 billion leak out.

The importance of that is that when you have that kind of leakage on an annual basis, that means fewer dollars will be there when you really need it the most. When the future you wants to retire and live comfortably, too much of your resources may have leaked out along the way.

We want to today talk about ways to address that really important issue. One of the witnesses that we will hear from today is Spencer Williams at Retirement Clearinghouse on how auto portability is slowing retirement account leakage, making it easier for folks to live more comfortably while retired. I look forward to hearing from Mr. Williams and working with my colleagues in Congress so we can increase retirement security for all Americans.

My report also outlines other obstacles like helping small businesses provide retirement accounts. In South Carolina, approximately 400,000 full-time employers, and somewhere over 200,000 part-time employees did not have access to an employer-provided retirement plan in 2019.

Helping small businesses launch retirement plans is crucial to boosting employee savings and closing the gap of how much money you need when you are retired and how much money you can save along the way. Research shows that workers who earn between $30,000 and $50,000 are 12 times more likely to save through employer provided plans than on their own.

I, too, sponsored the SECURE Act, which included pooled employer plans to help small businesses launch retirement plans. In July 2021, John Iacofano, owner of Iacofano's Catering in Mount Pleasant, launched a PEP, Pooled Employer Plan, that allows him for the first time to provide a retirement plan to his employees.

Another key area my report examines is the complicated and confusing rules seniors face when deciding when to collect Social Security. This rule, known as the Retirement Earnings Test, or RET, confuses retirees and disincentives work because it is viewed as a tax.

That is why today I introduced the Senior Citizens Freedom to Work Act of 2021 to remove the RET and simplify the decision-making process for seniors. I look forward to discussing these reforms and more so we can ensure that all Americans have the tools necessary to retirement with dignity and independence during their golden years.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Ranking Member Scott.

As many of you know, we have senators pretty busy on a Thursday morning, so people will be in and out. I wanted to acknowledge the presence of Senator Collins, our former Chairman; Senator Rosen, as well; and Senator Rick Scott.

Let me move now to our witnesses by way of introductions.

Our first witness is Dr. John Scott. Dr. Scott directs the Retirement Savings Project for Pew Charitable Trusts. He is also an Adjunct Associate Research Professor at the University of North Carolina at Chapel Hill. I want to acknowledge Dr. Scott's own Pennsylvania connection. He received a law degree from Penn State University.

Our second witness is Shai Akabas. Shai Akabas is the Director of Economic Policy for the Bipartisan Policy Center. For the past several years, he has also steered the Center's Commission on Retirement Security and Personal Savings.

Mr. Akabas has conducted research on a variety of economic issues, including on the issues of retirement coverage and financial security.

Witness No. 3 is Dr. Nari Rhee. Dr. Rhee is the Director of the Retirement Security Program at the University of California at Berkeley Center for Labor Research and Education. She has written on a wide range of issues, including issues related to retirement security and pensions, including on the subject of gaps in retirement savings based upon gender, race, and ethnicity.

I will now turn to Ranking Member Scott to introduce our fourth witness.

Senator TIM SCOTT. Thank you, Mr. Chairman.

It is my pleasure to introduce today Spencer Williams. Spencer lives in Greenville, South Carolina and is the Founder, President, and CEO of the Retirement Clearing House. He is an entrepreneur, leader, and a family man. I am proud of his work and the company he has built. Spencer's company has helped more than 1.5 million

Americans retain and consolidate over $24 billion in assets for their retirement.

Spencer Williams earned his bachelor's degree in English from the United States Naval Academy and his MBA from the University of Pittsburgh. His testimony today is about the important issue of preventing leakage, financial leakage, in our retirement system.

Mr. Williams will also talk about the important regulations we worked on together to allow for retirement accounts auto portability and what Congress can do to ensure this reform is codified into law.

Spencer also works just as hard at home in Greenville, South Carolina, where he is a father of 13 children—I was going to say a 13-year-old, but there are 13 children. I guess that is truly a baker's dozen. A proud grandfather of 31 grandchildren.

Spencer, God bless you.

We appreciate your entrepreneurship and hard work to help improve retirement security for millions of Americans. Thank you for being here with us today. We look forward to your testimony.

The CHAIRMAN. Thank you, Ranking Member Scott.

We will start with our first witness, Dr. Scott.

Dr. Scott, you may begin.

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

Dr. SCOTT. Thank you, Chairman Casey, Ranking Member Scott, and members of the Aging Committee, for this hearing and the opportunity to testify.

The Pew Charitable Trusts is an independent, non-partisan, nonprofit organization that applies a rigorous analytical approach to improving public policy.

My oral comments will briefly touch on a few points from my written statement.

At least one-third of private sector workers lack access to a retirement plan at their jobs, which could lead to reduced living standards in old age. The taxpayers are also affected by low savings. A Pennsylvania study, for example, found that insufficient retirement savings would cost the Commonwealth of Pennsylvania a cumulative $14.3 billion over a 15-year period.

In terms of barriers to savings, workers at small businesses have low levels of access to retirement benefits. Only 52 percent of employees of firms with less than 50 workers have retirement benefits compared to 85 percent of those at firms with more than 100 workers. Also, 41 percent of part-time workers have access to a retirement plan. Even when they do have access, they often do not work enough to qualify.

Non-traditional work also reduced retirement planning coverage. Non-traditional workers, also known as gig, contingent, or independent workers, do not have a traditional employer/employee relationship. Only 46 percent of non-traditional workers had a job that offered a retirement plan with only 22 percent participating in a workplace savings plan. Even so, 77 percent of these workers would save if given the chance.

Apart from employment factors, career disruptions also impact retirement security. For example, Pew's research shows that full-time workers who experienced unemployment in the past 2 years are less likely to have access to an employer sponsored plan and less likely to participate even if they do than those who have been consistently employed. Laid off older workers have difficulty finding a new job with benefits and often retire early. At least 1.7 million more older workers than expected retired due to the pandemic recession.

Like unemployment, disability affects access to retirement benefits. In 2020, only 18 percent of persons with a disability were employed. Across all age and educational groups, persons with disabilities were more likely to be unemployed, work part-time, or work in non-traditional jobs, compared to those with no disability.

Caring for a loved one also erodes savings. 20 percent of full-time workers provide regular care for a family member or friend and they often have to reduce their hours of work or quit their jobs altogether because of caregiving. As a result, 27 percent of caregivers report that they have stopped saving and 11 percent used retirement accounts to pay for other things.

Financial shocks also disrupt workers by causing them to take out funds from their retirement savings. Over half of American households have had a large unplanned expense such as a major medical bill. As the number or the cost of the financial shocks increase, so does the likelihood of retirement account withdrawals.

Plan features such as employer contributions can boost participation and account balances but not all employers can afford to make contributions. Proposals in the current Congress to expand the savings credit would likely act like an employer contribution.

Automatic enrollment is another feature that can jump start savings. Vanguard reports that auto enrollment increases participation by 30 percentage points. However, only 36 percent of small employer plans use this effective tool.

Small employers also face obstacles in offering retirement savings options. Small business owners told Pew that starting a retirement plan either is too expensive or that they did not have the administrative capacity to run it. When asked which circumstances would motivate them to begin a plan, the most common responses were a change in their financial situation or government incentives.

Finally, just a word about new research on State auto-IRA programs. Today, 10 states including Connecticut, Maine and—just a few days ago—New York are implementing savings programs for workers without retirement benefits at their job. Four hundred thousand auto enrolled workers have amassed over $330 million in savings. Employers are embracing these auto-IRA programs. Pew found that nearly three in four employers participating in the Oregon program said they were either satisfied or neutral about the program and 79 percent said that they have no out-of-pocket costs from participation.

This concludes my oral comments. Thank you again for the opportunity to testify and I would be pleased to answer any questions.

The CHAIRMAN. Dr. Scott, thanks for your testimony.

Our second witness for today's testimony will be Mr. Akabas.

STATEMENT OF SHAI AKABAS, DIRECTOR OF ECONOMIC POLICY, BIPARTISAN POLICY CENTER, WASHINGTON, D.C.

Mr. AKABAS. Thank you, Chairman Casey.

Chairman Casey, Ranking Member Scott, and distinguished members of the Committee, I appreciate you inviting me here to testify today about the current State of retirement security in America and where we can go from here.

My name is Shai Akabas and I am the Director of Economic Policy at the Bipartisan Policy Center, a non-profit organization that combines the best ideas from both parties to promote health, security, and opportunity for all Americans.

The U.S. retirement system is working well for many people, particularly those with stable employment, sufficient income, and opportunities to save throughout their life. While the structures in place have room for improvement, they result in positive financially stable outcomes for a majority of households.

The reality is that America is home to a piecemeal retirement system. Congress should focus its efforts on those whom the system does not serve well or at all.

My testimony will discuss where current gaps exist and how members of this Committee can address them.

Let me begin by framing the retirement security challenge we face. A majority of Americans worry about running out of money in retirement, making it the Nation's top financial concern. Recent events and trends from the COVID–19 pandemic and recession to rising health care costs to increasing life expectancies have made building a secure retirement both more important and more difficult.

Although all Americans face this challenge, the ability to meet it varies significantly. Workers with low incomes, those without college degrees, people of color, women, and part-time, seasonal and temporary workers, all disproportionately struggle to save for requirement.

Part of the reason why is explained in a recent BPC survey which found that nearly 90 percent of households making at least $100,000 report having access to a workplace retirement plan. The same is true for only half of households making less than $50,000. Even when workers can and want to save, they frequently do not have access to a payroll deduction plan.

In 2016, BPC convened a bipartisan commission co-chaired by former Senator Kent Conrad and Jim Lockhart, a senior Bush administration official. The Commission spent 2 years studying the State of retirement security in America and made recommendations in six key areas which include 1) improving access to and the design of workplace retirement savings plans; 2) facilitating lifetime income options to reduce the risk of outliving savings; 3) enabling the use of home equity for retirement consumption; 4) improving financial capability among all Americans; 5) strengthening Social Security's finances and modernizing the program; and 6) promoting personal savings for short-term needs and preserving retirement savings for older age.

Saving for retirement requires sufficient income. It also requires enough financial security and financial wherewithal to lock some of that income for years or decades in a long-term account. A worker's ability to do this depends on their overall financial health. While the most common tool Americans use to save for retirement is a plan offered through an employer, only two-thirds of workers in private businesses have access to such a plan. Among those, only three-quarters participate meaning that only about half of private sector workers are participating in an employer-sponsored retirement plan.

Further, if someone lives paycheck to paycheck, had credit card or student loan debt or lacks job security, we know that person will struggle to save.

For these and other reasons, various studies show that millions of Americans are at risk of running out of money in retirement. Public policy needs to address this challenge not only be looking at the accumulation of retirement assets but also at the decumulation phase.

Instead of handing people a pot of money at retirement and expecting them to figure out how to make it last, we should focus on equipping Americans with the tools to produce sustainable retirement income, such as guidance on systematic withdrawals, options to convert savings into an annuity, access to well-designed home equity products, and helping people determine the optimal age to claim Social Security benefits.

There is no one policy prescription that will cure America's retirement security challenge. Different solutions will help different groups of savers. We need an all-of-the-above approach to maximize the reach and effectiveness of our current retirement system.

I will briefly propose a few places to start that have historically had bipartisan support.

When you ask businesses why they do not offer retirement plans for employees, the No. 1 reason cited is often cost or administrative burden. The emerging Pooled Employer Plans authorized by the SECURE Act should help with this. There is another part of the equation.

Most employers wishing to adopt a retirement plan today must also accept the fiduciary responsibility that goes along with it. For businesses with small or non-existent H.R. departments, this task is daunting or simply impossible without paying for external support. To help these businesses offer plans while ensuring that their employees are protected, Congress should relax fiduciary obligations for small businesses while transferring that responsibility to other private sector entities and regulators better equipped to handle them.

Meanwhile, several states have enacted laws requiring all employers over a certain size to automatically enroll their workers in some form of retirement savings plan. More states are following suit. Workers in states without these requirements are getting left behind, while the emerging patchwork of different requirements in different states is a headache for businesses that operate across State lines.

Congress can extend coverage to Americans everywhere and streamline regulations by creating a national minimum coverage standard that preempts the multitude of mandates at the State level. One study found that this approach could increase average retirement savings for the middle income earners by roughly 50 percent.

On a related front, several pieces of pending bipartisan legislation would build on the success of automatic features and their incorporation into more retirement plans.

Congress should also look to extend automatic enrollment into the emergency savings policy space. Boosting short-term savings not only improves household financial resiliency, it also protects against retirement leakage.

I expand on these promising solutions in my written testimony and would be glad to discuss them with you further.

Finally, I want to note that retirement security has been a standout area of bipartisan cooperation in Congress, in no small part thanks to the leadership of many members of this Committee. We at BPC have seen the power that a broad coalition can bring to an issue like retirement security. We launched the Funding Our Future initiative in 2018 and our coalition now unites nearly 60 organizations from the academic, non-profit, trade association, and corporate sectors.

Funding Our Future's three goals are to make savings easier for Americans at all ages, help them transform nest eggs into retirement accounts, and ensure that Social Security is financially stable both for current and future retirees.

I can attest that the coalition's strength and success comes from its bipartisan makeup. We at BPS and Funding Our Future are eager to continue working toward those goals with all of you.

Thank you for your time and I look forward to your questions.

The CHAIRMAN. Mr. Akabas, thank you for your testimony.

Our next witness will be Dr. Rhee.

Dr. Rhee, you may begin.

STATEMENT OF NARI RHEE, Ph.D., DIRECTOR OF RETIREMENT SECURITY PROGRAM, UNIVERSITY OF CALIFORNIA AT BERKELEY CENTER FOR LABOR RESEARCH AND EDUCATION, BERKELEY, CALIFORNIA

Dr. RHEE. Thank you.

Good morning, Chairman Casey, Ranking Member Scott, and members of the Aging Committee. I am Nari Rhee, Director of the Retirement Security Program at the UC-Berkeley Center for Labor Research and Education. Thank you for this opportunity to speak before you on this very important subject.

As other witnesses have testified, there are large structural gaps in the current employer-sponsored retirement system. I want to delve a little bit into some key areas where workers are being excluded.

In order to have financial security in old age, all workers need to participate in some kind of retirement plan throughout the full arc of their earnings careers. Social Security provides for a minimum layer of income but obviously that is not enough for most workers.

The employer-sponsored system falls far short of universal coverage. About a third to maybe half of workers do not have access to a retirement plan at work. What is really important to keep in mind is that there are clear patterns in who gets excluded.

The two key areas of fallout that I want to highlight include low-wage workers and workers of color and also the care workforce. Let me talk about the low-wage workforce and workers of color.

There is a direct correlation between the opportunity to save in the workplace retirement plan and how high or low your wages are. Two out of five workers at the bottom 25 percent of the wage distribution have access to a plan at work, whereas nine out of 10 workers in the top 25 percent of the wage distribution do. If you look at actual participation rates, the disparity by income is even worse.

In addition, sectors with the lowest offer rates for retirement plans are where Black and Latino workers tend to be overrepresented. A couple of key examples: administrative and waste services, that is where a lot of building services, janitorial services are, only 38 percent of workers are offered a plan and only 25 percent participate. That is a sector where Black and Latino workers are 40 percent overrepresented in relation to their overall labor force presence.

The hotel and restaurant sector had some of the worst offer rates, it is about 30 percent. Only 12 percent of workers in that sector actually participate in a job-based retirement plan. There, Black and Latino workers are about 60 percent overrepresented.

The upshot is that only 46 percent of Black working households and only 37 percent of Latino working households had anyone in a workplace plan, whether it is a pension or 401(k) in 2019 compared to 60 percent of white working households.

With regards to the care workforce, which consists mostly of women, roughly 1 million home care workers are employed by individual clients and households. These employers simply do not have the wherewithal to offer a retirement benefit.

Another key example is family based childcare providers. These are essentially self-employed small business women who operate small childcare operations out of their own homes. They are a really pivotal component of the childcare infrastructure in the United States.

While IRAs are theoretically available to them and other self-employed people, the reality with regard to IRA usage is that only 14 percent of self-employed workers contribute to an IRA. Those tend to be high income self-employed people who often have incorporated businesses. Family based providers often make less than the minimum wage when all expenses are accounted for and so it is a high bar for them to actually go and sign up for a plan.

I have done some technical assistance for a number of care worker and domestic worker organizations that are trying to figure out ways to offer a systematic return of benefit for their members. What they are running into is a series of obstacles in the regulatory arena because the entire system was designed around a key relationship between employers and the firm. Workers who fall outside that model really do not have access to anything like auto enrollment or any way to receive clients or employer contributions. This is a huge barrier.

Looking forward, we need a holistic approach to improving the retirement security of low-wage workers and the workers who are currently left out of the system. One of the things that I think we need to focus on, it is both a matter of wage policy and retirement policy. Low-wage workers need more income in order to be able to save and they need a systematic means through which to save.

Another key area that needs attention is Social Security reform.

With regard to State initiatives, I think what states have done is realize that they need to step into the voids because this is going to have major fiscal repercussions down the line to have a lot of workers retire without sufficient means to live on.

I think there actually needs to be Federal policy. Whether it is like the U.K. NEST program or the Australian Superannuation program that essentially says all workers, no matter what, will be covered including independent contractors.

Thank you. That concludes my comments.

The CHAIRMAN. Dr. Rhee, thanks for your testimony.

Before turning to our next witness, we are also joined this morning by Senator Warnock.

Next, we will turn to Mr. Williams. He will be our last witness for testimony today. Thank you.

STATEMENT OF J. SPENCER WILLIAMS, FOUNDER, PRESIDENT AND CEO OF RETIREMENT CLEARINGHOUSE, GREENVILLE, SOUTH CAROLINA

Mr. WILLIAMS. Thank you.

Good morning, Chairman Casey, Ranking Member Scott, and members of the Committee. Thank you for the opportunity to speak today and for your work to improve the retirement system.

It is a particular honor to be here today because I live in the Greenville area, a pastoral paradise in the Upstate of South Carolina and I have the pleasure of being represented by Senator Scott.

Retirement Clearinghouse is a fintech company with a mission to dramatically improve the system by preserving retirement savings for the many millions of Americans who change jobs each year. My boss, a fellow by the name of Bob Johnson, is the majority of Retirement Clearinghouse and its chairman of the board. You most likely know Bob as the founder of Black Entertainment Television.

Bob invested in Retirement Clearinghouse more than a decade ago and over the years I have personally witnessed Bob working on the front lines to help minorities and lower income families save for retirement through our work at RCH.

Getting people to save is job one. Right after that, the most important improvement we can make, is to help those same participants preserve their saving when switching jobs or facing career disruptions.

Today more than 30 percent of all participants and nearly 50 percent of minority participants cash out their retirements savings when they change jobs. The savings lost to cash outs adds up to about $100 billion every year, which means that each year millions of people are cashing out their savings and putting their retirement at risk.

That is why we created auto portability. Based on our work with a very large employer, we set out to fix the cash out problem and help preserve savings for America's mobile workforce, in particular for low-income workers.

Auto portability is a simple concept. It is a technology that allows a person's account to automatically follow them from one employer's plan to the next. The idea is that if we make it easy and automatic, more people will keep their savings in a plan rather than cashing out.

Let me give you a real life example of the impact portability can have on a worker's retirement. In November 2017, at age 30, Jaime Cevantes was hired by one of our clients, a very large employer in the health care services industry which we would note is a high turnover industry. Jaime lives in El Paso, Texas.

Over the course of 3 years and two job changes, our services helped Jaime preserve his savings. He made two good decisions that have kept his savings intact. By normal retirement age his current balance of $5,006 will grow to more than $50,000.

There are literally millions of Jaime's that change jobs each year, and with a modest mix of a nudge and enabling technology, we can help them all.

Thanks to support from the Ranking Member and other members of this Committee, including Senator Warren, we were able to work with the Department of Labor on critical regulatory guidance that facilitated auto portability. Now we are working with two of the industry's largest providers, Alight Solutions and Vanguard, which will make auto portability available to over 16 million 401(k) savers, and that is just the beginning.

Auto portability will have a tremendous impact on the retirement system. The Employee Benefit Research Institute estimates that auto portability can preserve $1.5 trillion in additional savings over the coming generation. Of that amount, more than $190 billion will be saved by Black workers.

We are very appreciative of bipartisan support from Members of Congress and their interest in legislation to help encourage systemwide adoption of auto portability. One way to do that would be to provide certainty and stability by codifying into law guidance issued by the Department of Labor.

We also think it would be helpful to create modest tax incentives to encourage early adopters of auto portability. These gentle legislative nudges would deliver a tremendous benefit to working families.

Thank you for your attention to these issues, your support for auto portability, and for the opportunity to testify today. I will be pleased to answer any questions.

The CHAIRMAN. Mr. Williams, thanks very much for your testimony. I did not acknowledge, when I was making references to witnesses' biographies that you, too, have a degree from a Pennsylvania institution. Senator Scott noted the MBA from Pitt so I have got to make sure that is on the record.

Senator TIM SCOTT. I just wanted to make you happy, Mr. Chairman.

The CHAIRMAN. Thank you, Ranking Member Scott.

I wanted to also note that we have votes today start at 11 so we will be mindful of that. I will start with the questioning. I will try to go underneath the time so we can go right to our Republican questioners when we get to that.

Dr. Rhee, I will start with you and your testimony. I was struck by a lot of the data in your testimony, and also the many ways that you highlight those who are left out. One of the highlights on your first page says, and I quote, “The current employer-sponsored retirement savings system leaves out many works and this disproportionately impacts workers of color.” The words “leaves out” jumped out at me.

You also say, and I am quoting again, “The current retirement system is also not designed to meet the needs of workers in non-standard employment relationships, including those in care work.”

We know that women are often doing the most when it comes to caregiving generally and unpaid caregiving in particular. We saw this especially over the last 19 months of this terrible, terrible pandemic as women left the workforce in droves to care for children and aging parents.

Dr. Rhee, can you explain the effects of caregiving on workers' ability to save for retirement?

Dr. RHEE.[no audio]

The CHAIRMAN. I do not know if we are having trouble—

Dr. RHEE. Oh sorry, I forgot to unmute myself, my apologies.

Caregiving has tremendous impacts on women in terms of their retirement income security. It comes at the beginning of their careers, with caregiving of children and taking time off of work or reducing their work hours; and also at the tail end of your career when you are taking of either aging parents or ailing spouses.

The early career interruption for child care means that women can lose up to a half a million dollars total in lifetime earnings, cumulative earnings lost, and also Social Security benefit loss and retirement savings loss. It is important to note that if a women takes 3 years off to take care of a young child it is not just those lost years of earnings. There is essentially sort of a penalty that follows them for at least a decade or so.

What happens at the tail end is that if you take time off or start to reduce your work hours, it has an impact not only in terms of your savings capacity but the fact that you are likely to start eating into your retirement savings sooner and also claim Social Security benefits sooner than planned, which can have anywhere between a 7 to 12 percent annual penalty compared to your base benefit when you do that.

I think I will just close there and say there is just a phenomenal and compounding cumulative negative impact on women's retirement security from caregiving.

The CHAIRMAN. Your testimony made that very clear.

I wanted to get back to this same issue in the different context of people being left out, left out of the labor force and unable to build retirement savings. Many of them, of course, rely on Social Security and Supplement Security Income, SSI, for their later years.

I am committed, as I know so many are in the Congress, to protecting and strengthening these programs. I introduced a piece of legislation called the SWIFT Act, or Senate Bill 1772, which would strengthen and expand Social Security benefits for widows, widowers, as well as surviving divorced spouses.

What are your thoughts, Dr. Rhee, on improving Social Security and SSI as tools to address the gaps in retirement coverage and access?

Dr. RHEE. Yes, I think when we talk about aging issues, we often focus exclusively on the workforce. We need to remember when it comes to issues like income security and old age, and also long-term care access and funds to have long-term care, we need to be looking at people who cannot work or have interruptions.

One of the issues with SSI is that the benefits are so low. They actually have not kept up at all with the cost of living. It essentially forces people to live well under the poverty line in some cases. That improving SSI benefits to actually penalize and actually have a minimum standard of income that is actually sufficient to live on is really important.

The CHAIRMAN. Thanks very much, Dr. Rhee.

I will turn to Ranking Member Scott.

Senator TIM SCOTT. I will defer my question time to Senator Collins.

Senator COLLINS. Thank you very much, Senator Scott. That is typically gracious of you.

I want to thank both you and the Chairman for holding this important hearing. It builds on some work we did in the last Congress on retirement security. I know, Senator Scott, that it is a real passion of yours and that you bring great expertise to the subject.

My first question is for Dr. Scott and let me start, Dr. Scott, by saying it is good to see you again, even if it is remote.

In 2019, when Congress enacted the SECURE Act, which many of us cosponsored, it included a provision that I authored to allow small businesses to band together in a single retirement plan called a Pooled Employment Plan or PEP. PEPs allows small employers to share the administrative burden of a retirement plan without requiring a connection, a nexus, among them.

I know the law is very, very new, but Dr. Scott, could you help us better understand how Pooled Employer Plans and other provisions of the SECURE Act can improve retirement security for the employees of small businesses.

Dr. JOHN SCOTT. Well, first of all, let me say, Senator Collins, it is good to see you, as well, and I look forward to a time when we can both face fully in person again.

To your question, I think this is actually a pretty exciting provision. As you note, it is very new, and the data is not quite in yet. I think we are still even waiting for regulations from the executive branch on the implementation of the SECURE Act in this area.

However, I would say that I was pleasantly surprised by the reaction from the financial services industry. There seems to be a lot of interest in offering Pooled Employer Plan products to small businesses and other employers. I think we are off to a good start there.

I think what is really encouraging about PEPs, in particular, is that it does reduce the fiduciary liability to a degree for the small business owner. I think a lot of small business owners are not fully aware of these fiduciary responsibilities when they are thinking about adopting a retirement plan. They are typically focused on the costs of starting a plan and then whether they have the administrative capacity to operate the plan. I think it helps a little bit in that regard. It takes some of the shock of that fiduciary liability away.

Also, I think it does address the administrative capacity issue in the sense that it is much easier to operate in this more streamlined, less customized approach which the PEPs offer.

I think the jury is still a little bit out on the cost component, and that is really up to the providers about how they price these. I think they are pretty aware that to appeal to small business owners that they have to be competitive. We are still waiting to see how that pans out as these products mature and are more widely available in the marketplace.

I think we are pleasantly—or I should say I think we are optimistic going forward about how these PEPs might improve coverage in this area.

Senator COLLINS. Thank you, very much.

Mr. Williams, I do have a special interest in expanding access to retirement plans among the employees of smaller businesses because they tend not to have access to plans.

In April, I introduced the SIMPLE Plan Modernization Act with Senator Warner. Our bill would provide greater flexibility and access to small businesses and their employees seeking to use what is known as the SIMPLE Plan as a retirement savings option.

These accounts are available to businesses with 100 or fewer employees. Here is the catch under the current law. The employees of these small businesses are not allowed to contribute as much to their plans as those who work for larger businesses with 401(k)'s.

The SIMPLE Plan Modernization Act would address this inequity by increasing the contribution limit for SIMPLE Plans, allowing small business employees to save more.

Mr. Williams, if small business employees were treated comparably to large business employees, would this help improve the savings for the employees of your clients?

Mr. WILLIAMS. Yes, Senator. We, in the industry, use a term harmonization. There is a lot of strange rules and regulations that have built up over the years. I think Dr. Rhee referred to a few of those earlier in her testimony.

Any effort to harmonize the rules and optimize savings for all workers equally is a good thing.

Senator COLLINS. Thank you very much. Thank you both.

The CHAIRMAN. Thank you, Senator Collins.

I know we are awaiting a Democratic Senator but Senator Scott, in the interim would you like to take your time?

Senator TIM SCOTT. Yes, especially since we are going to be timely for the votes scheduled that we have coming up. Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you for being here with us today. I would love to continue the conversation around the issue of leakage. I recognize that in 2015 about $92 billion was lost out of retirement accounts because of leakage.

I like to make things practical from sometimes personal experience. I remember in my late 20's I had a retirement account and decided that I needed the money for something else and took the money out. I had to pay a 10 percent penalty and declare it as ordinary income. I did not understand that until I filed my taxes and then I had a better understanding and appreciation for the definition of leakage.

The importance of this issue, and if you think about $92 billion in 2015 over a decade, that is close to $1 trillion lost out of American's retirement accounts in addition to paying a 10 percent penalty on those dollars as well as declaring that nearly $1 trillion in a decade as ordinary income. That is a devastating impact to those retirement accounts.

You just maybe give us more light on why people cash out of their retirement accounts and who is most likely to cash out of the retirement accounts? That may bring us more focus on the importance of the issue of leakage as well as auto portability, making that decision not to cash out easier when you go from job to job?

Mr. WILLIAMS. Thank you, Senator Scott.

Yes, the data is very clear. The workers and participants who are most likely to cash out are those with the smallest balances. There is a very strong impulse to preserve retirement savings, I think Northern Trust did some research a few years ago and they cited $10,000 as a very important flexion point. Somebody gets $10,000 in their retirement savings and their mindset changes over the value of those savings. They start to think of it as retirement savings.

We are trying to solve the problem with auto portability down at the low end where—frankly we need to incubate accounts. We need to make it super easy. Every time someone changes a job, they are faced with a decision particularly at the very low end. The decision is I can keep this money intact, and sometimes that involves a lot of paperwork and it is not easy and it is cumbersome. It is hard to imagine in 2021 that we do not have a system that can electronically transfer moneys between plans, which is essentially what we are building with auto portability, but those little hurdles cause people to say well, it is easier for me to take this money, and just like you said, they pay taxes, they pay penalties, and then they lose the compound value of the earnings for 30, 40, 50 years.

Senator TIM SCOTT. Yes.

Mr. WILLIAMS. That is just disastrous.

If we can incubate the savings and get people to understand that preserving these savings, their financial well-being, their sense, their own internal sense of financial health improves dramatically.

Senator TIM SCOTT. Thank you, sir.

My next question is for Mr. Akabas. I noted in your opening statement really a tone of optimism for many retirees or those approaching retirement age. Sometimes we feel like the entire country is on a collision course with a lack of resources in retirement.

I would love to hear from you your understanding of the State of retirement for our seniors and then, with the limited time that I have left, which will give you about a minute to answer the question: a) what is the true State of our retirement for our seniors? and b), the difference between a job and a career as it relates to the availability of retirement accounts?

Mr. AKABAS. Sure. Thank you, Senator Scott.

In terms of the overall State, I think it is broken into two groups. One is people for whom the system is working quite well, where people have access to a retirement plan at work, they make enough income to save in that plan throughout the course of their career. They accumulate savings and have them compound over time.

Then they reach retirement and Social Security supplements their income. Perhaps they have options for lifetime income.

For a whole other group of people, they have very little of that. Many of that same group of people do not have the same level of financial literacy or financial capability, and so for their retirement security, the system really is not even there. Even if it was, they would not necessarily know all of the decisions to navigate the complexity that we have today. A lot of those people are people of color, women, people who work for small businesses, temporary workers, et cetera.

To answer the second part of your questions, this group of people who are workers who change jobs often, and we know that workers are changing jobs more than they did a generation or two ago. We need to make sure that not only auto portability, like Spencer has been talking about and I know that you, yourself, have done a lot of work on, but also making sure that those workers have plans to save in the first place, because either small businesses or the big economy, there is much less availability.

Dr. Rhee said in her testimony that many of those people, while they have access to save in an IRA, do not end up doing so.

There is a lot of holes in the retirement system that public policy can plug.

Senator TIM SCOTT. Thank you.

The CHAIRMAN. Senator, as I said earlier, we will continue to update as members join us.

Senator Blumenthal joined us and, as we are awaiting two Senators coming up, maybe I will get a question and then maybe turn to Senator Braun unless we have a Democratic Senator who will take the rest of my time.

Dr. Scott, I wanted to turn to you regarding the importance of incentive for savings. One specific incentive for low-wage workers to save for retirement is the Saver's Credit, which is a credit that we are happy is in place. There is two basic problems with it right now. One is awareness of the credit. That is true of sometimes a lot of government programs, a lot of opportunities that people have. It is certainly the case that the awareness is too low.

Then second, the process of claiming the credit can be complicated.

Earlier this year, in the Recovery Act we passed in the Senate, Democrats were proud of the fact that we had an expansion of an existing tax credit, in this case three of them: the Earned Income Tax Credit, the Child Tax Credit, and the Child and Dependent Care Tax Credit. We, of course, want to extend the benefits of those expansions in the upcoming Build Back Better legislation.

I would ask, because that awareness is an issue, I would ask you how can we expand awareness of the Saver's Credit and streamline access to it.

Dr. JOHN SCOTT. Thank you, Chairman Casey. I think that is a great question.

The Saver's Credit can be incredibly impactful for certain taxpayers. I would note that there are more than one proposal in the current Congress to expand the Saver's Credit and make it refundable as well as the ability to directly deposit it into retirement accounts. I think one of the great things about these proposals is that they have bipartisan support. We are looking forward to some movement there.

In terms of awareness, I think this is a tricky issue, as you know. It is not with the Saver's Credit. It is with the EITC and a host of other government incentives, that it is often getting people to have some knowledge about it and then how to claim them. I think there is probably multiple ways to do this. One is through the tax code and the Internal Revenue Service and the tax filing process. I think the IRS could be empowered to do a bit more to help eligible savers not only become aware but help them file for it.

Another issue, though, is that you do have to currently file a tax return to claim the credit. For many Americans who are eligible for the Saver's Credit, they do not pay Federal income taxes, or they do not have to. I think we have to think about ways of how do we sort of get them to the point and streamline that awareness so that we are actually bringing them to the table so we can take advantage of this credit.

We might also think about beyond what government can do, such as the IRS. We might think about how plan sponsors or, I had mentioned in my opening remarks of the State auto-IRA programs, how they might be facilitators or almost Sherpas in helping these workers claim these credits in a way.

I think there is multiple things that we can think about, both from the public sector side but also from the private sector side, that could help these people. I think, at the end of the day, expanding the Saver's Credit, making it refundable so that it is not just an offset against tax liability, and also making sure that it gets deposited directly into retirement accounts, those proposals in Congress that would do that would be a huge lift for a lot of working Americans out there.

The CHAIRMAN. Dr. Scott, thanks very much.

I will turn to Senator Braun next, and then Senator Kelly. Now Senator Braun.

Senator BRAUN. Thank you, Mr. Chairman.

This is an interesting discussion because, as an owner of a business for 37 years prior to becoming a U.S. Senator, my wife has a business in our downtown of Jasper, Indiana, where we both grew up, I had to go through a lot of trials and tribulations, especially that all small businesses have to contend with. I mean, there is a high fatality rate to make it, in terms of surviving into 5 years, let alone 10 years. When you do finally get there, you have got to remember that probably those businesses to keep employees and keep customers have had to do things generally right.

In the short period of time that I have been here, a little under 3 years, and especially over the last nine to 10 months, I think there is just a complete disregard for the productive side of the economy that pays all of the bills for this place. Then we have to contend with the mandates that seem to be rolling out on a weekly basis.

I think a lot of what we have had to deal with, of course, was with the pandemic. I saw that businesses across the board—I visited all 92 counties in my home State, talked probably more than any Senator to entrepreneurs and business owners because I am the one most recently from there.

All I can say is here, when it comes to retirement plans, having some way to get your employees hooked with an IRA or 401(k). It is not like employers are shirking that. It comes down probably to whether they have the capability to do that, and all of the other things that are being asked of them currently. Like, for instance, forcing businesses that now had 100 employees to where you either have to get a vaccine or lose your job. That is government in overdrive, government gone wild. It is a completely lack of respect for that productive side of our economy.

I do not know when enough is enough. I think when bureaucrats in government do things, they do it with no context or perspective because most of them have never been there.

All I can tell you, and I am not talking about the U.S. Chamber of Commerce. I am talking about maybe the National Federation of Independent Businesses. When you take it down to five employees and you are willing to be that punitive to a $10 per day per worker penalty, something is out of order.

I think that as these accumulate, as we keep hitting a sector of the economy, small businesses, in this fashion with what they have just come through, unless you are purposefully, intentionally trying to put even more companies out of business, it is not the time to do it. Especially when, I can tell you, they are doing everything they can currently, if it is within the realm of their capability, to do these things anyway.

I have got a question, and I would like Mr. Akabas to answer this. Along with what we are talking about here, along with the other mandates you have seen either looming or already issued, what does this do to the health of Main Street America and focus on the broad maybe picture as well as this particular new directive, new mandate that we are putting on small businesses.

Mr. AKABAS. Well, thank you, Senator. It is good to see you again.

I think you are right that we need to be mindful of the types of burdens that we are placing on small businesses who have limited resources and limited financials to manage those types of burdens.

When it comes to retirement in particular, I think that there is a way to navigate this and make sure that we make it extremely simple and almost costless for businesses to comply with some type of standard that supplies with their employees with an ability to save for retirement.

I agree with you that having a heavy handed requirement with lots of specific requirements that entails a lot of cost would not be appropriate.

I do think that there is a way that—we know that these mandates are coming already at the State level. We can have a standard at the Federal level that first makes it easier for small businesses to comply and provides them with tax credits in order to do so and simplifies the system for them. Then expect that they would provide their employees with an ability to save for retirement, I do think that is really important. Right now we know that so many employees and small businesses do not have that opportunity.

I fully agree with you that we need to make sure that any mandate or burden that is put on employers is taken with deep consideration and making sure that it is as costless and burdenless as possible. We also need to balance that with the need to make sure that their employees have the opportunity to save.

I think both are important.

Senator BRAUN. Thank you. I think that is a good way to look at it. I appreciate the comments.

The CHAIRMAN. Thank you, Senator Braun. Now Senator 4Kelly.

Senator KELLY. Thank you, Mr. Chairman. Thank you for the folks that have come here to testify today.

My first question here is for Dr. Rhee.

Dr. Rhee, earlier this year this Committee looked at the impact COVID–19 pandemic on older workers. Something we saw then, and we are continuing to see now, is that some folks are just not returning to work. Instead, they are choosing to retire early. Now whether that is for health and safety or trouble finding a job or other reasons, it is unclear. I would like to get into that for a second.

Dr. Rhee, recent data suggests that as many as 3 million Americans, 3 million retired earlier than they had planned due to the pandemic. I am interested to find out from you if you have any data on, first of all, why specifically? Also, are we concerned or is there a concern that these individuals risk running out of money during retirement? Is there any data on that?

Dr. RHEE. Thank you. That is a really good question.

The pandemic recession was a really strange recession because it impacted different groups of workers by income in different ways. Older workers who were high income did not see as much impact. The low-income workers, especially low-income older workers were hit much harder in this recession than back in the 2008 Great Recession. Workers who were eligible for Social Security, 62 and older, who were low income, they were 20 percent more likely to retire last year than they were the year before.

One thing to keep in mind is that retirement savings is really concentrated in honestly the top 20 percent of the income distribution. If you look at the middle 20 percent of workers, of households by income, the media retirement savings was only $30,000 for age 55 to 64, which is negligible. Then if you look at lower income scales, it is essentially a typical household has nothing.

The big issue is that they then are claiming Social Security earlier than they should be and, again, every year that you claim early can have a 7 to 12 percent deduction from your base Social Security benefit. That is for the rest of your life.

Senator KELLY. Thank you, Dr. Rhee.

Dr. Scott, your testimony referenced retirement savings for independent contractors and gig workers. We know they have access to retirement plans if they want them. We have seen the benefits of automatic enrollment and we know folks are much more likely to save if they have a little bit of a nudge or a push from your employer.

How can we make retirement plans more attractive to independent workers and freelancers, and how can we create more portable plans that people can take with them from job to job?

Dr. JOHN SCOTT. Thank you, Senator. That is a great question.

As I mentioned in my statement, I think the demand is there despite the low levels of access amongst these non-traditional workers or contingent workers. I think part of the issue is that there is a wide variety of these kinds of workers. We have independent contractors who work in the high industry. We have day laborers. We have temp staff. It is very difficult to say well, here is one solution that is going to fit all of these kinds of workers who have different kinds of jobs, that work in different ways and, probably most relevant, they get paid in different ways.

Approximately, according to our survey, about 70 percent of non-traditional workers are paid electronically but many others are paid by check, or by cash. I remember I paid my real eState agent when I bought my house by check, so you think, how can we divert 5 percent of that check, paper check, into an IRA?

I think it is probably going to take more than one way to get these non-traditional workers into the savings system.

I think we should be thinking about maybe it is through the tax system. Some of these workers have to file quarterly returns or estimated payments. Maybe that is an opportunity to sort of nudge them toward saving for retirement. Perhaps it is through some of the companies that employee these workers as independent contractors.

It is very difficult to use automatic enrollment in this situation because it is not like the situation with an employee. However, there are other methods that, as you said, could nudge them. Or something called active choice where you present them with the opportunity do you want to save part of this money that we are paying you, say 5 percent, or not? That act of active choice makes people stop and consider and then they are more likely—not as likely as through automatic enrollment—but they are more likely to divert some of that money into savings.

I think we need to be a little creative and innovative with this segment of the workforce.

Senator KELLY. Thank you, Dr. Scott. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Kelly. Now Senator Lee.

Senator LEE. Thank you, Mr. Chairman.

Auto enrollment is an idea that is founded in behavioral economics and recognizes the reality that people typically make decisions based on habit and human nature. Research on auto enrollment that if people were signed up automatically in a savings plan with money taken out of their paychecks and then told that they can fill in a form in order to opt out, most never get around to opting out.

Mr. Akabas, can you, if you could, please provide a yes or a no answer to each of the following simple questions. Does auto enrollment require that a percentage of a worker's income be automatically rerouted into a retirement savings account?

Mr. AKABAS. Require? They have the opportunity to opt out, but yes.

Senator LEE. Is there a possibility that some workers may be unaware that their income is being redirected into a retirement savings account?

Mr. AKABAS. Possibility, but there are lots of forms that are provided to make sure that workers are aware of that fact.

Senator LEE. Still a possibility.

Is there a Federal income tax and a 10 percent penalty on the amount that a worker withdraws, in addition to any relevant State income tax of a worker decides to withdraw from a 401(k) account before they reach the age of 59-and-a-half?

Mr. AKABAS. Yes.

Senator LEE. In an auto enrollment system could a low-income American living paycheck to paycheck be auto enrolled in a retirement savings account, find a decrease in their biweekly paycheck, decide to opt out of auto enrollment in order to regain the income that was being redirected and then, in an attempt to recoup the income that was redirected, be forced to pay the aforementioned penalties or fees in order to get it back?

Mr. AKABAS. In theory, yes. I do not know how often that happens, but yes.

Senator LEE. Is what you are telling me, what I am hearing is that low-income Americans, those under the age of 59-and-a-half, who are living paycheck to paycheck could potentially lose money due to auto enrollment if they decide to opt out and recoup the funds that they need in order to have a roof over their head and put food on the table?

Mr. AKABAS. Yes, that is possible.

Senator LEE. The financial literacy of Americans is a problem. It is an issue. I think it is something that ought to be addressed not only in families but in schools, in workplaces, homes, civil society, institutions of civil society. It is something we ought to focus on.

I also believe in the American people and I think auto enrollment could end up harming the daily budgets of many low-income Americans and young families. Removing the responsibility and the opportunity from the American people to make a conscious decision to save is not necessarily going to make them more financially literate, nor will it empower them to handle the financial burdens that come with being a working citizen.

We should instead seek out ways to encourage savings rather than forcing it.

Now in 2019, the Department of Labor issued a final rule that allowed for auto portability of retirement savings, meaning participants in provider-provided retirement savings accounts no longer needed to consent to have existing retirement savings of $5,000 or less transferred into a Safe Harbor IRA or be automatically enrolled into a new employer's retirement plan.

Mr. Williams, can you tell me how can auto portability benefit families that have only a small amount that they can contribute to a retirement savings account but desire to do what they can in order to build their savings steadily over time?

Mr. WILLIAMS. Thank you, Senator, for the question.

First of all, our focus is on these very small accounts. When you peel back the onion on the demographic, you are going to find low income is virtually synonymous with minorities and women. What we find—first of all, the Department of Labor ruling provided huge guardrails in terms of the notice and the affirmative notice that we have to get to folks and things like that. There is a very long period where someone can opt out.

What we have also learned through—it is not really a pilot, auto portability has been in place for about 4 years now with a particular employer—is that we actually get a 30 percent response rate once we let an individual know that there is two accounts and we can get them into the current employer plan. We get a 30 percent response rate of people calling us and saying please move my money to my new employer plan.

I think the job change and the education and the activity that occurs around that is just a perfect opportunity to enhance someone's financial education, explain the benefits of long-term savings. It is kind of hard to explain compound interest, even Einstein had a little trouble with that one; right? What a perfect time, because it is kind of Johnny on the spot, in terms of this money is available, I need to make a decision.

We have found people to be very responsible when they get a chance to keep their savings intact, but equally responsible if they have an emergency, take it. Do not get in the way of, you know, a funeral for your mom or next month's rent check.

I think the mechanisms that the Department of Labor put in place are highly protective of individuals that need an opportunity to do something else but also streamlines the process. Those that just want to stay in the system can do so.

Senator LEE. Thank you very much.

Thank you, Mr. Chairman. I see my time has expired.

The CHAIRMAN. Thank you, Senator Lee. I want to thank the members who are with us today as well as, of course, our witnesses for this testimony today on a critically important set of topics under the broad heading of retirement security.

I just have some closing thoughts. We know that too many Americans enter retirement with either no savings or too little savings to make ends meet. The barriers that they have in front of them to achieving financial security in retirement are complex, requiring thoughtful exploration on both sides of the aisle. I think we have heard some of that today.

An important lesson from today's hearing is about our Nation's retirement system is the question of who is left behind? America's low-wage workers and family caregivers, of course, are among those left behind. It is past time for Congress to act on behalf of these Americans. Reforms that benefit them are more than 40 years overdue.

Congress must enact policies to help these Americans find good paying jobs and allow them to care for their loved ones. Not one or the other, both. That is why Democrats are working to pass the Build Back Better budget. Its provisions for families, for workers, for caregivers will help Americans build a more secure future.

It is why we have convened today's hearing, to explore the proposals that both Democrats and Republicans are working together on to improve access to 401(k) plans and other retirement accounts.

I want to thank Senator Scott for his work preparing for this hearing, and I now turn to Ranking Member Scott for his closing remarks.

Senator TIM SCOTT. Mr. Chairman, let me say something off subject for a quick minute here. I will say that throughout our country we oftentimes yearn for a bipartisan approach in government and we so often seem to fall short on behalf of the American people.

I thank you for your leadership on this Committee for making this as bipartisan, and frankly nonpartisan, as possible. Many of the subjects that we talk about has nothing to do with the left or the right, Democrats or Republicans. It has to do with Americans struggling to make their ends meet. I cannot think of a better way to show the American people that we care about them more than we do of ourselves by working on their behalf and not having a political partisan conversation just because there is a microphone and a camera nearby.

I appreciate the spirit in which we lead and, frankly, serve the American people.

I think that retirement is a very important issue and one that too many Americans struggle with bringing those two ends together. I think that there are things that we can do that will help that process for every American. Every American should be able to work hard, save for retirement, and enjoy their golden years with peace of mind.

I thin there are things that should be done and must be done in order to accomplish that goal: improve retirement plan access, boost plan participation, protect auto portability, provide better lifetime income options, improve financial literacy, boost health savings accounts, simply Social Security decisions, and promote work.

By ensuring these common sense solutions and building on the success of the bipartisan SECURE Act, we can help hard-working American retire comfortably.

Again, thank you to everyone for being here with us today. Your testimony helps us to understand and to support the golden Americans.

I yield back.

The CHAIRMAN. Thank you, Raking Member Scott.

I, once again, want to thank all of our witnesses for contributing their time and their expertise today.

If any Senators have additional questions for witnesses or statements to be added to the record, the hearing record will be open for 7 days until next Thursday, November 4. Thank you all for participating.

This concludes today's hearing.

[Whereupon, at 10:56 a.m., the Committee was adjourned.]

APPENDIX

Prepared Witness Statements

The Pew Charitable Trusts

Written Statement of John Scott, Director, Retirement Savings Project
United States Senate Select Committee on Aging
October 28, 2021

Thank you, Chairman Casey, Ranking Member Scott, and members of the Aging Committee, for the opportunity to testify on building a stronger retirement system for all Americans. 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 most Americans, saving through a workplace retirement plan is the primary vehicle for ensuring financial security in old age, but coverage is not universal. Overall, at least 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% 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.

Workers without employer-provided retirement savings plans risk negative economic consequences in their retirement years. Without adequate savings, Americans may face impoverished retirements or may even be unable to retire. They may also be more likely to turn to social assistance programs such as Medicaid, straining government budgets. What is more, such workers may lack a buffer, in the form of any savings, during a financial crisis either before or in retirement.

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 when Americans do not have sufficient retirement savings.

A Pennsylvania study, for example, 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 were projected to grow to $1.1 billion by 2030 and total a cumulative $14.3 billion from 2015-2030.

Employers also benefit from a workforce that is saving for retirement. In this tightening economy and labor market, helping employers offer retirement benefits will result in an engaged and productive labor force. In a 2017 Pew survey of small to mid-sized businesses, 31% of employers that sponsored a retirement plan said the main reason for offering retirement benefits was to help attract and retain employees.

This testimony will discuss the barriers facing workers and employers in increasing retirement savings, including a discussion of new research on nontraditional or contingent workers. I will then summarize career disruptions that hinder workers in trying to save such as caregiving. My testimony will conclude with a summary of Pew's research on promising policy innovations.

Barriers facing workers

There are a variety of barriers that prevent Americans from saving for retirement. In this section, I focus on working at small businesses, part-time work, nontraditional or contingent work.

Working at small firms

Workers at small businesses have especially low levels of access to a retirement plan. According to the Department of Labor, only 52 percent of employees at firms with less than 50 workers have a workplace retirement plan, compared to 85 percent of those at firms with more than 100 workers.

Because of this lack of access to retirement plans among small businesses, in 2017 Pew surveyed private sector workers at small to midsize businesses. 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. Only 52% of Hispanic full-time workers have access to plans as compared to 76% of white full-time workers, and only 30% of Hispanic full-time workers at small to medium firms participate.

Meanwhile, the industry is a factor in access as well. People working full-time in production, transportation, and material moving, and in management, professional, and related industries, are twice as likely to have access to a plan as those in wholesale and retail trade. Industry differences can be attributed at least in part to pay and benefit practices, unionization, and employer perceptions about what is likely to attract and retain workers in a particular industry.

Part time workers and lower hour industries

According to the Department of Labor, 78% of full-time workers have access to a retirement plan in the U.S. while only 41% of part time workers have access. To follow up on this finding, a separate Pew analysis of the Survey of Income and Program Participation took a deeper look at lower hour industries. A Bureau of Labor Statistics study shows that workers in "lower hour industries"—where part-time work is more prevalent, such as retail trade; arts, entertainment, and recreation; and hospitality and food service—are less likely to receive health insurance, paid time off, and, notably, access to employer-sponsored retirement plans.

Pew's analysis found that workers in lower hour industries experience lower rates of access to employer-sponsored retirement plans than do those in higher hour industries. This discrepancy may be caused by the greater proportion of part-time workers in lower hour industries. However, full-time workers in lower hour industries also have significantly lower access rates than their counterparts in higher hour industries (39 and 29 percent, respectively). In contrast, part-time workers in higher and lower hour industries have nearly identical rates of access at approximately 44%.

More than 7 in 10 workers in lower hour industries don't participate in an employer-sponsored retirement plan due to lack of access and barriers to taking advantage of the plan, or "take-up." For both full- and part-time workers, lower hour industry workers take up employer-sponsored retirement plans less often. Just over 40 percent of part-time higher hour industry workers take up plans, almost twice the rate of lower hour industry part-time workers.

There are several reasons why employees might not participate in a plan: They may be ineligible under employer policies, lack disposable income, or are saving in ways that make joining an employer-sponsored plan unnecessary. Among all workers, 53 percent of those in lower hour industries cite eligibility as their reason for not participating, compared with 45 percent of higher hour industry workers. A significant majority of part-timers in both industry groups say eligibility keeps them from participating, while a slightly larger majority of full-time workers cited affordability. Twenty-seven percent of part-time employees in lower hour industries cited affordability as a reason for not participating versus 18 percent for workers in higher hour industries—perhaps because of better wages in higher hour industries. Although a small proportion of workers cited lack of need as their reason for not participating in a plan, higher hour industry workers were twice as likely to offer this as an explanation.

These differences are not confined to part-timers. Full-time employees in lower hour industries have lower participation rates and account balances than their counterparts in higher hour industries, possibly because of plan eligibility rules and less disposable income.

Among part-time workers with access to a retirement plan, differences in participation rates among various demographic groups are small. One exception is gender: Women working part time are much more likely than men to take part in a plan if one is available. No comparable gender differences exist among full-time workers.

Nontraditional workers

Lack of access to a workplace plan is the most significant barrier to retirement savings facing nontraditional workers, also known as contingent, gig, alternative, or independent workers. Nontraditional workers are different from workers in a traditional employer-employee relationship. They don't readily fall into simple labor categories, they may lack job security, their incomes may be volatile, and they generally do not enjoy employer-provided benefits such as health insurance or a retirement plan. Varying definitions of nontraditional work, and different datasets, give rise to a wide range of estimates, from 3.8% of America's workforce to as much as 40.4%.[1]

[1] For the 3.8% figure, see U.S. Bureau of Labor Statistics, "Contingent and Alternative Employment Arrangements—May 2017," news release, June 7, 2018, https://www.bls.gov/news.release/conemp.nr0.htm. For the 40.4% figure, see U.S. Government Accountability Office, "Contingent Workforce: Size, Characteristics, Earnings, and Benefits" (2015), https://www.gao.gov/products/GAO-15-168R. For an overview of various estimates of the size of the nontraditional workforce, see Gig Economy Data Hub, "How Many Gig Workers Are There?," The Aspen Institute and Cornell University, accessed April 13, 2021, https://www.gigeconomydata.org/basics/how-many-gigworkers-are-there.

In 2020 Pew surveyed 1,000 workers in nontraditional jobs. The survey examines their access to workplace retirement plans, the barriers they face in saving for retirement, and the types of programs—existing or new—that would work best for them.

Most nontraditional workers also hold other jobs, and some have access to a workplace plan through a second, traditional job. More than one-third (37.6%) of nontraditional workers held a single, nontraditional job. The other workers held multiple jobs: 40% of nontraditional workers had a mix of traditional and nontraditional jobs, and the remaining quarter (22.4%) had two or three nontraditional jobs but no traditional job.

Roughly half (46.3%) of all nontraditional workers had a job or an employer during the previous year that offered a defined benefit (DB), defined contribution (DC), or other type of retirement plan. Access to a plan was strongly tied to having at least one traditional job: Only 29.8% of nontraditional workers with no traditional job had access to a workplace retirement plan. By comparison, 69.7% of nontraditional workers who also had one or more traditional jobs had a workplace plan such as a DB, DC, or other plan.

Low participation by nontraditional workers in workplace retirement savings is due more to lack of access than to lack of demand. Over three-quarters (77.5%) of those who had access and were eligible for a workplace DC plan decided to participate in it. Combining access, eligibility, and participation, only 21.9% of all nontraditional workers participated in a workplace DC plan during the year leading up to the survey.

The finding that over three-quarters of eligible nontraditional workers took up a workplace plan—when offered and eligible for one—indicates strong demand among nontraditional workers for such plans. This result is consistent with a second survey question that asked nontraditional workers which workplace benefits they wanted, with multiple choices allowed: Two-thirds (66%) of nontraditional workers said they wanted retirement benefits, which was only behind health benefits (77%).

In a separate analysis of savings by nontraditional workers, individual retirement accounts (IRAs) are another tool for putting away money, but only 21.9% of nontraditional workers said they have IRA savings. There is some overlap among savings categories; for example, 18% of nontraditional workers said they have savings in both a workplace DC plan and an IRA.

When nontraditional workers do have retirement savings, average balances tend to be relatively low: 31.1% said they hold $50,000 or less in a workplace DC plan, and 14.3% hold $50,000 or less in an IRA. Higher balances are rare, with only 17.8% and 5% holding more than $100,000 in a DC plan or IRA, respectively. The survey found that nontraditional workers with no savings in a workplace plan tend to be under age 50, female, and have a high school education or less. In terms of the type of nontraditional work that serves as the primary job, 61.7% of those who did seasonal work had no workplace savings, as did 54.7% who were working as sole proprietors, 48.3% of temporary help agency workers, and 21.2% of freelancers.

Shocks and disruptions that impact savings

Apart from the structural characteristics of employment, events may suddenly disrupt the ability of workers to save for retirement or cause them to withdraw savings to deal with a crisis. Among these disruptions are unemployment, disability, caregiving, and nonretirement financial shocks.

Unemployment

Unemployment and layoffs can have multiple negative effects on retirement security. One is the disruption in savings as workers experience reduced income as well as a means to save. Another concern is the ability to find a new job with benefits, especially for laid off older workers. Finally, the financial effects of unemployment may cause laid off workers to drain their retirement savings to make up for the loss of income.

Returning to Pew's 2017 worker survey cited above, we found that shocks such as unemployment can impede retirement savings. Not surprisingly, full-time workers who have experienced unemployment (they had been out of work for at least four weeks in the past year) are less likely to have access to an employer-sponsored plan—and less likely to participate if they do—than those who have been consistently employed over the past two years. One explanation may be that the percentage of respondents who have been unemployed includes some who needed to take any job, even if the benefits were limited. Such jobs also may be more likely to have high employee turnover, which can discourage those businesses from offering retirement plans. In addition, workers who have been consistently employed may be more likely to meet plan eligibility requirements, such as a minimum number of hours on the job. Further, those more consistently employed may feel more financially secure and able to divert some income to saving for the future.

The effects of unemployment are not distributed evenly. For example, older workers who have been laid off may have a harder time finding a new job with benefits, shortening the window for saving up for retirement. According to the New School's Schwartz Center for Economic Policy Analysis, at least 1.7 million more older workers than expected retired due to the pandemic recession. But those who need to save the most are less likely to do so as vulnerable older workers retired sooner, while more economically secure workers delayed retirement. The share of retired workers among adults aged 55-64 rose 5% for those without a college education but fell 4% for those with a college degree. Black workers without a college degree experienced the highest increase in the share who are retired before age 65. This rate rose 1.5 percentage points, from 16.4% to 17.9%, between 2019 and 2021.

Disability

Like unemployment, disability may also affect a person's access to retirement benefits. In 2020, according to the Bureau of Labor Statistics, 18% of persons with a disability were employed, down from 19% in 2019. For persons without a disability, 62% were employed in 2020, down from 66% in the prior year. The unemployment rates for persons with and without a disability both increased from 2019 to 2020, to 13% and 8% percent, respectively.

Across all age and educational groups, persons with disabilities were more likely to be unemployed than those with no disabilities. And, in 2020, 29% of workers with a disability were employed part time, compared with 16% for those with no disability. Finally, employed persons with a disability were more likely to be self-employed or in nontraditional work than those with no disability.

Caregiving

In a 2021 survey sponsored by the Rosalynn Carter Institute for Caregivers, 20% of full-time workers provide care on a regular basis for a family member or friend with a serious illness, developmental disorder or disability. While providing care, 44% of family caregivers who were employed full-time said they had to go part-time because of caring for their loved one, and roughly one in five family caregivers who were employed full-time said they had to quit their job because of caregiving responsibilities.

According to the AARP, 21% surveyed caregivers report a decline in health, 40% state that caregiving is stressful, and 21% feel isolated. And caregiving exacts a financial toll as 27% reported that they stopped saving, 20% said they used up short-term savings, and 11 % used long-term savings such as retirement accounts to pay for other things.

Research by Weller and Tolson in 2018 suggest that caregiving negatively affects retirement savings through three channels. First, some caregivers, especially younger women, tend to have less labor force attachment and work fewer hours when they are working for pay and as caregivers. As noted in the discussion about part-timer workers above, this can reduce their access to DC plans at work. Second, many caregivers tend to have lower earnings than non-caregivers, which lowers the amount of retirement contributions. Third, greater income and employment instability for people providing unpaid care goes along with shorter financial planning horizons and a lower chance of being a saver, so that caregivers do not substitute lower retirement account savings at work with other savings.

Financial shocks and retirement withdrawals

Financial shocks also affect retirement savings. Pew defines financial shocks as large unplanned expenses, such as a major home or car repair, or income lost to unemployment, a pay cut, illness, injury, or death. A Pew survey of household finances and financial behavior found that 56 percent of workers ages 20-58 lived in a household that experienced a financial shock in the previous year. The median cost of the most expensive financial shock was $2,000 among households experiencing a shock. One-quarter of survey respondents had unexpected expenses of $700 or less, although another quarter faced expenses of $6,000 or more and 10 percent experienced a shock that cost at least $15,000.

Households were more likely to have withdrawn from their retirement accounts during years in which they experienced spells of unemployment, a pay cut, or a marital change such as divorce, separation, or the death of a spouse. Specifically, 13 percent of people with retirement accounts said they had drawn on these savings in the previous year and had experienced a financial shock in the same period; only 2 percent with an account made a withdrawal but reported no shock. As the number of financial shocks experienced increased, so did the likelihood that a household had drawn on its retirement account.

People with lower annual incomes were more likely than higher-income individuals or households to withdraw money from retirement accounts. As the cost of the shock rose relative to monthly income, so did the likelihood that an individual would draw on retirement account savings. People with lower levels of education were more likely to draw from their retirement accounts in response to a financial shock than were those with a college education or more. Among the factors contributing to this could be that those with more schooling tend to have higher incomes, more savings, greater access to affordable credit, and more opportunities to build financial know-how. African Americans were more likely than whites to turn to retirement accounts to respond to financial shocks. But African Americans have lower wealth on average than whites, which means many have smaller cushions against financial shocks.

Employer characteristics also matter

As noted above, employees at small businesses usually lack access to retirement benefits. Because we have a voluntary employer-provided retirement system, understanding why some small employers offer plans and others do not may help in crafting policies that increase retirement savings. 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 focus of the survey was to identify the obstacles to, and motivations for, offering plans.

Reasons for offering a plan

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).

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, 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.

Size of the business also correlates with offering benefits. 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. As with firm age, the probability continues to grow as staffing increases, but at a much lower rate.

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, public policies could specifically target younger, less established businesses.

And in line with the discussion of lower hour industries above, 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.

Plan features

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 5 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 2020 client data from the mutual fund company Vanguard about the plans it manages, 54 percent of retirement plans use automatic enrollment, up from 20 percent in 2008, with the percentage varying greatly by company size: 72 percent of plans with 5,000 or more participants use auto-enrollment, but only 36 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 62 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 used 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.

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.

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.

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.

Pooled employer plans

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 group plans such as a pooled employer plan (PEP), which allows employers to combine to offer a single plan that achieves economies of scale and lower costs. Despite covering multiple businesses, PEPs are structured similarly to a traditional plan, meaning employers can make matching contributions. Under a PEP, 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 PEP, 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 PEP-like option somewhat or very helpful. Most businesses without a plan strongly or somewhat supported each of the individual elements of the PEP. 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 be or might be interested in participating in such a program.

State auto-IRA programs

Expanding the use of auto-enrollment could boost participation, as noted above. At the state level, ten states–California, Colorado, Connecticut, Illinois, Maine, Maryland, New Jersey, New York, Oregon, and Virginia–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, 17,021 employers have registered to facilitate OregonSaves for their employees. In total, 125,918 employees (68 percent of those eligible) have enrolled in the program. On average, employees contribute about $143 per month, and assets in the program now exceed $133 million. The average savings rate is currently 5.5 percent.

Several indicators demonstrate significant receptivity among employers. In 2017, Pew surveyed small-business owners across the country, asking their opinion of a hypothetical auto-IRA program. Overall, 87% of those without their own company plan either somewhat or strongly supported such an initiative, with 27% stating that they would be very supportive.

That 2017 survey coincided with the start of the first state auto-IRA, OregonSaves, which now covers all private sector employers in the state that do not provide their own plans. Pew surveyed participating employers in 2019 and 2020 to assess how they experienced the initial registration and ongoing payroll contribution processes. Nearly 3 in 4 (73%) said they were either satisfied or neutral about the program.

OregonSaves does not charge businesses any participation fees, and 79 percent said that they have not experienced any related out-of-pocket costs. Those that have faced additional costs said office supplies and payroll processing time were the most common. Eighty percent also said that they are hearing only "a little" or "no questions at all" from their employees about OregonSaves. One reason for that may be that workers are helped directly from the program's client service team.

This positive reaction among employers to a no-cost retirement benefit can also be seen in California, where the Legislature approved an auto-IRA program known as CalSavers in 2016. The state had set a Sept. 30, 2020, deadline for larger employers—those with at least 100 employees—to register for CalSavers if they did not have a retirement plan of their own. As of Aug. 31, 2020, at least a month before the program's first enrollment deadline, 2,249 firms employing nearly 100,000 workers had enrolled.

Why the demand? According to Pew's 2017 survey, many employers want to offer retirement benefits to their workers but say they cannot because of high startup costs and limited administrative capacity. Some said they see offering retirement benefits to attract and retain workers, but 67% of those who supported auto-IRAs said they felt such a program simply "would help my employees."

In the more recent survey, responses to an open-ended question reflect similar sentiments about OregonSaves. Among the answers were:

- "It has been an easy and transparent method for our employees to begin saving for their future. As a very small business it has been so appreciated as other options seemed out of reach for us."
- "It is great having a free option for savings for our employees. We eventually want to offer our own program, but this is nice for the time being."

- "I do appreciate the program overall. It helps younger staff start saving early. From a small business that can't afford to have a retirement plan it is a nice option for our team."

Of course, business owners aren't monolithic in their attitudes, and views on auto-IRAs run the gamut from strong backing to firm opposition. But it's clear from the work of Pew and others that there is significant small business support for a public-private partnership that can help employers facilitate a benefit at no cost that helps workers build a secure retirement.

Conclusion

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

Bipartisan Policy Center

Written Testimony of Shai Akabas
Before the U.S. Senate Special Committee on Aging Hearing:
A Financially Secure Future: Building a Stronger Retirement System for All Americans
October 28, 2021

Good morning, Chairman Casey, Ranking Member Scott, and distinguished members of the committee. Thank you for inviting me to testify today about the current state of retirement security in America—who the system is serving well, what gaps exist, and where we go from here. I commend the committee for focusing on this critical issue in a bipartisan manner.

My name is Shai Akabas, and I am the director of the Economic Policy Project at the Bipartisan Policy Center, a non-profit organization that combines the best ideas from both parties to promote health, security, and opportunity for all Americans.[i] BPC drives principled and politically viable policy solutions through the power of rigorous analysis, painstaking negotiation, and aggressive advocacy.

The United States has a retirement system that works well for many people—particularly those with stable employment, sufficient income, and opportunities to save throughout their life. While the structures in place have room for improvement, they result in positive, financially secure outcomes for millions of households.

The primary focus for policymakers, however, should be on Americans for whom the system does not reach well or at all. The reality is that America has a piecemeal retirement system, and to bring the true promise of stability and security in retirement to all Americans, Congress needs to carefully look at the existing challenges and enact meaningful solutions.

My testimony will summarize the current state of retirement security in America, outlining six broad areas where policy can improve the system. I will then focus on several key solutions supported by BPC that this committee can address. I'll conclude by discussing how retirement security has been a bipartisan issue in the past and can continue to be moving forward.

I hope our conversation today leaves you with the following takeaways:

1. Too many workers lack the ability to save in a workplace retirement plan—especially workers who are historically disadvantaged or employed at small businesses or on a contract basis. Lawmakers can most effectively increase access by relaxing regulatory

burdens that deter small- and medium-sized businesses from starting retirement plans and by creating a nationwide minimum-coverage standard to harmonize the patchwork of rules being created at the state level.

2. Automatic enrollment and automatic escalation of employee contributions are critical features for retirement plans to incorporate. Widespread adoption will mean more savers and greater savings. Legislation that would increase the use of these features could significantly boost retirement outcomes.
3. Workers need emergency savings for short-term financial stability and to protect retirement savings from current spending needs. Congress can help Americans build emergency savings by clearing the way for firms to automatically enroll their employees in workplace emergency savings plans.
4. Retirement security has been a standout area of working across party lines. This issue can and should remain bipartisan to help Americans meet their retirement goals most effectively.

The Retirement Security Challenge

The majority of Americans worry about running out of money in retirement, making it the nation's top financial concern.[ii] Recent trends have made building a secure retirement both more important and more challenging. Over the past 20 months, the COVID-19 pandemic and recession have caused millions of Americans to lose their jobs or suffer lower earnings, leading them to save less for retirement or to raid savings they previously built. Even before COVID-19, rising health care costs have been eroding retirees' savings.[iii] The general trend of increasing life expectancy for most Americans is wonderful, but it creates a greater risk of outliving one's assets. With defined benefit pensions now a rare breed, most workers have been left to build retirement savings on their own. While some have done so successfully, many are falling behind.

A plurality of Americans say that their retirement savings are not on track, and the Employee Benefit Research Institute projects that 41% of working-age households will run short of money in retirement.[iv] Separately, Boston College's Center for Retirement Research estimates that three-quarters of low-income households are at risk of not being able to maintain their standard of living in retirement.[v] When Social Security benefits are included, the U.S. elderly poverty rate is roughly 10% which is still too high but demonstrates the importance of the program.[vi] Looming over this landscape, however, is the impending insolvency of Social Security, which would trigger a 24% cut in retirement benefits—a shortfall that many would struggle to bridge.[vii]

Although these challenges affect all Americans, the ability to meet them varies significantly. The dominant tool for retirement savings—a tax-advantaged account through one's employer—works well for people who earn enough to put money away, whose employer offers them a retirement plan, and whose employment is stable enough that they seldom need to transfer their savings to a new account with a new employer.

The path to retirement security, however, is harder to reach for workers with low incomes, those without college degrees, people of color, and single women.[viii] These Americans are more likely to live paycheck to paycheck and struggle to find excess income that they can devote to long-term saving. Even when these workers can and want to save, they frequently do not have access to a workplace retirement plan. For instance, a recent BPC survey found that while nearly 90% of households making at least $100,000 report having access to a workplace retirement plan, the same is true for only half of households making less than $50,000.[ix]

I hope this committee will appreciate how the current retirement system often works well for people like us in this room and focus on how to make it work just as well for those it currently leaves behind.

Six Areas for Policy Focus

- Improve access to and the design of workplace retirement savings plans
- Facilitate lifetime-income options to reduce the risk of outliving savings
- Enable the use of home equity for retirement consumption
- Improve financial capability among all Americans
- Strengthen Social Security's finances and modernize the program
- Promote personal savings for short-term needs and preserve retirement savings for older age

In 2016, BPC convened a bipartisan Commission on Retirement Security and Personal Savings, co-chaired by former Senator Kent Conrad and Jim Lockhart, the former principal deputy commissioner and chief operating officer of the Social Security Administration. The commission spent two years studying the status of retirement security in the U.S. and highlighted six key areas. You can think of these areas as challenges, but they also represent six opportunities for policymakers to help millions of workers retire with security and dignity.

Improve Access to and the Design of Workplace Retirement Savings Plans

Far and away the most common tool Americans use to save for retirement is a plan offered through an employer. Only two-thirds of workers in private businesses, however, have access to a workplace retirement plan, and among those with access, only three-quarters participate.[x] These two statistics mean only about half of private-sector workers are participating in an employer-sponsored retirement plan.[xi]

Underneath these averages, however, are significant differences by income, education, race, and employer size. For example, workers in the top income quartile are more than twice as likely (88% vs. 42%) as workers in the bottom quartile to be offered a workplace retirement plan.[xii]

Meanwhile, small businesses often find that setting up retirement plans for their workers costs too much and requires navigating too much red tape. For example, nearly 60% of small- and medium-sized business that do not offer retirement plans attribute the decision to the expense of setting one up or the lack of resources to administer a plan.[xiii] Largely as a result, only 53% of workers at firms with fewer than 100 employees have access to a plan, compared to 83% of workers at firms with at least 100 employees.[xiv]

In general, people with low incomes, people without college degrees, people of color, workers at small businesses, and—especially—part-time, temporary, and seasonal workers are far less likely to have access to this crucial way to save for retirement. For example, among middle-aged families, 65% of white households report owning at least one retirement account compared to 44% of Black and 28% of Hispanic households.[xv]

Even among workers with access to workplace retirement plans, many do not contribute enough or at all. The median balance in a 401(k)-type account is just $22,000.[xvi] Many of these workers simply do not earn enough to have extra income left over for saving. Others, however, could participate and save more if they had access to savings tools and the wherewithal to use them effectively.

Alternatives to workplace defined contribution plans are far less common. Defined benefit pensions are dwindling, and although anyone with earnings can open an individual retirement account (IRA), few people save regularly into them. Only 28% of workers without current access to a workplace retirement plan report using other means to save for retirement, like an IRA or a 401(k) from a previous employer.[xvii]

Policymakers should focus on how to reform the dominant form of retirement saving in America—a defined contribution plan through one's employer—so that more workers can access it and those with access will be more likely to contribute to it.

Notably, there have been some promising recent developments in coverage options. Over the past few years, several states have started rolling out so-called Secure Choice programs—state-facilitated retirement savings plans—that include a requirement for all employers above a certain size to provide their workers with the opportunity to save for retirement. California, Illinois, and Oregon were the first states to establish plans, but many more have enacted legislation and are in the development stage. Employers can sign up for the state plan or comply by adopting a private-sector alternative (such as a 401(k)). These state programs take the form of an auto-IRA, where businesses sign up and automatically enroll their employees (who can opt out at any time). More than 400,000 workers currently have an account, and that number is expected to grow significantly as existing rollouts continue and other states study their adoption and create programs.[xviii]

The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in 2019 opened the door to pooled employer plans (PEPs). These private-sector offerings pool assets from many different employers, thereby simplifying administration and potentially reducing per-participant costs for plan sponsors and employees alike. While smaller employers are currently more likely to take up PEPs, the plans remain in a nascent stage. It will take some time to see how they are working, whether they are reducing costs, and how much new coverage they are creating versus replacing existing employer plans.

Closing the coverage gap warrants an all-of-the-above approach to reach different segments of the market. With state plans, PEPs, and innovative providers using turnkey approaches to reach small businesses all progressing, each can play a role. But while these developments are steps in the right direction, much work remains.

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

America's average lifespan has increased much faster than the average retirement age, leaving older Americans with more years in retirement to finance.[xix] Planning for a long retirement is challenging; uncertainty makes it even harder. No one knows how long they will live or what financial return their assets will earn. Moreover, some retirees will need long-term support services that can consume their savings: 17% of retirees will spend more than $100,000 of their own or their family's money on these services.[xx]

These risks mean that policy must look beyond the accumulation of retirement assets toward the decumulation phase. Giving people a pot of money at retirement and then expecting them to figure out how to make it last is not the right answer. Aging Americans need guidance on how to distribute their assets to protect against the financial risk of an unexpectedly long life or unexpectedly high costs in retirement. And they also need the tools to do so. Plan sponsors are increasingly including options that help participants handle their retirement assets. Hopefully, that progress will accelerate in the coming years.

Policymakers have similarly sought ways to help retirees convert their savings from a fixed sum that can run out to a lifetime stream of income. Reforms in the SECURE Act commendably removed some regulatory uncertainty that had been hovering over the annuitization of retirement savings.[xxi] In particular, the legislation made it easier for more plan sponsors to offer lifetime income options to their participants.

As of 2019, in-plan annuities were available in fewer than 10% of plans, but this figure is likely to grow. Last month, JPMorgan Asset Management introduced SmartRetirement Plus, a product that combines its retirement investment funds with an annuity from AIG.xxii And earlier this month, BlackRock announced that it is putting annuities in American workers' 401(k)s, with five employers already signed up for the new retirement product that will allow workers to receive a stream of payments for the rest of their lives. Notwithstanding these and other early actors, policymakers can and should do more to facilitate a variety of retirement income options.

Enable the Use of Home Equity for Retirement Consumption

Americans own $21 trillion in home equity, a sum that could significantly supplement the nation's $35 trillion of retirement assets.[xxiii] For many retirees, home equity represents a significant portion of their wealth: Half of homeowners aged 62 or older hold most of their net worth in home equity. Notably, a majority of individuals aged 62 or older with no retirement savings or pension are homeowners, meaning that many of these older Americans can—and will have to—rely on home equity to supplement their Social Security benefits.[xxiv]

Although the most obvious way that homeowners can convert this large stock of net worth into retirement income is to downsize to a less-expensive home, they can also borrow against the value of their home through a second mortgage, a home equity line of credit, or a reverse mortgage. Reverse mortgages, especially, offer a potentially useful tool to convert illiquid housing wealth into money to live on during retirement, but the market for them is currently quite small.[xxv] Policymakers could work to improve this market and make it a simpler, more useful, and a more cost-effective tool for older, "cash poor" Americans to utilize their home equity.

The most important barrier to financing retirement with housing wealth, however, is housing debt. Over the past three decades, the share of households headed by someone aged 65 or older that have housing debt has doubled, from 15% to 32%.[xxvi] The debt burden has grown even faster: In inflation-adjusted dollars, the average housing debt of older households more than quadrupled from 1989 to 2016.[xxvii] Mortgage debt is thus a growing obstacle to older Americans' ability to tap their home equity in retirement. The Tax Cuts and Jobs Act of 2017 eliminated the tax deduction for interest on home equity loans.[xxviii] This change may help, and Congress should explore other ways to reduce the use of home equity to fund pre-retirement consumption.

Improve Financial Capability Among All Americans

The transition from defined benefit pensions to defined contribution retirement plans has forced workers to be largely responsible for their own retirement savings. Thus, understanding the basics of personal finance and knowing how to act on that information has become an essential tool for successful retirement planning. Workers not only need to decide how much to contribute to their retirement plans and how to manage them, but also how to build healthy finances that support retirement savings—avoiding debt, building emergency savings, and claiming Social Security at an optimal age.

It is therefore concerning that Americans demonstrate alarmingly low financial capability. The National Financial Capability Study asks respondents five basic but important questions to measure financial literacy—for example, testing their understanding of compound interest, inflation, and portfolio diversification. The study finds that two-thirds of Americans fail to answer more than three of the five questions correctly and that this number has worsened over time.[xxix] In a similar vein, fewer than one-third of workers have tried in the past two years to figure out how much retirement income they will need, even though most individuals need to decide for themselves how much to save for retirement.[xxx]

Perhaps the most effective way to help Americans make better financial decisions is to deliver just-in-time interventions that give workers clear and visible information or behavioral "nudges" when it is most helpful—at the moment they make an important decision. Opportunities include when a worker has the option to enroll in a retirement plan or when the option arises to convert savings to an annuity. For example, requiring workers to actively choose among several options for their retirement income would likely produce better outcomes than defaulting them into taking a lump sum of cash.[xxxi]

One of the key financial decisions facing older Americans is when to claim Social Security retirement benefits. This may offer the best example of how public policy could enhance retirement security simply by providing better information at better times.[xxxii] Although these benefits are available as early as age 62, claiming later permanently raises monthly benefits, with the maximum benefits available to those who claim at age 70. Delaying claiming is thus equivalent to purchasing a greater inflation-adjusted annuity that will be paid for as long as the beneficiary lives. Most people, however, do not claim Social Security at their optimal age, usually because they claim too early.

One way that lawmakers could help would be by creating a safe harbor for retirement plan sponsors that help participants make informed decisions about when to claim Social Security benefits or about using their private retirement savings to bridge to a later claiming age. Congress could also instruct the Social Security Administration to rename the program's claiming ages with terminology that better informs prospective beneficiaries or to revisit the efficacy of the Retirement Earnings Test, which is poorly labeled and often misunderstood in a way that discourages work. BPC is currently providing technical assistance to a bipartisan group of Senate offices with legislation that would help people make better decisions about when to claim Social Security. I would be happy to discuss this promising area further in the Q&A.

Strengthen Social Security's Finances and Modernize the Program

Social Security is the foundation of retirement security in America. Among households headed by someone aged 65 or over, more than half rely on Social Security benefits for a majority of total income, while 19% depend on Social Security for at least 90% of income.xxxiii Social Security provides not only income but also crucial protection against the risk of outliving one's assets. This is particularly important today, as people are living longer than ever before, and rising health care costs often lead to unexpected expenses that can drain savings.

It has been clear for decades, however, that the Social Security program is financially imbalanced. Demographic and economic trends, especially an aging population, have raised the program's costs and depressed its revenues. This past August, Social Security's trustees projected that that while COVID-19 did not dramatically affect the program's finances, its primary trust fund remains just over a decade away from fully depleting its reserves in 2033.[xxxiv]

This challenge is solvable. BPC's Commission proposed a series of bipartisan reforms that would extend Social Security's solvency while modernizing the program and actually increasing benefits for the most vulnerable.

But time is of the essence. Further delay would mean that any solution maintaining the traditional financing structure of the program would have to be more drastic and unpalatable: Tax increases would be sharper, benefit cuts would be more severe, and the workers who bear these changes would have less time to plan their finances accordingly. Social Security can be preserved for our kids and grandkids, but the least painful path is by facing up to the program's challenges now.

Righting Social Security's finances will require some combination of increasing program revenue and constraining the growth of benefits. The latter will be easier for older Americans to bear if they are retiring with more of their own savings; thus, the other reforms we're discussing today are a valuable complement to restoring Social Security's financial balance.

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

Saving for retirement requires excess income and enough financial security to lock that income away for years or decades in a long-term account. Workers' ability to do this depends on their overall financial health. If someone lives paycheck to paycheck, has credit-card or student-loan debt, has little job security, or has low financial literacy, that person will struggle to save. For instance, 58% of millennials say that debt is hindering their saving.[xxxv] In sum, retirement security is one piece of the larger puzzle of financial security, which workers experience as a holistic challenge.

An essential part of that challenge—both in the present and the long term—is emergency savings. In the short term, emergency savings create a buffer that can prevent a sudden loss of income or unexpected expense from upending the rest of a household's financial life. Without liquid short-term savings, financial emergencies can force workers to suffer hardship like food insecurity, falling behind on rent or credit-card payments, or turning to expensive alternative financial services like payday loans.

Emergency savings also shield retirement savings from immediate spending demands.[xxxvi] When workers without liquid savings face an urgent financial need, they often raid their retirement accounts. Retirement leakage is widespread: The limited data available show that for every $1 that people under age 55 contribute to retirement accounts, roughly 40 cents leak out through early distributions.[xxxvii] It is also costly. Early withdrawals trigger fees and penalties and cause workers to lose out on decades of compound growth. Emergency savings insulate retirement accounts from day-to-day financial needs so that retirement savings can grow over the long term.

While emergency savings can protect against retirement leakage due to borrowing or withdrawals, two-thirds of all early distributions from retirement accounts happen when a worker changes jobs and cashes out their plan.[xxxviii] Indeed, between 10% and 20% of workers who otherwise save enough to maintain their standard of living in retirement end up with insufficient savings because of plan cash-outs when they changed jobs.[xxxix,xl]

With U.S. workers transitioning jobs every four years according to the Department of Labor, policymakers should focus on reforms that make plans easy to move from one employer to the next. The private sector is eager to support this effort, as 54% of plan sponsors report they are interested in auto-portability plans.[xli] Vanguard has partnered with Retirement Clearinghouse to offer an auto-portability service to its 401(k) participants beginning next year.[xlii] Such programs have the potential to not only benefit employees by improving retirement outcomes, but employers, as well, through lessened administrative and financial costs posed by legacy or orphaned accounts.

While some workers may cash out their retirement accounts because they find it too burdensome to roll their plan over to a new job, others may cash out because they need to finance a gap in employment. Greater emergency savings would help American workers in these cases, as 25-40% say they have no emergency savings (depending on the survey).[xliii] Even those with savings often have very little: More than 40% of families have less than $750 of non-retirement savings.[xliv]

The lack of emergency preparedness is especially pronounced among workers with low incomes and people of color. For instance, the median Black household has one-sixth as much liquid wealth as the median white household, and a majority of Black and Hispanic households have no emergency savings whatsoever.[xlv] This disparity is especially troubling because these Americans have income that is more volatile and job security that is more tenuous, leaving them particularly exposed to negative shocks, for which they are unable to save.[xlvi] In other words, Americans who most need emergency savings find building them most difficult. A lack of liquid savings is, unsurprisingly, especially common at the bottom of the income distribution, but the problem extends into the middle class. One study from several years ago found that 41% percent of families in the bottom third of income had no emergency savings, but neither did 20% of families in the middle third.[xlvii]

The COVID-19 pandemic and recession harshly spotlighted that emergency savings matter—and that they are alarmingly scarce. As 2020 began, Americans had enjoyed the longest economic expansion in the nation's history, featuring a record-low unemployment rate and several years of solid wage growth. But even with the advantage of such a uniquely favorable period to build savings, a sudden loss of income pushed millions into immediate hardship. Although COVID-19 was a once-in-a-century national shock, similar financial emergencies—from losing a job to needing uninsured medical care—hit Americans every day. With smart policies, Congress can help workers build protection against the next crisis—whether national or personal—when it inevitably comes.

Key Policy Solutions

There is no silver bullet to America's retirement security challenge. The BPC Commission report and current legislative proposals contain a host of reforms that could improve the picture. For today's purposes, I will focus on three key areas where near-term bipartisan progress seems possible.

Reducing Burdens on Plan Sponsors and Advancing a National Minimum Coverage Standard

Many of the reforms recently enacted into law or under current consideration would be steps in the right direction to increase access and participation. Workers should be able to easily save for retirement with every paycheck. To close the access gaps that are especially pervasive for workers from disadvantaged communities, a more aggressive approach is needed—both to further minimize burdens on small and medium-sized plan sponsors and to require that the vast majority of employers are offering some type of retirement savings option to their workforce.

Most employers wishing to adopt a retirement plan today must accept the fiduciary responsibility that goes along with it. This means that they are legally required to act in the best interest of plan participants, prudently selecting and monitoring the provider of the plan to ensure that fees are reasonable, investments are appropriate, and contributions are being handled responsibly. For businesses with small or non-existent HR departments, this is a daunting task and one for which they are ill-equipped. External advisors can help, but they, of course, come with a cost.

Instead of pretending that smaller employers can effectively execute these obligations—and having them bear the cost of doing so—policymakers should rethink this equation. It would be naïve to suggest that a simple solution exists; this is a thorny issue. Nonetheless, some combination of increased fiduciary responsibility from other private-sector entities and additional regulation and oversight from the Department of Labor ought to be able to relieve smaller employers from these inappropriate duties.

On the flip side, several states have now enacted laws to require that employers automatically enroll workers in some form of retirement savings account, with more expected to follow.[xlviii] Because each state has slightly different requirements, these state actions could frustrate efforts to implement a consistent employee-benefit policy for retirement across the country—one that provides workers with strong consumer protections while offering uniform regulation to employers, many of which conduct business in multiple states.

A nationwide minimum-coverage standard for all employers over a certain size would expand access to workplace retirement savings in a manner that would be less burdensome for businesses. The standard could take effect a few years down the road, once fiduciary responsibilities have been relaxed for some employers, and easy-to-adopt plan structures—such as PEPs, state auto IRAs, and other simplified offerings—have permeated the system.

Workers who are automatically enrolled would always retain the ability to opt out. To eliminate overlapping regulations, this new standard should pre-empt the multitude of mandates emanating from the states.

Employers that prefer not to select a plan for their employees could simply forward contributions along with their payroll taxes. Those contributions would be separated and directed into one of several default plans. Providers could apply to serve as a default, either nationwide or in a particular region.

Modeling from the Urban Institute shows that such a system, once fully phased in, would increase average retirement savings for middle-income earners by roughly 50%.[xlix] These results show why this nuanced approach could be the most important reform policymakers could undertake to improve outcomes in the public-private retirement savings system.

Expanding Automatic Features in Workplace Retirement Plans

It is well documented that automatic features raise employee participation and saving levels at workplaces that offer retirement plans, and it is time to build on that success. Pending bipartisan legislation (discussed in the final section of this testimony) would require that most new workplace defined contribution retirement plans incorporate automatic enrollment and automatic escalation of employee contributions.[l] This important reform could further boost participation and saving rates, particularly among workers in disadvantaged communities.

When combined with current law, however, the new policy would mean that most employers introducing 401(k)-type plans would either have to conduct complex nondiscrimination and top-heavy testing or make employer matching or non-elective contributions utilizing the current law safe harbor, thereby adding costs.[li] These rules may deter some—particularly small- and medium-sized—businesses from adopting a plan.

To draw more of them in, as well as incentivize existing employers to incorporate automatic features, a companion reform deserves serious consideration: The Retirement Security Flexibility Act was introduced in 2019 by Senators Cory Booker (D-NJ), Todd Young (R-IN), Tom Cotton (R-AR), and former Senator Doug Jones, and reintroduced this year by Senators Young and Booker.[lii,liii] In exchange for adopting best practices when it comes to automatic features—including, for example, auto re-enrollment, which would make sure that employees opting out when hired are not left on the retirement savings sidelines indefinitely—the bill would offer key flexibility to plan sponsors seeking to avoid testing requirements.[liv] Most notably, it would allow small- and medium-sized business owners to decide how much (if any) they could afford in employer contributions and then set annual contribution limits commensurate with that decision. Such an approach would retain the incentive for employers to help fund their workers' accounts but also acknowledge that some are unable to do so.

The primary focus of policy in this area should be on making workplace retirement plans more available to workers and maximizing participation and adequate savings within those plans. These two reforms, paired together, would increase access to and participation in well-designed retirement savings plans at the workplace.

Facilitating Automatic Enrollment into Emergency Savings Accounts

Given the strong link described earlier between emergency preparedness and retirement security, what can we do to help people accumulate savings for short-term needs? There are strong lessons from the field of retirement savings. The first is to connect any solution to payroll deduction. When individuals are left to their own devices to proactively open their own IRA, few do so.[lv] Moreover, saving requires the willpower to forgo spending for the present moment. This discipline is nearly impossible to summon with every paycheck, but automatic payroll deduction allows a worker to decide to save only once and then automate their desired behavior in the future. Thus, the second lesson is to erect an opt-out approach. When an employer facilitates a 401(k)-type plan and automatically enrolls employees, participation rates for new hires can rise above 90%.[lvi]

Interest in workplace emergency savings is accelerating. So is action.[1] In 2019, the BlackRock Foundation announced a $50 million commitment to advance the issue.[2,lvii] As part of that initiative, the non-profit organization Commonwealth has been working with employers to set up these accounts, with UPS announcing last fall that it would offer this benefit to 90,000 non-union employees.[lviii] Employers are increasingly recognizing that employee financial wellness is not just a warmhearted gesture but rather an investment that can add to the bottom line of the business. Financially stable employees are more productive and less likely to miss work.[lix]

Largely due to inertia, however, participation among workers in these emergency savings plans remains low, and further progress is tangled up in regulatory barriers.[lx] Specifically, the law is unclear for employers that want to adopt automatic enrollment for these accounts. Employers need regulatory clarity with regard to the application of state wage garnishment laws and know-your-customer rules and permissible default investments.[lxi] Providing that clarity, as well as reasonable consumer protections, will open the doors to employer innovation, and with it, better savings outcomes.

Changes along these lines were reintroduced this summer by Senators Young and Booker.[3,lxii] The

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[1] The U.K. is also active in this policy space. Their national retirement saving program, NEST, has rolled out an emergency savings companion account in a scheme called "jars."
[2] The BlackRock Foundation supports BPC's research and educational work on emergency savings.
[3] The concept in this legislation continues to be refined to ensure that the regulatory regime for these accounts matches their structure.

purpose of the legislation is to let employers experiment and refine their offerings—within reasonable regulatory guardrails—to figure out the best design for this relatively new tool. It carries strong support from a diverse group of external stakeholders, including retirement industry leaders, financial security experts, and anti-poverty advocates. With emergency savings accounts just recently becoming more prevalent and the power of automatic enrollment potentially on the way, we should not presume to know what works best for employees or what employers will be inclined to offer. This flexibility, combined with a Government Accountability Office study and outside researchers eager to measure impact, will help reveal the answers.

Perhaps most importantly, workers are saying they want to be offered this benefit. One survey found that 71% of respondents would likely contribute to an emergency savings account if offered.[lxiii] Another survey that BPC conducted with several partner organizations found that 42% of workers want to be automatically enrolled, including 57% of millennials and a majority of workers of color.[4] These figures are significantly larger than the 22% who say they have access to an account through their employer today—none with automatic enrollment.[5,lxiv]

Emergency savings accounts are a critical tool in the evolution of retirement security policy. People do not view their financial challenges in discrete silos—their situation is often dynamic and must be confronted holistically. For example, a recent study found that having emergency savings entering the COVID-19 pandemic not only improved people's ability to maintain their financial health, but also significantly reduced their likelihood of withdrawing from their retirement savings.[lxv] A committed effort to dramatically boost emergency savings accounts could preserve retirement assets for the long term while also providing a cash buffer for those struggling to get by.[6]

The Need for Bipartisan Action

Translating innovative policy ideas to real-world impact requires the sustained attention of members of Congress and the political will to legislate. After our BPC Commission report was released in 2016, we recognized the challenge of elevating retirement security amidst all the other issues grabbing headlines and sitting atop Congress' agenda. We also saw that businesses and organizations across the country were pushing for improvements to retirement and savings policy with only limited coordination among them. Yet, there was so much common ground to

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[4] Another 14% of the total say they are unsure about whether they would want to be automatically enrolled. Evidence regarding auto-enroll shows that many of those who are unsure will end up staying in the account. Any who do not want their savings in the account can always opt out or transfer the funds.
[5] Anecdotal evidence indicates the true share is lower. Emergency savings accounts are new and haven't been adopted widely, suggesting that respondents may not have learned to distinguish them from direct deposits into their checking accounts.
[6] Field research shows that this "mental accounting" can make a significant difference in people's saving and spending habits: https://www.jstor.org/stable/23033462?seq=1.

leverage: Everyone wants to give more people in this country the opportunity to save and invest in their future; no one is satisfied with the status quo of elderly poverty and households depleting their savings in retirement.

Out of that reality, we launched the Funding Our Future initiative in 2018, in partnership with Ric Edelman of Edelman Financial Engines, to showcase the broad and collaborative base of support that retirement security has and requires.[lxvi] The U.S. retirement system's shortcomings are significant and will not disappear overnight. Our coalition's strength is directly tied to the bipartisan nature of this issue, allowing many voices to come together with the shared goal of making long-term financial security a reality for households across the country. Because of this broad tent, we now have more than 50 organizations involved in this effort, spanning the academic, nonprofit, trade association, and corporate sectors. Our work also recognizes that retirement security cannot be viewed in a vacuum—preparing for retirement is a lifelong pursuit that can get knocked off course by all sorts of financial pressures.

Although the coalition does not take a stance on legislation, the effort strives to elevate the solutions available—at both the federal and state levels and within the private sector—to tackle these challenges. Three key goals representing the financial lifecycle are shared by all our partners: (1) make saving easier for Americans at all ages; (2) help them transform nest eggs into retirement income; and (3) ensure that Social Security continues to be financially stable, both for current and future retirees.

The function of our coalition is to highlight the gaps in our existing system, encourage more people to save, advance financial literacy, and promote solutions that ultimately improve financial security for all Americans as they age. We have been honored to collaborate with several members of Congress from both parties in our work, and we welcome the opportunity to engage further with any of you who are looking to advance this issue.

Indeed, in just the past few years, Congress has already rolled up its sleeves. Retirement security has seen big policy wins, which have been the result of strong bipartisan cooperation. The SECURE Act was long in the making and passed in 2019 with overwhelming support and countless congressional champions.[lxvii] It increased workplace retirement savings by reducing barriers for small businesses to offer retirement plans, expanded 401(k) coverage to more part-time workers, made lifetime income options easier to include in retirement plans, and paid for these changes, in part, by closing a tax loophole that benefitted those with large inheritances.

More progress came in May this year, as under the leadership of Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX), the House Ways & Means Committee unanimously passed the Securing a Strong Retirement Act of 2021, commonly known as SECURE 2.0.[lxviii] This bill has many important provisions, including:

- Requiring automatic enrollment for most new workplace retirement plans,

- Increasing plan access for some long-term, part-time workers,
- Exempting many retirement savers from required minimum distributions, and
- Further facilitating lifetime income tools in retirement plans.

BPC hopes this promising bill will continue to be refined and improved as it advances toward passage. The prospect of legislation along these lines is strong in the Senate, as well, partially due to the legwork done by Senators Ben Cardin (D-MD) and Rob Portman (R-OH), who reintroduced their Retirement Security and Savings Act in June, which shares many similarities with SECURE 2.0.[lxix] Their bill further helps Americans struggling to save by making the Saver's Credit refundable (and thereby available) to many more low- and moderate-income savers who do not benefit from the current tax deduction for retirement contributions.

To make the retirement savings system more progressive and offset the cost of this change, a limit could be imposed on the tax preference for retirement savings once an individual has amassed a certain large sum in their account(s). Millionaires should be able to save as much of their income as they want, but at some point, other taxpayers need not continue subsidizing their wealth accumulation.

I want to conclude by thanking the Committee once again for convening this hearing. Retirement security is a critical topic that is often overlooked, but with your continued leadership and bipartisan collaboration, further progress is possible this year. I look forward to your questions.

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Testimony of Nari Rhee, PhD

Director, Retirement Security Program

Center for Labor Research and Education

University of California at Berkeley

U.S. Senate Special Committee on Aging

October 28, 2021

Good morning Chairman Casey, Ranking Member Scott, and members of the Committee. I am Nari Rhee, director of the Retirement Security Program at the UC Berkeley Center for Labor Research and Education.

Thank you for this opportunity to appear before you. As other witnesses have testified, there are large structural gaps in the employer-sponsored retirement system. I would like delve a bit into the kinds of workers who are left out, and why.

The US retirement system, outside of Social Security, was never designed to include certain jobs and employment relationships: low-wage jobs, part-time jobs, high-turnover jobs, private household employment, and self-employment in low-earning sectors. Workers of color are disproportionately affected by the resulting disparities in coverage. It's also important to recognize that large swaths of the care workforce – consisting mostly of women – are excluded, whether it's nannies and homecare workers employed by families, or family based childcare providers who operate as small businesses.

Looking forward, we need a holistic policy approach to ensure true financial security for all workers – one that incorporates wage policy, Social Security reform, tax policy, and a universal retirement savings system.

1. The current employer-sponsored retirement savings system leaves out many workers, and this disproportionately impacts workers of color.

Ideally, close to 100% of jobs should include a retirement plan, regardless of part-time/full-time status, occupation, industry, or firm size. And all workers should participate in a retirement plan through the full arc of their earning lives, regardless of race, gender, or wage level, and whether they work for an employer or are self-employed. But the current system falls far short of universal coverage.

Depending on the source, roughly one-half to two-thirds of private sector employees have access to a retirement plan. The Bureau of Labor Statistics' National Compensation Survey (NCS), an employer survey, offers the upper bound estimate of coverage: in 2019, 67% of workers in the private sector have access, and 50% participate. While higher than the estimate of roughly 55% from household surveys from the Census Bureau, this falls far short of universal coverage.

Workplace retirement plan coverage varies sharply by occupation, wage level, and part-time/full-time status. For instance, according to NCS data for 2019, 84% of management and professional workers in the private sector have access to an employer sponsored plan, compared to only 41% of workers in service jobs. The bottom 25% of workers by wage level are less than half as likely as the top 25% of workers to have access (42% vs 88%). Similarly, only 39% of workers in part-time jobs have access, compared to 77% of workers in full-time jobs.[1]

The gap in take-up – the share of workers with access who actually participate in the retirement plan – is even greater than the gap in reported access. This difference is particularly stark for workers in low-wage jobs. Among the bottom 25% of workers by wage level, only 52% of those with access participate – which translates to just 21% of all workers in this wage bracket.

In sectors with high turnover and low wages, access to employer retirement plans is often not meaningful. For instance, the retail industry offers retirement benefits to 72% of its workers, given that the sector is dominated by large firms, but only 39% of retail workers actually participate in a plan (Table 1). This is due to low wages and the interaction between eligibility criteria related to hours of work and length of job tenure, and the prevalence of part-time, short-term employment in the sector.

Table 1.

Retirement Benefit Access, Wages, Turnover, and Black/Latino Representation, Selected Industries

INDUSTRY	SHARE OF WORKERS OFFERED/ PARTICIPATING IN RETIREMENT BENEFITS, MARCH 2021	AVERAGE WEEKLY WAGE, 2021 1st QUARTER	ANNUAL TURNOVER RATE, 2019	BLACK & LATINO EMPLOYMENT QUOTIENT, 2020
Construction	62%/46%	$1,240	58%	1.7
Transportation and Warehousing	79%/63%	$1,030	46%	1.2
Financial Activities	85%/77%	$2,740	29%	0.7
Professional and Technical Services	86%/72%	$2,126	NA	0.5

[1] National Compensation Survey: Employee Benefits in the United States, March 2020

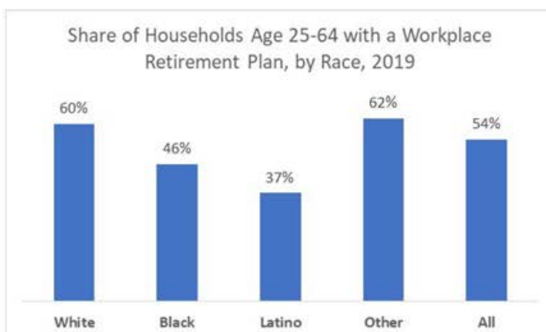
Retail Trade	72%/39%	$700	58%	1.1
Administrative and Waste Services	38%/25%	$911	NA	1.4
Accommodation and Food Services	30%/12%	$432	79%	1.6

Source: National Compensation Survey, Quarterly Census of Employment and Wages, JOLTS, and Labor Force Statistics from the Current Population Survey. Black/Latino employment quotient is the share of Black/Latino employment in the industry divided by their share of all employment. A quotient higher than 1 indicates overrepresentation, while a quotient below 1 indicates underrepresentation in the sector.

Workers of color are concentrated in jobs that are less likely to offer retirement benefits. Job-based disparities in access to employer sponsored retirement plans intersect with racialized labor market to result in highly unequal retirement plan participation rates. Workers of color are overrepresented in sectors with the lowest rates of retirement plan sponsorship, such as building services, restaurants, and the hospitality sector (See **Table 1**).

Consequently, among households age 25-64 with at least one employed worker, only 60% of White households participated in a defined-benefit or defined-contribution plan at work in 2019. The rate was significantly lower for Black households (46%) and Latinos (37%). (See **Figure 1**.)

Figure 1



Source: Author's analysis of Survey of Consumer Finances.

2. The current system is not designed to meet the needs of most self-employed workers and workers in nonstandard employment relationships, including those in care work.

Self-employed workers – who make up 9.5% of the active labor force[2] – can theoretically enroll in IRAs. However, a 2017 analysis of Census Bureau data found that only 14% of households with self-employed workers contribute to IRAs.[3] These were predominantly high-income households. Yet, among workers without incorporated businesses, who make up the vast majority of self-employed workers, median personal income was $40,000 in 2017-2020.[4] Median income among White women and Black and Latino workers in this group was $30,000. This is significant because lower-income self-employed workers lack a variety of resources necessary to navigate the retail IRA market, and existing tax incentives for retirement saving are less compelling than for high-income households.

The current system is also not designed to meet the needs of workers in nonstandard employment relationships, including those in care work. Unions and advocacy groups representing domestic workers and care workers that I have worked with, recognize the dire need for their members to accumulate retirement assets. But they face a regulatory framework that imposes a variety of barriers against setting up retirement savings accounts for their members and funding them because they fall outside of the traditional firm-employee relationship. These challenges stem from the tight constraints of ERISA as well as Know-Your-Customer and other financial regulations. For instance, these regulations accommodate auto-enrollment of employees into employer-sponsored retirement accounts, but do not necessarily do the same for associational relationships, such as access to retirement accounts provided through unions.[5] These barriers apply not only to self-employed workers, but also to home care workers, nannies, and other workers employed by individual clients who lack the means to set up a retirement plan.

3. As the result of the myriad forms of exclusion in the current retirement savings system, retirement asset ownership and savings levels are highly unequal by income, race, and gender.

The middle 50% of near-retirement households has insufficient retirement account balances, while most low-income households have no retirement assets. According to data from the 2019 Survey of Consumer Finances, only 10% of the bottom fifth of households age 55-64 (by income) have a 401(k)/IRA, and 37% of the lower-middle fifth, have any retirement assets. While retirement asset ownership rates increase with income, all but the top fifth of households in this age group have typical retirement account balances that are far below retirement income need (**Figure 2**). Even among the upper-middle (4th) income quintile households, the median

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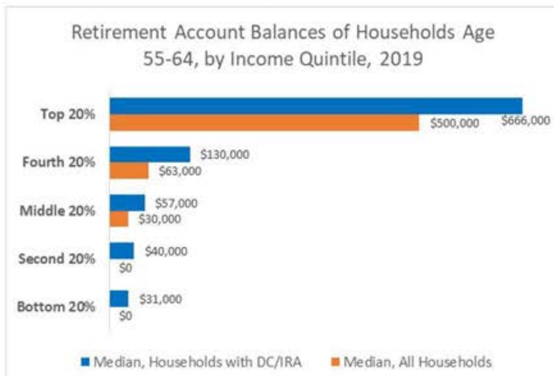
[2] Author's analysis of CPS ASEC 2018-2021.
[3] A. Chen and A.H. Munnell, "Who Contributes to Individual Retirement Accounts?", Issue Brief 17-8, Center for Retirement Research at Boston College, 2017.
[4] Author's analysis of CPS ASEC 2018-2021.
[5] Federal law allows unions to sponsor defined-benefit pensions through Taft-Hartley trusts, which can be funded through employer contributions as well as contributions by self-employed members. However, this allowance does not appear to extend to defined contribution plans.

account balance \$63,000 will generate only about \$200 per month in retirement income. Looking at just households with retirement accounts, large disparities by income persists, and typical balances among all but the top fifth fall short of providing adequate income.[6]

Figure 2



Source: Author's analysis of Survey of Consumer Finances.

Inadequate retirement savings is compounded by the interaction between inadequate retirement plan coverage and wage stagnation at the middle and bottom of the labor market. The average real wage has been flat since 2000 and average compensation growth has lagged far behind productivity growth[7], though wages have ticked up somewhat this year.[8] The federal minimum wage has been \$7.25 for 10 years, while the cost of living has increased by 24%. The federal minimum wage for tipped workers in the restaurant sector, which has some of the lowest rates of retirement plan access, is \$2.13.

Ownership of retirement assets falls short for all races, especially Blacks and Latinos. Among households age 25-64, 64% of White households have a pension, 401(k), or IRA, compared to 49% of Black households and 39% of Latino households. If we leave out defined benefit pensions and look at just retirement accounts, the level of racial inequality is even worse: 63% of

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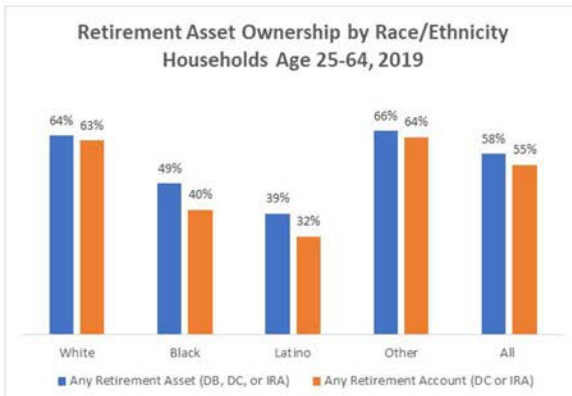
[6] Although 401(k)/IRA assets are distributed slightly less unevenly than overall wealth, they are still radically skewed towards high-income households. Among households age 55-64, the top 20% of households by income own 70% of the wealth held in retirement accounts in their age group. Across all households, the richest 20% of households control 85% of assets held in 401(k)s and IRAs. Author's analysis of 2019 SCF.

[7] E. Gould, "State of Working America Wages 2019," Economic Policy Institute, February 20, 2020. https://www.epi.org/publication/swa-wages-2019/.

[8] Ibid.

White households have a 401(k) or IRA, compared to 40% of Black households and 32% of Latino households. (See **Figure 3**.) Typical Black and Latino households with a retirement account have less than half the retirement savings of a typical White household with a retirement account ($30,000, $34,000, and $69,000, respectively). Looking at average (mean) retirement account balances, Black and Latino households have roughly a quarter of the average (mean) retirement wealth of White households ($43,000, $38,000, and $153,000, respectively).[9]

Figure 3



Source: Author's analysis of Survey of Consumer Finances.

In addition to having less access to retirement benefits while employed, Black and Latino workers face a number of disadvantages that make it difficult to save for retirement. First, they consistently face higher rates of unemployment than White workers.[10] They are also significantly disadvantaged in generational wealth, which is an important factor in wealth accumulation. Federal Reserve researchers found that White families were three times as likely as Black families and 8 times as likely as Latino families to receive an inheritance. White families also received larger inheritances.[11] They also found that the typical Black and Latino family has $2,000 or less in liquid savings, less than a quarter of the amount held by the typical White

[9] Author's analysis of 2019 SCF.

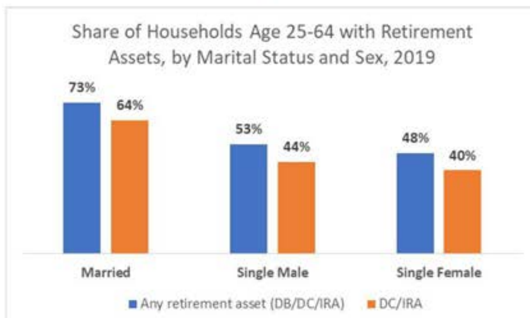
[10] See for example N. Adjeiwaa-Manu, "Unemployment Data by Race and Ethnicity," Center for Global Policy Solutions, August 2017. http://globalpolicysolutions.org/wp-content/uploads/2017/07/Unemployment-Data-by-Race.pdf.

[11] N. Bhutta, A.C. Chang, L.J. Dettling, and J.W. Hsu, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes, September 28, 2020. https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm.

family. Limited liquid savings is an indicator of economic fragility and vulnerability to financial shocks. All of these factors constitute obstacles to saving for retirement in the context of a 401(k) plan.

Households headed by single adults – in particular single women –are significantly less likely to have retirement assets. While 73% of married households age 25-64 have a pension, 401(k), or IRA, only 53% of households headed by single men, and 48% of households headed by single women, do so. Counting only retirement accounts, 64% of married households in this age group have retirement savings, compared to 44% of single male households and a mere 40% of single female households. (See **Figure 4**).

Figure 4



Source: Author's analysis of Survey of Consumer Finances.

Work-based retirement wealth accumulation poses special challenges for women, given their disproportionate responsibility for unpaid caregiving. In recent years, women workers have achieved approximate parity with male workers in terms of nominal access to workplace retirement plans. However, they still face structural barriers to retirement wealth accumulation. In addition to the gender pay gap, many women find themselves having to withdraw from the labor force or reducing paid work hours in order to care for children or aging parents, which results in interrupted or truncated careers. Even before the COVID-19 pandemic, when school closures drove many mothers out of the labor force, women's employment and work hours were suppressed by the lack of affordable childcare. And an aging population means an increased aggregate need for caregiving that falls on women's shoulders. This not only results in foregone pay, but a lasting pay penalty, resulting in a significant cumulative reduction in potential lifetime earnings.[12]

This means lower Social Security benefits, as well as fewer years to participate in a pension or 401(k), and lower income from which to save for retirement. A MetLife study from 2011 estimated a loss of $120,000 in wages and $64,000 in Social Security benefits for women who reduced paid work hours due to caregiving.[13]

3. Federal policy action is necessary to ensure universal retirement security.

Public discussion of disparities in retirement wealth often devolve into speculation about whether or not certain groups of workers want to save, or prioritize saving for retirement. But surveys show that American workers of all backgrounds are worried about retirement.[14] The lack of adequate retirement assets, and the disparities in retirement wealth by income, race, and gender, are structural problems that call for large-scale policy solutions. In particular, broad retirement security requires both universal coverage and adequate contributions, including employer contributions. In the US, it will take both strengthening Social Security financing and benefits, *and* policies that provide universal access to a supplemental tier of retirement income.

Federal policies over the last two decades have done little to move the needle on coverage, and in many cases – such as the short-lived U.S. Treasury MyRA program, implemented by executive authority under the Obama Administration due to legislative gridlock -- have proven that incremental, voluntary approaches do not work. Given the complexity and cost of administering employer-sponsored retirement plans, not to mention the fiduciary liability, employer tax incentives are unlikely to move the needle much further.

The states, meanwhile, face dramatic fiscal repercussions from the retirement crisis, and have been waiting for the federal government to act. An increasing number of states have decided they can no longer wait, and are pursuing their own policies to narrow the future retirement income gap. The most potent of these are auto-IRA programs that mandate employers that do not offer their own plan to auto-enroll their employees in a state-sponsored Roth IRA. Workers can then choose to opt out. In 2017, OregonSaves launched as the first such program to be implemented, followed by Illinois Secure Choice in 2018 and CalSavers in 2019. Unfortunately, due to ERISA

[12] On the impact of caregiving on women's wages and earnings, see S.J. Correll, S. Benard and I. Paik, "Getting a Job: Is There a Motherhood Penalty?," *American Journal of Sociology* 112(5), March 2007, https://doi.org/10.1086/511799; J.R. Kahn, J Garcia-Manglano and S.M. Bianchi," The Motherhood Penalty at Midlife: Long-Term Effects of Children on Women's Careers," *Journal of Marriage and Family* 76 (Feb 2014):56-72, https://doi.org/10.1111/jomf.12086; C.H. Van Houtven, N.B. Coe and M.M. Skira, "The Effect of Informal Care on Work and Wages," Journal *of Health Economics* 32(1): 240-252; S. Bornstein S, "Work, family, and discrimination at the bottom of the ladder," *Georgetown Journal on Poverty Law Policy* 19(1):1–42, 2012.

[13] MetLife, "The MetLife Study of Caregiving Costs to Caregivers," https://www.caregiving.org/wp-content/uploads/2011/06/mmi-caregiving-costs-working-caregivers.pdf.

[14] D. Doonan, K. Kenneally and T. Bond, "Retirement Insecurity 2021: Americans' Views of Retirement," National Institute on Retirement Security, February 2021. https://www.nirsonline.org/reports/retirementinsecurity2021/. Insured Retirement Institute, "Millenials & Retirement 2020", Jan 2020. https://www.myirionline.org/docs/default-source/default-document-library/iri_millenial_Whitepaper_final_2020.pdf?sfvrsn=0.

preemption issues, these programs cannot accept employer contributions. Some states are following the Massachusetts model, of setting up voluntary multiple employer 401(k) plans for certain sectors, such as nonprofits or small businesses. These plans have the benefit of lower cost compared to the average small employer plan, and can be used to complement auto-IRA programs. Both types of programs are administered by private recordkeepers, and investment management is also outsourced, with a public board of trustees providing fiduciary oversight. In addition to Oregon, California, and Illinois, which have thus far accumulated $250 million in assets and are rapidly growing, five other states and two large cities have passed legislation to implement similar programs.[15]

Significantly, California enacted its auto-IRA legislation in 2016 on the same day as the current minimum wage law that raises the floor to $15/hour for all workers by 2022. The wage increases, combined with the auto-IRA program, have the potential to increase low-wage workers' retirement income by 50%.[16]

But even in states with auto-IRAs, large groups of workers are left out: those who cobble together a living from part-time and seasonal jobs, and those who work for the smallest employers. The employer mandate in the Illinois auto-IRA program, for instance, leaves out firms with less than 20 employees. California's mandate exempts the firms with less than 5 employees. Oregon, admirably, includes all employees regardless of firm size. None of these programs cover workers who are excluded from their employer's retirement plan by eligibility rules related to part-time status and job tenure, in order to avoid running afoul of ERISA.

In closing, I offer some policy recommendations for ensuring universal retirement security:

- Protect and strengthen Social Security, including benefit enhancements for low-wage workers and caregivers.
- Wage standards that support retirement security. Federal wage standards should keep up with the cost of living, starting with an increase to $15/hour and elimination of the tipped sub-minimum wage, which disproportionately hurts women workers.
- Revise ERISA rules to ensure greater inclusion of part-time workers in firms that offer a retirement plan.
- Current tax incentives for retirement saving give the most benefit to people who need it least, and little to those with limited incomes who need the most help. Converting the existing, regressive tax deduction into a flat refundable retirement savings credit would go a long way towards lifting retirement wealth at the bottom and middle.
- Protect and encourage state policy innovation to expand coverage. Successive administrations have taken conflicting positions with regard to state auto-IRA programs.

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[15] For the status of state retirement savings initiatives, see https://cri.georgetown.edu/states/.

[16] N. Rhee, "California's $15 Minimum Wage and Secure Choice Retirement Savings Program Can Boost Young Low-Income Workers' Retirement Incomes by 50%," UC Berkeley Center for Labor Research and Education, December 2017; N. Rhee, "What We Can Learn from the California Model for Improving Workers' Financial Security," Aspen Institute blog post, March 28, 2018, https://www.aspeninstitute.org/blog-posts/can-learn-california-model-improving-workers-financial-security/.

Depending on the outcome of the ERISA lawsuit that is winding its way to the Supreme Court, legislative action may be required to protect the program.

- Finally, federal legislative action is ultimately necessary to create a national system of universal retirement plan coverage to supplement Social Security. Nothing less than this can truly ensure broadly shared retirement security for all workers. Having been deeply involved with the development of the CalSavers program, I offer that there's much to learn from the states, and from other national models like the UK NEST program and the Australian Superannuation program, in terms of the possible combinations of employer- and publicly-sponsored plans in a universal coverage scheme.

Thank you again for this opportunity to speak before you.

Statement of
J. Spencer Williams
Founder, President and CEO of Retirement Clearinghouse

Before the
US Special Committee on Aging

At the Hearing
A Financially Secure Future: Building a Stronger Retirement System for All Americans

October 28, 2021

Good morning, Chairman Casey, Ranking Member Scott, and members of the Committee. Thank you for the opportunity to appear before you today and for working constructively to improve the retirement system. It is a particular honor to be here because I live in the Greenville area, a pastoral paradise in the upstate of South Carolina, and I have the pleasure of being represented by Senator Scott.

I am the Founder, President, and CEO of Retirement Clearinghouse (RCH), a fintech company with a mission to dramatically improve and preserve the retirement savings for tens of millions of Americans changing jobs each year in our growing and dynamic economy. The Chairman of our Board is Robert Johnson. You most likely know him as the founder of Black Entertainment Television. Bob bought into our mission more than a decade ago and over the years working together, I have witnessed Bob's personal commitment to helping minorities and lower income families save for retirement and begin to bridge America's savings and wealth gap.

Congress has taken important steps in recent years to provide more people with the opportunity to save so they can retire with dignity and financial independence. The SECURE Act of 2019, for example, brought common sense reforms aimed at expanding access to employer-provided retirement plans. Those reforms are already starting to bear fruit, but of course additional improvements are always possible.

Getting people to start saving is job one. But right after that, the most important improvement we can make is to help those same participants preserve their savings when switching jobs or facing career disruptions. Today, more than 30% of all participants, and nearly 50% of minority participants cash-out their retirement savings when they change jobs. The savings lost to cash outs adds up to about $100 billion each year, a number so large that it's difficult to wrap your head around it. But what it means is that every year millions of people are cashing out their savings and putting their retirement at risk.

It is rarely a good decision to cash out your retirement savings, but we can certainly understand why it happens. It can be very challenging to move your savings, and people with balances under $1,000 are often just handed a check, minus taxes and penalties, of course. When we ask participants why they cash out, the most common response is simply that it's easier to take the money than it is to roll it over to their new employer's plan or an IRA.

That is why we created auto portability. Based on our work with a very large employer, we set out to fix the cash-out problem and help preserve savings for America's mobile workforce – in particular for lower-income workers. Auto portability is a simple concept. It is a technology that allows a person's account to automatically follow them from one employer's plan to the next. The idea is that if we make it easy and automatic, more people will keep their savings in a plan rather than cashing-out.

Let me give you a real-life example of the impact auto portability can have on a worker's retirement. In November 2017, at age 30, Jaime was hired by one of our clients, a very large employer in the healthcare services industry, which we would note is an industry with high employee turnover. Jaime lives in El Paso Tx. In June 2018, utilizing auto portability's technology, we located Jaime's account from a former employer that had $1,117 in it. The good news is that Jaime had not cashed out that small balance savings account. With Jaime's consent, we moved his account into his current employer's 401(k) plan. Fast forward. A little over two years later, in October 2020, Jaime left his employer for a new job. By this point Jaime's 401(k) account had grown to $5,006. Once again, Jaime made a good decision and gave us his consent to move his savings to his new employer. Those two good decisions have kept Jaime's savings intact and by his normal retirement age, his $5,006 will grow to more than $50,000. It almost goes without saying that there are literally millions of Jaime's that change jobs each year and with a modest mix of a nudge and enabling technology, we can help them all along a path to a more secure retirement.

Thanks to support from the Ranking Member and other members of this Committee, including Senator Warren, we were able to work with the Department of Labor on critical regulatory guidance that facilitated the initiation of auto portability. Now we are working with two of the industry's largest providers, Alight Solutions and Vanguard, which will make auto portability available to over 16 million 401(k) participants. And that is just the beginning.

Auto portability will have a tremendous impact on the retirement system. The Employee Benefit Research Institute estimates that auto portability can preserve an estimated $1.5 trillion in additional retirement savings over a generation. Of that amount more than $190 billion will be saved by Black workers.

We are very appreciative of bipartisan support from members of Congress and their interest in legislation to help encourage the rapid, system-wide adoption of auto portability. One way to do that would be to provide certainty and stability by codifying into law the guidance issued by the Department of Labor. We also think it would be helpful to create modest tax incentives to encourage early adopters of auto portability and to defray the costs borne by participants as the system gets up to scale. These gentle legislative nudges would deliver a tremendous benefit to working families.

Thank you for your attention to these issues, your support for auto portability, and for the opportunity to testify today. I would be pleased to answer any questions.

Questions and Responses for the Record

Questions for the Record
for Dr. John Scott
From Chairman Robert P. Casey, Jr.

Question:

1) Many experts assess the strength of our retirement system by observing key outcomes among those who are currently retired, like low poverty rates and high retirement satisfaction. To what extent could these outcomes be different for generations who have not yet retired, for whom spending needs and retirement risks are likely to be different?

Response:

While certain measures like the federal poverty level will continue to be relevant, it should not be a surprise to note that life for those immediately above the official or supplemental poverty level is precarious and stressful. Other measures raise more questions than they answer. For example, satisfaction in retirement is a subjective measure that may not be able to distinguish between people who are truly satisfied with their situation and those who may have to adjust downward their living standards and have accommodated themselves to that lower economic condition. Even the amount of retirement savings does not provide a good measure of preparedness in that a bare asset number does not readily relate to one's standard of living in old age.

Perhaps one approach is providing standard metric for determining how a working household is doing in terms of retirement security relative to an accepted standard of sufficiency. Pew has worked with Philadelphia-based economic consulting firm Econsult Solutions, Inc., (ESI) to develop state-level measures of household preparedness and the cost to taxpayers from insufficient retirement savings. Using demographic information, ESI develops a measure of current rate of savings that is translated into a stream of income in retirement and then compares that income relative to a benchmark of retirement income that is adequate in old age. Measuring and understanding the gap between current expected retirement income and an adequate income provides a more accurate description of a household's ability to reach a secure retirement while controlling for demographic change over time.

In addition, the growth of the elderly population and the lack of affordable, high-quality long-term care is making life difficult for both older persons in need of care but also for their unpaid caregivers who are usually a spouse or child. As I noted in my testimony, many unpaid caregivers are working in jobs that do not provide benefits or provide enough hours to qualify for benefits. Given the size of the Baby Boom, this issue will continue to grow, and we need to understand the extent to which unpaid caregivers are falling short in terms of the growth of Social Security benefits and the ability to develop retirement savings assets.

Questions for the Record
for Dr. John Scott
From Senator Richard Blumenthal

Question:

1) You shared in your testimony how disability can negatively impact retirement savings, leading to unemployment or non-traditional employment with companies or individuals that do not offer a retirement savings plan. In addition, we know that the Social Security benefit cliff, a disincentive to meaningful work, that results in benefit termination upon reaching a certain income threshold—can impact an individual with disabilities ability to save for retirement. In my legislation, the Social Security 2100 Act, I have included provisions to repeal the benefit cliff, meaning that beneficiaries would no longer be harmed for contributing to their retirement savings or earning income.

    a. *Can you share why it is so important for individuals with disabilities in particularly to have access to a strong retirement funds, whether that be through a retirement savings account, or Social Security?*

Response:

Retirement savings is important for this portion of the population because they likely need more care or services in old age relative to the older population without disabilities. Health conditions associated with a disability may need additional funds that are not covered through Medicare or Medicaid, and disabled older people may need more services such as for transportation or housing. But the major point is that these individuals also face greater barriers to saving through no fault of their own. As I mentioned in my testimony, these workers with disability often have to work in jobs that do not pay as much as similar jobs for people without disabilities, making it harder to save as much. They may not be able to work as much, both reducing income that is available for saving as well as potentially not qualifying for benefits. And people with disabilities are more likely to work in nontraditional occupations in which there are few benefits like retirement savings plans. In short, both the need and the obstacles are higher for individuals with disabilities.

Questions for the Record
for Mr. Shai Akabas
From Senator Tim Scott

Question:

1) An earlier version of the majority's reckless tax and spend reconciliation package included a proposal that would prohibit the investment of Individual Retirement Account (IRA) assets in venture capital and private equity funds. The newly revised version, unveiled earlier this week, drops this provision- good news for Main Street retirement savers.

However, I am concerned about a potential revival of this provision in the future. Many middle class investors rely on so-called "alternative investments" to diversify their retirement savings portfolios, including more than 2 million Americans who include real estate, public and private credit in their IRA portfolio. The proposed ban would have created an immediate taxable event on these investors. Forcing them to divest these less liquid products within an arbitrary two-year period places them at risk of negative or suboptimal pricing and terms.

Can you explain what additional negative consequences these Main Street investors would face had Congress chosen to adopt this proposal?

Response:

It is important that American workers have access to a variety of retirement savings options that enable them to meet their individual needs and goals. Especially as workers progress closer to retirement, a diverse investment portfolio can help individuals and their families weather downturns in the market or underperformance of specific investments.

A provision originally included and subsequently removed from the Build Back Better reconciliation package would have barred IRAs from holding certain investments, such as private equity funds and hedge funds, that are restricted to accredited investors—investors with income and wealth exceeding established thresholds. Individuals would have been required to divest their IRAs from these financial products within two years or face potentially steep tax bills. Although these provisions were likely designed to primarily affect wealthy investors, Americans of more modest means who have accrued large retirement savings balances could also have been impacted by the proposed regulations, forcing them to sell abruptly and inhibiting future diversification. As policymakers develop reforms to the retirement system, it is imperative that they consider potentially unintended consequences that could hinder Americans' ability to save for the future.

Question:

2) It is no secret the venture capital industry struggles with racial diversity given the challenges many minority-owned start-ups face in meeting the Security and Exchange Commission's eligibility requirements to invest in startups. That is why IRAs are an important tool and common form of initial capital for emerging businesses to raise capital and for community investment. I am concerned a ban will disproportionately affect individuals who invest in small businesses, particularly women- and minority-run industries.

   What impact would such a ban have on these type of businesses given the fact that as a society we are encouraging the creation of more funds that invest in small businesses of all types?

Response:

Access to capital is a critical catalyst for the success of America's small businesses, which comprise more than 99% of U.S. businesses and employ 47% of the labor force. Restricting the use of IRA funds for business capitalization could, in turn, create a ripple effect that inadvertently limits financing options for the small businesses and entrepreneurs that are the engine of the U.S. economy. This could not only undermine small business growth by eliminating an important vehicle through which entrepreneurs access, raise, and grow capital, but also raise costs for middle-class investors, some of whom could be forced to divest existing IRA investments and face early withdrawal penalties.

There are many financing innovations occurring in the private sector that attempt to expand access to capital for entrepreneurs. We encourage Congress to look for ways that public policy, with bipartisan support, can help facilitate those innovations.

Questions for the Record
for Mr. Shai Akabas
From Senator Richard Blumenthal

Question:

1) I introduced my landmark Social Security bill, the Social Security 2100 Act, with Representative Larson and Senator Van Hollen and others. Though we have introduced this legislation for a number of years, I am pleased that in this version, we took steps to make the bill stronger for beneficiaries for years to come. We have included a provision which would raise benefits for the oldest beneficiaries, which are those who have been collecting Social Security for twenty years or more. The Social Security 2100 Act also includes a provision that would lift the 5-month waiting period for newly-disabled beneficiaries, or their surviving spouse, and would also extend the program's depletion date and solvency—giving beneficiaries reassurance, and Congress more time to adjust the program. In your testimony, you mentioned the proposed reforms offered by the BPC Commission that would modernize Social Security and increase benefits.

    a. *Can you share some of these provisions and how they may align with my legislation, the Social Security 2100 Act?*

Response:

Social Security is a foundational pillar of retirement security in America. It has long been clear, however, that the program is on an unsustainable trajectory. In 2016, BPC convened a bipartisan Commission on Retirement Security and Personal Savings, co-chaired by former Senator Kent Conrad and Jim Lockhart, former principal deputy commissioner and chief operating officer of the Social Security Administration. The commission spent two years studying the status of retirement security in the U.S. and, among other recommendations, released a multi-pronged proposal to shore up Social Security's finances and improve the program. These reforms would put Social Security on a path to long-term sustainability while ensuring that seniors are supported throughout retirement.

There are provisions of BPC's proposal that align with the objectives and details of the Social Security 2100 Act. For example, surviving spouses often experience a significant reduction in benefits when their spouse dies, which can make it difficult to maintain their quality of life. Both BPC's proposal and the Social Security 2100 Act support improving benefits for widows and widowers. The Social Security 2100 Act would ensure that surviving spouses receive 75 percent of the combined Social Security benefit the couple was receiving prior to one spouse's death. BPC's proposal would allow widows and widowers to receive 75 percent of their deceased spouse's benefit in addition to the entirety of their own benefit, paid for by moderately reducing benefit levels for married couples when they initially claim, as financial security for younger, married retirees is among the best for any demographic group in the country.

Both initiatives also recognize the unique challenges faced in retirement by low-income workers and the importance of ensuring that Social Security benefits keep these older Americans out of poverty. To better target benefits on lower-income workers, BPC's proposal would improve the progressivity of the Social Security benefit formula. Further, many of these low-income older Americans only worked intermittently, due to a variety of circumstances, and therefore they receive meager Social Security benefits. Accordingly, BPC's proposal would establish a new "basic minimum benefit" (BMB) to enhance Social Security for beneficiaries with low career earnings. The BMB would provide a modest supplement to standard Social Security benefits for low-income beneficiaries above the full retirement age. The specific BMB amount for each individual would be scaled so that those with the lowest Old-Age and Survivors Insurance (OASI) benefits would receive the largest BMB add-on payments. (This supplemental benefit would supplant the Supplemental Security Income program for all Social Security-eligible individuals who have attained full retirement age.) Lower-income beneficiaries who struggled to maintain consistent employment would benefit most from this new provision. Likewise, the Social Security 2100 Act would update the Special Minimum Benefit to help more long-term low earners stay out of old-age poverty.

b. Can you share how increasing benefits for the oldest beneficiaries, as my bill does, would help alleviate financial concern?

Response:

Social Security and Supplemental Security Income are critical sources of cash income for America's oldest beneficiaries. Among households headed by someone aged 65 or over, more than half rely on Social Security benefits for a majority of total income, while 19% depend on Social Security for at least 90% of income. Social Security provides not only income but also crucial protection against the risk of outliving one's assets. This is particularly important today, as people are living longer, and rising health care costs often lead to unexpected expenses that can drain savings. Moreover, while poverty rates among individuals 65 and older have declined over the past 40 years, approximately 12% of individuals aged 80 and older live in poverty, the highest among the aged population. Given that this age group is more likely to face limited or no earnings and higher medical expenses than younger beneficiaries, it is important to ensure that their benefit levels are sufficient to adequately address elderly financial needs.

c. *Why is ensuring that there is no waiting period for disabled or widowed beneficiaries important?*

Response:

In 2019, nearly 11% of widowed men and 14% of widowed women over the age of 65 lived in poverty. In 2018, 26% of Americans with disabilities lived in poverty, more than double the poverty rate of Americans without disabilities. Disabilities are particularly common among seniors, with 24% of Americans aged 65 or older and 47% of those aged 75 or older living with at least one disability. The Social Security Administration has already removed the waiting period for individuals with ALS, and as a next step could consider removing it for those granted benefits under the Compassionate Allowances program. As policymakers consider modifying waiting periods, it is important that they balance the needs of newly eligible beneficiaries to promptly access benefits with the prevention of illegitimate claims.

d. *Can you share how critical long-term solvency and trust in Social Security is for the financial well-being of older adults now and in years to come?*

Response:

Social Security is the foundation of nearly every American's retirement planning. The program's retirement and disability benefits compose approximately half of total income for the median beneficiary household headed by someone aged 65 or over and provide at least 90% of income for almost 1 in 5 such households. At a time when Americans are living longer and few people have access to a traditional annuity or employer-provided defined benefit pension, Social Security constitutes a key source of longevity insurance against outliving one's savings.

Therefore, addressing Social Security's unsustainable finances is integral to safeguarding retirement security in the U.S. and the wellbeing of America's seniors. In the absence of congressional action to address Social Security's pending insolvency, reserves in the program's primary trust fund will be depleted in 2033 according to the program's chief actuary (and sooner, according to the Congressional Budget Office), at which time beneficiaries will see an immediate 24% cut to their benefits. Waiting to act, when the crisis is unavoidable, produces the worst of all outcomes—both for individuals who are collecting benefits at that time and for individuals who are still in the workforce. Further delay would mean that any solution maintaining the traditional financing structure of the program would have to be more drastic and unpalatable: Tax increases would be sharper, benefit cuts would be more severe, and the workers who bear these changes would have less time to plan their finances accordingly. Social Security can and should be preserved for our kids and grandkids, but the least painful path is by facing up to the program's challenges now.

Righting Social Security's finances will require some combination of increasing program revenue and constraining the growth of benefits. The latter will be easier for older Americans to bear if they are retiring with more of their own savings, making improvements to the private-sector retirement savings system even more important. Americans deserve to know what they can count on from Social Security, and it is the job of policymakers to provide that assurance by legislating a fix to the program's financial challenges.

Questions for the Record
for Dr. Nari Rhee
From Chairman Robert P. Casey, Jr.

Question:

1) Many experts rely on the imagery of a "three-legged stool" to describe our retirement system. Is this still an accurate way to characterize the foundation of our retirement system, especially for individuals who have not yet retired? Does this imagery miss other key components of the system, such as the impact of finances on Medicare coverage, Medicaid, and other tax benefits?

Response:

In general, the pyramid analogy is a more accurate portrayal of retirement income for most Americans: Social Security as the bottom, largest tier, employer sponsored retirement plans as the next tier, and private assets as the top tier. That said, Chairman Casey rightly notes that other topics deserve attention in terms of their impact on retirement security. Healthcare and long-term care are particularly important elements. Their cost is not adequately anticipated in retirement planning, and long-term care (LTC) costs in particular can be quite high.

I will limit my comments to LTC and Medicaid, where my research has been focused.
In particular, most low- and middle-income retirees in need of significant LTC services will eventually rely on Medicaid. But in addition to income limits, federal policies allow states impose draconian asset limits for Medicaid, eligibility effectively forcing retirees to impoverish themselves in order to access the LTC services they need. For instance, it is common for states to limit liquid assets to $2,000, which deprives retirees of a meaningful financial cushion and renders them vulnerable to shocks. (A few states, like California, have raised or eliminated asset limits.) Furthermore, the 50-state patchwork of asset limits and exemptions is so complex that there is an industry of consultants who navigate middle class families through the spend-down process.

Some states are forging a path forward through social insurance models for long-term care insurance. Washington state has established an employee payroll tax funded trust with modest benefits, explicitly to reduce the number of future retirees who need to spend down assets in order to qualify for Medicaid, reduce elder poverty, and ease the pressure on the state budget. But the program has a vesting requirement, and will not benefit existing retirees or workers on the cusp of retirement. California and other states are also considering social insurance models, and aging and disability organizations are advocating a mixed funding source model in order to extend coverage to people with disabilities and current retirees.

I believe that Medicaid asset tests should be streamlined with the goal of allowing retirees to remain financially self-sufficient. In addition, the federal government should encourage and support state social insurance models for providing LTC benefits.

Questions for the Record
for Dr. Nari Rhee
From Senator Richard Blumenthal

Question:

1) In your testimony, you insightfully shared with us how large swaths of the population are left out of Social Security, namely caregivers, who are often women or women of color. As you know, these beneficiaries are penalized for their years out of the traditional workforce as they have less savings and lower Social Security benefits. This is a significant issue considering family caregiving is crucial to families across the country. My Social Security 2100 Act would provide caregivers with caregiving credits to account for the time out of the workforce, ensuring equitable benefits upon retirement.

    a. *Why is it so important that we address the disparate benefits that are seen between men and women, and how will caregiver credits help?*

Response:

Women particularly rely on Social Security as a foundational component of their retirement income, particularly given large gender disparities in retirement assets, and the challenge of sustaining retirement income over a longer lifespan compared to men. Yet, women's average Social Security benefit is 80% of men's, as the result of the gender pay gap and unpaid caregiving. Women are 80% more likely than men to fall into poverty in old age.[1]

Historically, spousal and widow benefits were meant to compensate women for their caregiving role, but these benefits now apply to a small percentage of women due to changes in family organization and women's labor market participation. As of 2019, unmarried women accounted for 40% of births.[2] Most women, regardless of marital status, rely on their own earnings record for Social Security benefits. According to an analysis by the Center for Retirement Research,

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[1] Diane Oakley, Jennifer Erin Brown, Joelle Saad-Lessler, and Nari Rhee, "Shortchanged in Retirement: Continuing Challenges to Women's Financial Future," National Institute on Retirement Security, 2016, https://www.nirsonline.org/reports/shortchanged-in-retirement-continuing-challenges-to-womens-financial-future/.

[2] Joyce A. Martin, Brady E. Hamilton, Michelle J.K. Osterman, and Anne K. Driscoll, "Births: Final Data for 2019, "*National Vital Statistical Reports* Volume 70, Number 2, https://www.cdc.gov/nchs/data/nvsr/nvsr70/nvsr70-02-508.pdf.

only 11% of Social Security retirement benefits in 2016 were spousal and widow/widower benefits in 2016.[3]

While the motherhood penalty in Social Security benefits is smaller than the penalty in lifetime earnings, it is still substantial. Having one child reduces a mother's social security benefits by an average of 16% compared to women with no children, and each additional child incurs another 2% in benefit reduction.[4] And in late career, early retirement to care for aging family members further cuts their Social Security benefits.

Modernizing Social Security to recognize and offset the impact of caregiving on earnings is critical for women's retirement security. The Caregiver Credit in the Social Security 2100 Act does this by ensuring that people who take time off to care for young children or older family members will have their monthly earnings record topped off to at least 50% of the Average Wage Index from two years prior. (Caregivers with some earnings, but below the Average Wage Index, would receive credits that bring them up to half way between their earnings and the AWI.) For a woman taking time off to care for a loved one in 2021, this would be a minimum monthly earnings credit of approximately $2,250.[5] The Caregiver Credit would partially offset the reduction in Social Security benefits experienced by women caregivers under current policy. Such a policy also recognizes the value of caregiving work at a time when an aging society demands an increasing supply of care labor, both paid and unpaid.

b. Can you speak to other common disparities between men and women's Social Security benefits? What are other ways we can ensure all Americans have secure, reflective Social Security upon retirement?

Response:

Apart from the specific impact of caregiving, women's overall Social Security benefits are reduced compared to men's through the gender wage gap. Increasing the minimum benefit will shrink both gender- and race- based disparities in average Social Security benefits.

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[3] Alicia H. Munnell and Andrew D. Eschtruth, "Modernizing Social Security: Caregiver Credits," Center for Retirement Research at Boston College, August 2018, https://crr.bc.edu/wp-content/uploads/2018/08/IB_18-15.pdf.

[4] https://crr.bc.edu/podcast/how-much-does-motherhood-cost-women-in-social-security-benefits/ For original study see Matthew S. Rutledge, Alice Zulkarnain and Sara Ellen King, "How Much Does Social Security Offset the Motherhood Penalty?," Center for Retirement Research at Boston College, July 2021, https://crr.bc.edu/briefs/how-much-does-social-security-offset-the-motherhood-penalty/.

[5] The AWI in 2019 was $54,099.99 (annual earnings). https://www.ssa.gov/oact/cola/awidevelop.html.

Additional Statements for the Record

Financial Security for Life

Statement for the Record

Submitted to the

United States Senate
Committee on Aging

"A Financially Secure Future:
Building a Stronger Retirement System for All Americans"

October 28, 2021

On Behalf of

Susan K. Neely
President and CEO
American Council of Life Insurers
101 Constitution Avenue, NW
Washington, DC 20001

The American Council of Life Insurers (ACLI) is pleased to submit this statement for the record on "A Financially Secure Future: Building a Stronger Retirement System for All Americans." ACLI thanks Chairman Bob Casey (D-PA) and Ranking Member Tim Scott (R-SC) for holding this important hearing. This statement will highlight the successes of the current retirement system, the challenges many workers and retirees face, especially in light of the COVID-19 global pandemic, and public policy proposals supported by ACLI that would enhance and build upon the successes of our nation's retirement system.

THE AMERICAN COUNCIL OF LIFE INSURERS

The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers' financial and retirement security. Financial security is our core business, and retirement security for all Americans is a critical mission. We protect 90 million American families with financial products that reduce risk and increase financial security, including life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, dental and vision benefits, and other supplemental benefits. As society and work changes, we are committed to providing financial security solutions that protect all Americans, regardless of where and how they work, their stage in life, or the economic status of their household. Americans are living longer, and financial security in retirement is a big challenge facing our country. Life insurers help people achieve their financial and retirement security goals, through products that are available, accessible, and affordable to all.

ACLI members represent 95 percent of industry assets in the United States. Through a well-crafted partnership of the private solutions ACLI members provide, and public solutions that are necessary, we believe the benefits of financial security can be made available to all Americans. Accordingly, ACLI member companies offer insurance contracts and investment products and services to employment-based retirement plans (including defined benefit pension plans, 401(k), SIMPLE, SEP, 403(b), and 457(b) plans) and to individuals (through IRAs and annuities). Three out of five small employers (those with 99 or fewer employees) rely on life insurer products and services in their employment-based retirement plans. ACLI members are also employer sponsors of retirement plans for their own employees. And there are more than 15 million annuity-based IRAs held by individuals. As product and service providers, as well as plan sponsors, life insurers understand that by adequately and consistently saving for retirement, effectively managing assets throughout retirement and utilizing appropriate financial protection products, Americans can supplement Social Security and ensure retirement and financial security for life.

Americans face significant financial security challenges, and the insurance industry plays a critical role in helping them plan, save and guarantee a secure retirement.[1] In 2020, American families received $392.3 billion in payments from annuities, $130 billion in payments from life insurance, $20 billion in disability income insurance benefits and $11.4 billion in long-term care insurance benefits. No other industry provides Americans with the level of financial guarantees offered life insurance companies.

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[1] ACLI analysis of *preliminary* 2020 NAIC Annual Statement data.

THE RETIREMENT SYSTEM IN AMERICA

The retirement system for private-sector workers in America builds upon contributions to Social Security and includes employment-based retirement plans, individual retirement accounts, annuities, and other investments. Private sector savings play a vital role in retirement security for millions of Americans. Current tax incentives for pensions and retirement savings encourage employers to provide and maintain work-based plans and have enabled millions of American families to accumulate savings, thereby improving their retirement security. According to the Bureau of Labor Statistics, more than 80 percent of full-time civilian workers have access to a retirement plan through their employer, and of these workers, 82 percent participate in a workplace plan.[2] Yet, there remain workers, mostly those who are working part-time and those at small businesses, without such access. More can and should be done to ensure that everyone who can afford to save for retirement is saving for retirement.

CHALLENGES FACING RETIREMENT SAVERS

While the current combination of Social Security and employment-based and individual retirement arrangements has successfully helped workers attain retirement security, the global pandemic has brought into sharp focus challenges Americans face with ensuring they have both short-term and long-term savings. Both are key components to financial health. In 2019 for example, almost 50 percent of all U.S. households had less than $5,300 in liquid savings that could be used for an emergency.[3] Among those aged 57-75, 49 percent could not cover three months' worth of expenses.[4] This was exacerbated in 2020 as families faced financial crises with the economic downturn related to COVID-19. Some retirement savers, having little to no emergency savings, tapped their retirement savings through plan loans and distributions features made available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. According to Fidelity Investments, the median amount of coronavirus distribution was $4,800, indicating an amount of emergency savings deficiency for many families.

While workplace retirement plans with payroll-deducted contributions are very effective at helping people save, impediments still exist that prevent many Americans from maximizing this important savings tool. Certain segments of the population have greater barriers to savings. Despite 80 percent of full-time civilian workers having access to a retirement plan in the workplace, only 40 percent of part-time workers enjoy access to workplace savings, in particular, gig economy workers and people who work for small employers.[5] Additionally, Federal Reserve data shows that Black and Hispanic savers have savings rates that lag significantly behind their white counterparts. These deficiencies are magnified in women. This segment may also face challenges related to access to a retirement savings plan in the workplace. Adult caregivers also have difficulty saving for retirement. Many financially assist their children, while an estimated 9.7 million adult children over the age of 50 care for their parents as well.[6] Caregiving can be costly for caregivers, and can remove them from the labor force, diminishing their ability to save in an employer-provided retirement plan.

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[2] Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, March 2020, https://www.bls.gov/ncs/ebs/benefits/2020/employee-benefits-in-the-united-states-march-2020.pdf

[3] ACLI analysis of the Federal Reserve, Survey of Consumer Finances, 2019.

[4] Bankrate, July 2021 Emergency Savings Survey, https://www.bankrate.com/banking/savings/emergency-savings-survey-july-2021/

[5] Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, March 2020, https://www.bls.gov/ncs/ebs/benefits/2020/employee-benefits-in-the-united-states-march-2020.pdf

[6] MetLife, Mature Market Institute, *The MetLife Study of Caregiving Costs to Working Caregivers*, https://www.caregiving.org/wp-content/uploads/2011/06/mmi-caregiving-costs-working-caregivers.pdf

BOLD SOLUTIONS TO ADDRESS RETIREMENT CHALLENGES

The passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, the most comprehensive retirement legislation passed since the Pension Protection Act in 2006, is expected to prove instrumental in increasing access to retirement plans. The provisions within the SECURE Act build upon the current successful private sector system, making important enhancements to improve American's financial retirement security. For example, the SECURE Act includes provisions making it easier for employers to sponsor a retirement plan, encouraging employees to save, and helping them prepare for a secure retirement through lifetime income solutions, have real-world positive benefits. Increasing access for employees of small employers alone is anticipated to result in more than 700,000 new retirement savings accounts.

Still, other effective public policy proposals, in addition to action by plan sponsors and providers, can and should be implemented to help address lingering savings challenges and ensure more Americans can have a secure retirement. Policymakers should continue to seek ways to increase access to workplace retirement savings, strive for financial equality, and encourage essential financial protections offered by guaranteed retirement income products. The focus should continue to be on ways to help more people achieve a financially secure retirement — increasing savings rates, workplace access and lifetime income security for *all* Americans, all key to financial security.

ACLI supports the following policy proposals that seek to increase retirement security and savings, especially for older Americans at or near retirement:

1. Increased Access to and Participation in Retirement Plans

   A sizable majority of full-time workers have access to a retirement plan in the workplace. Still, more could be done to expand access and coverage. While access is high for workers at larger employers, roughly 50 percent of all workers employed by small businesses – those with fewer than 50 workers – have access to a workplace retirement plan.[7] Of those workers, only 39 percent take advantage of the plan in the workplace.[8] While small businesses have access to a robust marketplace of product offerings, the uncertainty of revenue is the leading reason given by small businesses for not offering a plan, followed by cost, regulatory and administrative burdens and lack of employee demand. Congress should build upon the current employer-provided system and advance policies that seek to increase access to workplace savings. Measures that accomplish these goals include:

   - Retirement Savings Option for All Employees: Requiring a universal approach for employers without a retirement plan to provide workers with access to payroll-deducted savings through an IRA, 401(k), or other qualified retirement savings plan, is key to fundamentally expanding access to the power of workplace. Employers should have the flexibility to choose to use IRAs or set up a 401(k), or other qualified retirement savings plan. Employers should not be overly burdened by administrative costs in order to comply and workers must have the right to opt out of participation. Additionally, nearly 73 percent of employers now automatically enroll new participants into their plan.[9] While employees have the option to opt out, most do not. In fact, with new employees, participation rates nearly double to 93 percent when automatically enrolled,

[7] Bureau of Labor Statistics, National Compensation Survey 2020, https://www.bls.gov/news.release/ebs2.t01.htm
[8] Id.
[9] Willis Towers Watson, *2017 Defined Contribution Plan Survey*, https://globenewswire.com/news-release/2018/02/26/1387421/0/en/U-S-employers-enhancing-defined-contribution-retirement-plans-to-help-improve-workers-financial-security.html

compared with 47 percent under voluntary enrollment.[10] ACLI strongly supports a universal approach in which all employers with more than 5 employees offer a plan in the workplace. This would provide an estimated 35 million workers gaining access to an employment-based retirement plan, with nearly 30 million of those workers participating in plans.[11]

- **Increased Default Contribution Levels:** Currently, employers typically automatically enrol employees into their retirement plans at three percent of their employees' salary. While automatic enrollment is an excellent tool to help workers contribute to their retirement plan, increasing the contribution percentage each year, similar to a provision included in the Retirement Security and Savings Act (RSSA) of 2021, introduced in the 117th Congress by Senators Portman (R-OH) and Cardin (D-MD), would result in more meaningful savings levels.[12]
- **Automatic Enrollment Incentive for Small Businesses:** Similar to automatic escalation tools, automatic enrollment has proven to be extremely effective in increasing participation rates, and ultimately, savings balances. Pending legislation would provide small businesses with a tax credit of $500 per year for three years for automatic enrollment.[13] Not only would this mitigate the cost for these businesses, but it would ensure more workers are saving at work.
- **Credit for Small Employers Providing Retirement Plans for Military Spouses**: It is critical to address savings shortages prevalent among military spouses. Military spouses support their servicemembers and families through relocations and deployments, frequently sacrificing their own career aspirations – and often their ability to save for their own retirement.[14] Congress should provide a tax credit for small employers that: make military spouses eligible for their retirement plan within two months of hire; provide a matching or non-elective contribution to the plan; and ensure these spouses are 100 percent vested in all employer contributions within the same time frame.

2. Incentivizing Savings for Vulnerable and At-Risk Populations

   Special consideration should be given to individuals who face unique challenges when it comes to retirement savings. These groups, many times, can benefit greatly from focused public policy initiatives to make their path to saving for retirement easier. These include:

   - **Those Closest to or in Retirement:** The way we live, and work has been impacted by the global pandemic. Those closest to retirement need even more flexibility regarding how they continue to accumulate assets, but also, when they are obligated to begin tacking distributions. More and more savers are opting to stay in the workforce and public policy should accommodate them by increasing the required minimum

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[10] Jeffrey W. Clark, Jean A. Young, Vanguard, *Automatic Enrollment: The Power of Default*, https://institutional.vanguard.com/iam/pdf/CIRAE.pdf

[11] ACLI estimates based on the *National Compensation Survey: Employee Benefits in the United States*, March 2020, National Compensation Survey: Employee Benefits in the United States, March 2020

[12] Id.

[13] S. 1770, The Retirement Security and Savings Act of 2021, introduced in the 117th Congress by Senators Portman (R-OH) and Cardin (D-MD). H.R. 2954, The Securing a Strong Retirement Act of 2021, introduced in the 117th Congress by Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX).

[14] S. 1770, The Retirement Security and Savings Act of 2021, introduced in the 117th Congress by Senators Portman (R-OH) and Cardin (D-MD), S.1273, the Military Spouses Retirement Security Act introduced in the 117th Congress by Senators Susan Collins (R-ME), Maggie Hassan (D-NH), James Lankford (R-OK), Mike Bennet (D-CO), Angus King (I-ME) and Steve Daines (R-MT).

distribution (RMD) age from 72 to 75 and allowing those in their 60s to save even more by increasing catch up provisions to $10,000 from $6,500.[15]

- **Ensuring Lifetime Income for Older Americans:** Savers that are close to or in retirement may want to take steps to ensure they do not outlive their savings. Only one vehicle can guarantee this, an annuity. Removing barriers to annuities provides savers with the option to guarantee an income for life. Qualified longevity annuity contracts (QLAC) help retirees ensure retirement solvency. Public policy should modernize the QLAC rules, by repealing the 25-percent account balance limit, increasing the eligible QLAC amount to $200,000 and making important changes to ensure spousal survivor rights.[16]

- **Institutionally Disadvantaged Savers:** For too long, racial injustice and systemic inequity have excluded communities of color from traditional pathways to financial security and created fewer opportunities for financial peace of mind. Everyone, no matter their age, job, income level, gender or race, deserves the chance to build financial certainty and Congress should look for ways to collaborate with critical industries in order to drive solutions that address systemic inequities by investing in underserved communities, advancing financial education, and removing barriers to access.

- **Low Income Earners:** While the current Saver's Credit allows low- and middle-income earners a tax credit, RSSA would significantly improve the incentive by expanding those eligible for the credit, making the credit refundable, and contributing it directly to a retirement plan or Roth IRA.[17]

- **Part-time Workers:** Part-time workers have historically had less access to and lower participation in retirement plans. Currently, only 39 percent of part-time workers have access to a retirement plan at work.[18] With the enactment of the SECURE Act, current law now requires employers to allow long-term, part-time workers with at least 500 hours of service in three consecutive years to participate in their 401(k) plans. RSSA expands eligibility to those with at least 500 hours of service in *two* consecutive years.

3. Additional Plan Innovations

While the SECURE Act certainly made a large impact on the retirement savings landscape, small changes can further enhance and improve the current retirement system. These include:

- Expanding of the Open Multiple Employer Plans (Open MEPs) provision to include 403(b) plans sponsored by certain tax-exempt employers and public educational institutions.

- Clarifying rules applicable to stable financial planning tools that can meet savers' financial needs. Currently, there is ambiguity surrounding fiduciary liability as it relates to general account funds. Insurance companies offer guaranteed principal and interest through these conservative, insured instruments. Backed by the insurer's general assets, general account products often provide higher rates of return than other fixed return and stable value investment vehicles. Many employers include them among the investment options available to their retirement plan participants. Large sums of 401(k)

[15] S. 1770, The Retirement Security and Savings Act of 2021. H.R. 2954, The Securing a Strong Retirement Act of 2021.
[16] S. 1770, The Retirement Security and Savings Act of 2021. H.R. 2954, The Securing a Strong Retirement Act of 2021.
[17] S. 1770, The Retirement Security and Savings Act of 2021, introduced in the 117th Congress by Senators Portman (R-OH) and Cardin (D-MD). H.R. 2954, The Securing a Strong Retirement Act of 2021, introduced in the 117th Congress by Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX).
[18] Bureau of Labor Statistics, National Compensation Survey 2020, https://www.bls.gov/news.release/ebs2.t01.htm

assets are invested in these products. It is critical that Congress provide clarity to permit these stable, safe arrangements to continue.

- Supporting legislative efforts, like the Lifetime Income for Employees Act, bipartisan legislation introduced in the 116th Congress by Representatives Don Norcross (D-NJ) and Tim Walberg (R-MI). This bill would remove a barrier that prohibits annuities from being offered as a default investment option in workplace retirement plans.[19]

- Facilitating emergency saving to ensure Americans have funds to cover unexpected financial challenges while protecting critical long-term retirement savings. Several proposals have been introduced in the Senate.[20]

- Reinforcing of the value and benefits associated with modern, electronic delivery of retirement plan documents and notices, while ensuring an opt-out option for plan participants. COVID-19 has demonstrated that access to important documents electronically is a critical need of Americans.

CONCLUSION

Providing Americans, especially older Americans, with greater access to retirement savings tools will help them better prepare for retirement. Many retirees can expect to live more than 30 years or longer in retirement. Facilitating lifetime income solutions and increasing financial education empowers and educates Americans to make better decisions. By taking action now, Congress has an opportunity to help more people retire with peace of mind. ACLI urges policymakers to support and enhance the current retirement system. We and our members stand ready to assist the Congress in this worthwhile endeavor.

[19] H.R. 8990, The Lifetime Income for Employees Act, introduced in the 116th Congress by Representatives Don Norcross (D-NJ) and Tim Walberg (R-MI).

[20] S. 1870, The Enhancing Emergency and Retirement Savings Act of 2021, introduced in the 117th Congress by Senators James Lankford (R-OK) and Michael Bennet (D-CO). S.1019 - Strengthening Financial Security Through Short-Term Savings Accounts Act of 2019, introduced in the 116th Congress by Senators Doug Jones (D-AL), Tom Cotton (R-AR), Cory Booker (D-NJ) and Todd Young (R-IN).

AMERICAN BENEFITS COUNCIL

WRITTEN STATEMENT

FOR THE HEARING OF THE SENATE SPECIAL COMMITTEE ON AGING

ENTITLED

A FINANCIALLY SECURE FUTURE: BUILDING A STRONGER RETIREMENT SYSTEM FOR ALL AMERICANS

NOVEMBER 4, 2021

The American Benefits Council (the "Council") thanks Chairman Portman and Ranking Member Brown and all members of the subcommittee for holding this hearing regarding the challenges to American retirement security. We also thank Chairman Portman and Senator Cardin for their decades of leadership in the retirement area, including their most recent bill, discussed below. The leadership of Committee Chairman Grassley, Ranking Member Wyden, Ranking Member Brown and all Members of the Committee have also been instrumental in the great bipartisan strides we have made in this area.

The private retirement system has helped millions of Americans achieve retirement security. According to a post-election poll conducted by Public Opinion Strategies in the recent presidential election, a majority of voters trust employers the most in helping them achieve a secure retirement and a majority of voters believe that the standards for employer-provided benefits should be established at the federal level. The Setting Every Community Up for Retirement Enhancement (SECURE) Act enacted in 2019 was a major step forward in meeting the challenges faced by Americans in achieving a secure retirement. Even so, the system can be further improved and strengthened and there are numerous existing bipartisan proposals – several of which are discussed below – that we believe can help achieve that result.

The American Benefits Council is a Washington D.C.-based employee benefits public policy organization. The Council advocates for employers dedicated to the achievement of best-in-class solutions that protect and encourage the health and financial well-being of their workers, retirees and their families. Council members include over 220 of the world's largest corporations as well as organizations serving employers of all sizes. Collectively our members directly sponsor or administer health and retirement benefits for virtually all Americans covered by employer-sponsored plans.

KEY BIPARTISAN PROPOSALS FOR IMPROVING RETIREMENT SECURITY

There are many retirement policy proposals that are worthy of discussion. We are highlighting several that Council members have identified as important reforms that build on the SECURE Act and significantly help American workers better prepare for retirement. Many of the proposals below are included in both the Retirement Security and Savings Act of 2021 (S. 1770, the "Cardin/Portman" bill) and the Securing a Strong Retirement Act of 2021 (H.R. 2954, the "Neal/Brady" bill, as approved by the House Ways and Means Committee). Some proposals not included in either of those bills should be considered as well. Some of the proposals are additionally found in other legislation, such as the Retirement Parity for Student Loans Act (S. 1443, the "Wyden student loan" bill) and the Retirement Savings Lost and Found Act (S. 1730, the

"Warren/Daines missing participants" bill).

Self-correction procedures

Plan sponsors should generally be permitted to self-correct inadvertent plan violations under the IRS' Employee Plans Compliance Resolution System (EPCRS) without a submission to the IRS or a fee payable to the IRS. This will help employees because errors can be corrected more quickly and more efficiently. Under a proposal included in the Cardin/Portman bill and the Neal/Brady bill, all inadvertent plan violations could be self-corrected under EPCRS without a submission or fee to the IRS, provided that this rule would not apply if the IRS discovers the violation on audit and the employer has not at that point taken actions that demonstrate a commitment to correct the violation. These bills, which we strongly support, would also make improvements to the self-correction process that would make self-correction a more reliable and effective process.

Recent IRS guidance expands the inadvertent errors that may be self-corrected under EPCRS without a submission to the IRS but does not achieve the full goals of the bills, which would allow substantially all inadvertent errors to be self-corrected. We highly recommend Congress take this additional step to make self-correction as broadly available as possible.

Reducing barriers to saving through student loan repayment programs

The burden of student loan debt serves as an unfortunate barrier to saving for retirement. Given the benefit of compound interest, putting money away early in one's career — especially through an employer-provided plan with matching contributions and low fees — can have a powerful effect on one's retirement savings account balance at retirement age. But student debt prevents many individuals, especially in their 20s and 30s, from saving optimally for retirement.

Many employers are interested in helping employees save for retirement despite student tuition or debt obligations and are considering a variety of innovative approaches to do so. We urge Congress to support these programs with policies that embrace innovation.

For example, the Council supports proposals that would make it easier for employers to provide matching contributions to 401(k) retirement plans based on an employee's student loan payments. Such a provision is included in the Wyden student loan bill. The Wyden student loan proposal is also included in Cardin/Portman, Neal/Brady and the Retirement Parity for Student Loans Act of 2021 (H.R. 2917). Measures like these that would leverage the tax laws and behavioral economics would go a long way toward reducing barriers to retirement savings particularly for younger workers. Just like saving early, enacting supportive policy as soon as possible will have a positive effect on retirement outcomes.

We are also supportive of other proposals to give employers greater flexibility in helping their employees with student loan debt, including making permanent provisions that make it easier for employers to pay down student loans for their employees without triggering taxable income for their employees, up to an annual limit of $5,250 on the total of such repayments as well as other educational assistance.

PEP and "group of plan" reforms

Policymakers are constantly searching for ways to improve retirement plan coverage and Council members believe that the best way to do so is to build on the employer-based system. Open multiple employer plans (called "pooled employer plans," or PEPs) present a significant opportunity to do so. Much was accomplished in the enactment of the SECURE Act but additional reforms can make PEPs even more effective in expanding coverage, reducing costs, ensuring consistent participation and providing a solid retirement. We note the following proposals:

- **Provide the same PEP advantages to charities, churches and public educational institutions:** Currently, the PEP provisions in the SECURE Act do not cover 403(b) plans, which are widely used by charities, churches and public educational organizations (the only entities permitted to maintain such plans). We support the expansion in Neal/Brady and the Improving Access to Retirement Savings Act (S. 1703) of the PEP provisions to cover 403(b) plans, so that these entities can enjoy the same new economies of scale being made available to taxable employers.

- **Service Crediting:** Under a MEP that is not a PEP (a "closed MEP"), if an employee works for one employer in the MEP and then moves to another employer in the MEP, the employee's service with the first employer counts with the second employer and vice versa.

  - **PEPs:** The service crediting rule makes sense in the context of a closed MEP where employees are moving among closely related employers. But in the context of a PEP, it does not make sense. For example, why should a hardware store in Maine have to make a new employee immediately eligible and immediately vested based on prior service by the same employee for a barber shop in Nevada, just because the two employers participate in the same PEP?

  - **Statute and policy:** The statute is not clear on whether the MEP rule applies to PEPs. In our view, it should not. From a policy perspective, the growth of PEPs and the expansion of coverage would be inhibited if the MEP rule applied to PEPs.

  - If small employers know that, for example, they may need to treat new hires as immediately eligible and immediately vested that could mean fewer small employers join PEPs, undermining the extent of the coverage expansion. This is because the potential additional expenses of applying the service crediting rules across the entire PEP could erase cost savings obtained elsewhere for the PEP through economies of scale and tracking service crediting based on an employee's previous employers does little to advance administrative simplicity and cost savings.
  - Similarly, many employers would likely be concerned to learn that, under a PEP, a short-term employee who left after a couple of years could become 100% vested later by reason of working for an unrelated employer. Again, this has cost implications.

- **Trustee duties:** SECURE requires the trustee of a PEP "to be responsible for collecting contributions" to the PEP.
  - **Different business models**: Based on the input we have received, there are different business models that may be used with respect to the collection of contributions to the PEP. Under one business model, the trustee would be responsible for collecting contributions. Under a second business model, the PEP would use a directed trustee, which would not have any fiduciary expertise or any administrative system that could be used to enforce or oversee the collection of contributions. If the trustee in this second business model were forced to take on this responsibility, it would have to establish new systems to perform a new function, which would trigger unnecessary costs and delays in implementing PEPs.
  - **Flexibility would expand coverage:** We believe that it is important to accommodate both business models, so that PEP coverage can be expanded to the greatest extent. Accordingly, we ask that that Congress treat PEPs in the same way as all other types of plans. PEPs should be permitted to assign contribution collection responsibility to the entity best suited to this task, which will often be the pooled plan provider. This legislative solution would simply permit the collection process to be assigned to other fiduciaries, which would facilitate the use of the fiduciary with the most experience and expertise in this regard.
- **Groups of plans that are permitted to file a single Form 5500 under Section 202 of the SECURE Act:** Under current law, generally, a Form 5500 for a defined

contribution plan must contain an opinion from an independent qualified public accountant as to whether the plan's financial statements and schedules are fairly presented (referred to below as the "audit requirement"). However, generally, no such opinion is required with respect to a plan covering fewer than 100 participants.

- A group of plans that fits within the SECURE Act provision (referred to as a "defined contribution group" or DCG by the U.S. Department of Labor and the U.S. Treasury Department in recently proposed revisions to Form 5500) may contain some plans that are subject to the audit requirement and some that are not. Under the proposed change, plans which are subject to the audit requirement may elect to jointly file a single audit as if they were part of the same plan, but the audit requirement and expense would not be imposed on the small plans. As an alternative, to further simplify the administration of the group of plans and to enhance security, the plan administrator may elect to treat all the plans in the group as one plan for purposes of the audit requirement – including the small plans upon which the requirement would otherwise not be imposed. The latter election would simplify plan administration by accommodating a wider variety of coverage solutions being developed in the marketplace. These options with respect to the audit requirement are critical in minimizing the plan sponsor expenses associated with participating in a group of plans' single Form 5500 filing and furthering the goals of Section 202 of the SECURE Act.

Improving required retirement plan reports and disclosures

Under current law, employer-sponsored retirement plans and IRAs are required to provide a variety of reports and disclosures to participants at various times or upon the occurrence of specified events. The Council believes there is a significant opportunity to improve both the content and the timing of required disclosures in a manner that provides for more effective and meaningful communications to participants and account owners, while also decreasing administrative costs for plans and IRAs.

We support bipartisan proposals to take such steps, such as a proposal included in both the Cardin/Portman bill and the Neal/Brady bill. That proposal would direct the Treasury Department, the U.S. Department of Labor and the Pension Benefit Guaranty Corporation (PBGC) to review the reporting and disclosure requirements and make recommendations to Congress to consolidate, simplify, standardize and improve these participant communications.

A related issue that we urge the committee to consider is one that affects those plan participants who are *not enrolled in the plan* but who nevertheless are considered participants because they are *eligible* to enroll in the plan. Under current law, even non-enrolled participants are required to receive the same reports and disclosures as participants who are enrolled in the plan. Because these non-enrolled participants are receiving plan communications that do not relate to them, the Council strongly supports the proposal in both the Cardin/Portman bill and the Neal/Brady bill under which non-enrolled participants would not be required to receive the unnecessary notices that they receive under current law. Instead, such participants would receive an annual reminder of their eligibility to participate in the plan.

Stop indexing the PBGC variable rate premium for single-employer plans

A bipartisan proposal aimed at addressing concerns over PBGC premiums, which are a factor in causing employers to fully or partially terminate their plan, is included in the Cardin/Portman bill. Today, single-employer defined benefit plans pay both a per-participant flat-rate premium and a variable-rate premium to the PBGC each plan year. Both types of premiums are currently indexed. But indexing the variable-rate premium does not make sense because the variable-rate premium is calculated based on the plan's unfunded vested benefits, an amount that is inherently indexed. As a result, indexing the variable-rate premium will eventually lead to companies owing 100%, 200% or even more of their underfunding to the PBGC. The Cardin/Portman bill would address this by eliminating the indexing of the variable-rate premium and freezing such rate at the 2018 premium level ($38 per $1,000 of unfunded vested benefits).

Permitting higher catch-up contributions for older Americans

Even though most Americans understand the benefit of saving for retirement throughout their working years, younger workers, in particular, often face competing financial priorities, such as buying a home, paying off student loans and raising a family. These expenses can make it challenging for many workers to prioritize saving for retirement until their 40s, 50s or even 60s. In 2021, most employees are generally limited to making elective deferrals of $19,500 to a 401(k), 403(b), or governmental 457(b) plan ($13,500 with respect to SIMPLE IRAs and SIMPLE 401(k)s). But individuals age 50 and older may make a "catch-up" contribution of an additional $6,500 ($3,000 for SIMPLEs). To give workers nearing retirement age an even greater ability to better prepare for retirement, the Council supports the provisions in the Cardin/Portman and Neal/Brady bills that would increase the catch-up contributions for certain older workers.

Increasing the age at which RMDs must begin

The Council believes it is important that retirees be allowed to retain their savings in retirement accounts as long as possible to help protect against the risk of retirees depleting their retirement savings during their lifetime. We therefore urge the committee to support bipartisan proposals such as those in the Cardin/Portman and

Neal/Brady bills that would further increase the age at which participants and IRA account owners must begin taking RMDs to age 75.

Pension Surplus Health Benefits

The Council supports the provision included in the Cardin/Portman bill that ensures the law permitting surplus pension assets to be used for retiree health and life insurance benefits continues to be available to fund these benefits. Current law (Section 420 of the Internal Revenue Code) allows a portion of a generously overfunded defined benefit pension plan's surplus assets to be used to fund retiree welfare benefits (health care benefits and group life insurance coverage) for the plan's retirees. Extending this provision and making it more usable by companies would provide a prudent financial funding resource and protect these important participant benefits.

Reforming the rules regarding inadvertent overpayments to participants

The complexity of administering a retirement plan can result in a plan incorrectly calculating benefit payments for a participant, especially in a defined benefit plan. Sometimes these errors result in an overpayment being made to a participant. IRS correction procedures in some cases require plans to seek to recoup from participants a discovered overpayment, sometimes months or even years after the overpayment was made to the participant. This often causes significant distress for participants – many of whom are retirees – who had no idea that the plan incorrectly calculated their benefits. Further complicating matters, in many cases an overpayment was rolled over to an IRA or another plan because the participant believed that such amount was eligible for rollover treatment when, in reality, it was not.

In some circumstances under EPCRS a plan sponsor may correct for an overpayment without seeking recoupment from the participant. Recent guidance improves the rules governing overpayments but does not resolve major challenges, such as the ability to roll over an inadvertent overpayment and does not provide important participant protections. The Council's members believe that additional steps to protect retirees should be taken and therefore the Council strongly supports provisions in the Neal/Brady and Cardin/Portman bills that would permit employers not to seek recoupment from the participant and would permit rollovers of inadvertent overpayments.

Expansion of electronic disclosure of plan communications

Department of Labor regulations give plan sponsors the option to provide required notices and statements in an electronic format while providing participants with appropriate protections and the right to receive paper copies of notices at no charge. The Council strongly supported updating the means by which plan sponsors can fulfill their disclosure requirements. We believe that electronic communication can improve employee engagement and help them take more effective and timely action. Bipartisan proposals that restrict this option should be carefully measured against these goals and should be designed to resolve a specific problem so as not to undermine the goals.

Similarly, we support retirement plan proposals to allow remote notarization with strong safeguards to protect participants and spouses. This was acutely necessary during the pandemic and is currently allowed on a temporary basis through June 30, 2022 following a one-year extension of temporary guidance provided by the IRS. The success of this system – in terms of efficiency, protections and flexibility – on a temporary basis and its recent extension provide a solid basis for making this rule permanent.

Missing participants

Our members devote a great deal of effort and financial resources to sponsoring retirement plans and to searching for those who have unclaimed benefits. We wholeheartedly share the goal of reuniting plan participants with their retirement benefits.

In this regard, we welcomed the introduction of missing participant legislation in Neal/Brady, Cardin/Portman and Warren/Daines, which addressed the missing participant issue. The Department of Labor has issued guidance, in the nature of best practices, but more is needed because the guidance does not help employers know what should be done to find a missing participant. The Council believes strongly in the need for comprehensive guidance on plan fiduciary responsibilities with respect to unresponsive and missing participants.

The bills also include a provision that would use data that employers are already required to report to the Treasury Department to create a national, online lost and found for Americans' retirement accounts. In addition, the Department of Labor would be directed to develop standards for determining if an employer has satisfied its fiduciary responsibilities with respect to missing participants; in our view, all agencies involved should develop the standards jointly, including the Treasury Department and PBGC.

We also believe that the bills would require transfers to a new government program of benefits that are currently being transferred to automatic rollover IRAs – a private sector solution that is working well. We recommend modifying the government program to supplement private sector solutions, rather than taking them over. And it should be clear that, once a plan does not contain any benefits on behalf of a participant, the plan fiduciaries should have no further duty to search for that participant.

We look forward to continuing to work with Congress on these issues. Our members' extensive experience with missing and lost participants provides a valuable resource for policymakers, including input with respect to strategies to improve consistency among agencies with regulatory authority for missing and unresponsive participants.

New "secure deferral arrangement" automatic enrollment safe harbor

A significant retirement policy success in recent years has been encouraging plan sponsors to automatically enroll their employees in a retirement plan at a default contribution rate and then to periodically increase that rate over time. But as successful as these automatic enrollment and automatic escalation features have been to date, policymakers are now looking at options to continue building on their success.

Under the existing automatic enrollment safe harbor, plans are generally deemed as meeting certain nondiscrimination testing rules if certain criteria are met, including that employees are automatically enrolled at a contribution rate of at least 3% of compensation in the first year and such rate must increase by at least 1% a year until the contribution rate is at least 6% (but not greater than 15%) by the fourth year.

The Council encourages the committee to consider proposals that would build upon the existing safe harbor by adding a new automatic enrollment safe harbor for "secure deferral arrangements." A secure deferral arrangement would, among other features, provide for a higher default contribution rate in the first year (i.e., at least 6% but not greater than 10%) and would remove that 10% cap on default deferrals after the first year. Such proposals have been included in the Cardin/Portman bill, S. 1703 and the 2017 Neal bill.

Emergency savings

The pandemic has highlighted the longstanding need for Americans to save for emergencies. We believe that this can be done in a way that protects and enhances retirement security. In that regard, we were very pleased by the introduction of the Enhancing Emergency and Retirement Savings Act of 2021 (S. 1870).

The bill allows a retirement plan, such as a 401(k) plan, or IRA to be accessed for a small amount in the case of emergency without any penalty. As a result of knowing they have access to a modest amount in case of an emergency, individuals will be more likely to contribute to the plan or IRA and often will end up not having to make emergency withdrawals, thus enhancing their overall retirement security while improving their financial resilience.

There are a number of ways to improve emergency savings that the Council supports, including programs outside of the retirement plan and we look forward to a continued dialogue about how to further improve emergency savings and strengthen personal financial security. However, this bill is an important step towards addressing the critical problem faced by many Americans by offering a solution that harnesses the successful 401(k) or similar plan structure that utilizes payroll deduction and allows for recontribution.

Remove limitations on subsidies resulting from accumulation of retirement assets

Effective retirement saving can improve overall health and financial well-being. Individuals and families should not be penalized for preparing for retirement. The Council urges the committee to support legislation that would exclude current retirement plan assets and future retirement plan benefits from eligibility calculations for state and federal housing and food subsidies.

ABLE programs

The Council supports provisions that address the needs of eligible ABLE individuals. A bipartisan House bill (H.R. 4672) introduced by Representatives Suozzi and Wenstrup would allow such individuals to elect to have employer retirement contributions made to their ABLE program instead, which is designed to suit their unique needs more effectively than a retirement account.

Parity for cooperative and small employer charity (CSEC) organizations

The SECURE Act, the Neal/Brady bill and the Cardin/Portman bill together include numerous very helpful tax credits as incentives for taxable companies to start a plan or to adopt certain pro-participant features. For example, the following very beneficial proposals are either in the law or being considered:

- The SECURE Act increased the cap on the small business start-up credit from $500 to $5,000.
- The SECURE Act provided a three-year $500 small business tax credit for adopting automatic enrollment.
- Neal/Brady would increase the start-up credit in two very material ways:
    - Increase the credit from 50% to 100% of start-up costs for companies with up to 50 employees.
    - Provide a contribution-based credit that could be worth over $100,000 over five years, depending on the size of the business.
- Cardin/Portman would provide a five-year tax credit for small businesses that adopt a new type of safe harbor automatic enrollment 401(k) plan.

- Similar to Neal/Brady, Cardin/Portman would enhance the small business start-up credit by increasing it from a credit equal to 50% of start-up costs to a 75% credit for the smallest employers.

- Cardin/Portman would provide a three-year $500 small business credit for adopting automatic re-enrollment.

Unfortunately, tax-exempt organizations do not receive any of these credits, so the significant help — well over $100,000 in total in some cases — that the credits provide is not available to tax-exempt employers. Moreover, tax-exempt organizations do not pay any less to set up a plan.

We strongly believe that something needs to be done to level the playing field to treat tax-exempt organizations more fairly. We also recognize that addressing this issue in a comprehensive way for all tax-exempt organizations is a broad project that will require further work and consideration. But we believe that it is appropriate to start the legislative process with a small but important step and therefore support a proposal that would provide tax credits to employees in CSEC plans.

A consistent federal framework

We have one key point in conclusion. The fundamental basis for an effective private retirement system is the ability to rely on the single set of national rules applicable to designing and operating retirement plans, especially for companies that operate in more than one state. These rules can be found in Section 514 of the Employee Retirement Income Security Act of 1974 (ERISA). There is no greater threat to the health of the private retirement system than a possible erosion of this principle of current law. We urge Congress to work with us to support and enforce the federal nature of the rules governing qualified retirement plans.

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The ability to save for retirement is a critically important part of Americans' sense of economic security. Employer-provided retirement plans are a uniquely positive influence on one's financial well-being in retirement. Public policy should therefore encourage participation and adequate savings in these plans whenever possible.

We thank the committee for holding this hearing and for a long history of dedicated bipartisan work on protecting and enhancing the private retirement system. We look forward to continuing to work with the committee on this critical endeavor.

STATEMENT FOR THE RECORD
ON BEHALF OF AARP

SUBMITTED TO THE

UNITED STATES SENATE
SPECIAL COMMITTEE ON AGING

ON

A FINANCIALLY SECURE FUTURE: BUILDING A STRONGER RETIREMENT SYSTEM FOR ALL AMERICANS

October 28, 2021

AARP
601 E Street, NW
Washington, DC 20049

For further information, contact:
Michele Varnhagen
AARP Government Affairs
(202) 434-3829

Introduction

On behalf of our 38 million members and all older Americans nationwide, AARP would like to thank Chairman Casey and Ranking Member Scott for holding a hearing to consider needed improvements to the U.S. retirement system for American workers, retirees, and their families. AARP is committed to expanding retirement savings so all Americans have adequate income for retirement through Social Security, pensions, and private savings. We appreciate the Committee's leadership on U.S. retirement system development and improvement. AARP has worked closely with the Committee over decades, and we look forward to continuing to work together to expand coverage and adequacy for all workers and retirees.

Impact of COVID-19 on Current Workers and Their Retirement

Millions of families continue to face dire financial circumstances as a result of the pandemic and related workplace closures. In a matter of months, the national unemployment rate climbed from 3.5 percent in February 2020 to an historic high of 14.7 percent in April. And while the unemployment rate has since declined to 4.8 percent,[1] the percentage of jobseekers who are long-term unemployed (i.e., those who have been looking for work for 27 weeks or more) remains a serious concern, with older workers being especially hard hit. In September 2021, 34.2 percent of jobseekers ages 16 to 54, and 48.9 percent of jobseekers ages 55 and older, were long- term unemployed.[2]

As a result, many workers continue to have little choice but to take actions that reduce their long-term retirement security in order to make ends meet. Some individuals have been forced to retire earlier than planned because they were unable to return to work due to legitimate health concerns or because their jobs simply no longer exist. According to a June 2020 survey, nearly a quarter (23 percent) of respondents age 55 to 73 have retired early, or considered retiring early, because of the pandemic.[3] Nearly one in four adults ages 25 and older surveyed by AARP dipped into their retirement savings or stopped contributing to their retirement accounts during the height of the pandemic.[4] Earlier retirements and emergency withdrawals from retirement accounts will likely prevent these workers from accumulating additional years of wages and savings, resulting in reduced pensions and lower monthly Social Security benefits for life, as well as the need to spend down their retirement savings earlier than anticipated.

Americans of any age who are fortunate enough to have a retirement savings vehicle like a 401(k) plan or an individual retirement account (IRA) may now be unable to

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[1] Bureau of Labor Statistics, Economic New Release, The Employment Situation, September 2021, https://www.bls.gov/news.release/pdf/empsit.pdf.
[2] AARP Public Policy Institute's Employment Data Digest, September 2021, https://www.aarp.org/ppi/info-2020/employment-data-digest.html.
[3] TD Ameritrade, "COVID-19 & Retirement Survey," June 2020, https://s2.q4cdn.com/437609071/files/doc_news/research/2020/covid-19-and-retirement-survey.pdf.
[4] Kathi Brown, How Financial Experiences During the Pandemic Shape Future Outlook, Washington, DC, AARP Research, April 2021, https://doi.org/10.26419/res.00450.001.

contribute to these accounts, or worse, have a need to tap them to pay for essentials. According to one survey, 37 and 40 percent of millennials, 26 and 32 percent of Gen X, and 13 and 18 percent of Boomers have withdrawn, or considered withdrawing, from an individual retirement account or a 401(k) plan.[5] Doing so, however, forces them to reduce what are likely already inadequate savings, sacrificing future amounts necessary for a secure retirement. Many who have lost jobs have also lost health insurance and have faced increased costs for both health care coverage and treatment.

These COVID-related pressures only add to other challenges that have accelerated in recent decades, including diminishing employer-sponsored pensions, higher health care costs, and inadequate retirement savings. Consequently, the prospects of a secure retirement for millions of workers will be even more precarious following the pandemic, and more Americans of all ages will need to rely even more on Social Security's modest benefits for an even greater portion of their retirement security.

Importance of Social Security

According to the Social Security Administration (SSA), an estimated 175 million[6] Americans paid into Social Security in 2020,[7] and in September 2021,[8] Social Security provided critical retirement, disability and survivor benefits to almost 65 million individuals.[9] Social Security is already the principal source of income for over half of older American households receiving benefits and roughly one quarter of those households, or about 10 million people aged 65 and older, depend on Social Security for nearly all (90 percent or more) of their income.[10] The reliance in minority communities is even more pronounced; over 36 percent of African American women in families receiving benefits rely on Social Security for almost all of their income, and 34 percent of older Hispanic women do the same.[11]

Despite its critical importance, Social Security's earned benefits are modest and in September 2021, averaged only $1,560 per month for all retired workers. Disability benefits are even more modest, averaging $1,281 per month.[12] Nonetheless, Social

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[5] TD Ameritrade, "COVID-19 & Retirement Survey," June 2020, https://s2.q4cdn.com/437609071/files/doc_news/research/2020/covid-19-and-retirement-survey.pdf.
[6] Social Security Administration, "The 2021 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," August 2021, https://www.ssa.gov/OACT/TR/2021/tr2021.pdf.
[7] Social Security Administration, "The 2020 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," April 2020, www.sss.gov/news/press/factsheets/basicfact-alt.pdf.
[8] Social Security Administration, Monthly Statistical Snapshot, October 2021, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/.
[9] Social Security Administration, Monthly Statistical Snapshot, June 2021, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/index.html?qs.
[10] AARP Public Policy Institute Data Explorer, https://dataexplorer.aarp.org.
[11] Ibid.
[12] Social Security Administration, Monthly Statistical Snapshot, October 2021, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/.

Security keeps approximately 15 million older Americans out of poverty[13] and allows millions more to live their retirement years independently and without fear of outliving their income.

For most Americans, Social Security is the only inflation-protected, guaranteed source of retirement income they will have. We must therefore work together – and sooner rather than later – to ensure Social Security remains strong, not only for those who are at or near retirement, but also for younger generations who will likely rely on Social Security benefits as much or even more due to the effects of COVID-19 and other retirement trends.

The Retirement Income Gap

For more than half a century, a secure retirement in the United States centered on reliable income from three sources, the so-called "three-legged stool" of retirement – employer-provided defined benefit pension plans, personal savings, and Social Security. Together, these sources of income offered a stable financial future. Unfortunately, diminishing pensions and inadequate retirement savings – coupled with longer life expectancies and higher health costs – has endangered the dream of a secure retirement for millions of Americans, and without significant action, will likely require Social Security to play an even greater role in the lives of older Americans.

Defined Benefit (DB) pension plans once dominated the employment landscape. In 1983, roughly 60 percent of workers with an employer-sponsored retirement plan had a DB pension plan; by 2020, however, just 18 percent of full time, private sector workers had access to a DB pension.[14] At the same time that fewer workers have been offered a pension with guaranteed lifetime income, more workers have been offered defined contribution (DC) plans – such as 401(k) plans – to save for their retirement. In 1983, only 12 percent of workers offered a workplace retirement plan were exclusively offered a DC plan, but by 2020, 73 percent of workers offered a workplace retirement plan were only offered a DC plan.

The switch from DB to DC plans has important implications for retirement security. First, employees now must take responsibility for determining if and how much to save, and must manage their retirement funds, even though most have little or no investment experience. As discussed below, automatic enrollment and similar features help with these decisions, but not all DC plans include these mechanisms. Second, retirees run the risk that they may either outlive the savings in a DC plan because account balances run out, or they fail to spend them for fear that the money will be needed for some future emergency, resulting in a lower retirement standard of living than possible.[15] Third,

[13] Kathleen Romig, Center on Budget and Policy Priorities analysis of data from the U.S. Census Bureau's March 2019 Current Population Survey, February 2020, https://www.cbpp.org/research/social-security/social-security-lifts-more-americans-above-poverty-than-any-other-program.
[14] National Compensation Survey, March 2020, https://fas.org/sgp/crs/misc/R43439.pdf.
[15] Chris Browning, Tao Guo, and Yuanshan Chen, The Retirement Consumption Gap: Evidence from the HRS, November 2014, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2479021.

despite the increased use of DC plans, financial experts generally agree individual savings and earnings may not fully compensate for the loss of employer provided DB pensions.[16]

Most workers who only have access to a workplace savings plan are not saving enough to adequately fund a secure retirement. For middle-income households ages 55-64 with a DC plan or IRA, the median balance is roughly $144,000, not nearly enough to ensure a secure retirement, especially given that the average number of retirement years has increased markedly from 12 in the 1960s to almost 20 today.[17] It is no wonder that surveys persistently show that Americans do not feel financially prepared to retire. A Financial Health Network poll, funded in part by AARP, found that only 18 percent of respondents felt very confident they could meet their long-term financial goals, including retirement.[18]

Of course, access to a workplace retirement plan is better than none at all. Remarkably, just over half of all workers in the United States do not have access to a retirement plan at work,[19] a percentage that has remained largely unchanged for three decades. The coverage gap in communities of color is even greater; 66 percent of Latino workers, 52 percent of Asian American workers, and 50 percent of Black workers work for an employer that does not offer a retirement savings plan.[20] Workers without a plan are more likely to work part-time or work in a small business, tend to have less formal education, and are more likely to be lower paid.[21] Many middle and higher-income earners also lack access to a workplace retirement plan; people earning more than $40,000 represent about 23 percent of the 55 million employees without a plan.[22]

The Future of Retirement Savings

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[16] Center for Retirement Research, "Investment Returns: Defined Benefit vs. Defined Contribution Plans," 2015, https://crr.bc.edu/wp-content/uploads/2015/12/IB_15-211.pdf.

[17] Center for Retirement Research (2019), "401(k)/IRA Balances for Median Working Household with a 401(k)/IRA, Age 55-64, By Income Quintile, 2019," http://crr.bc.edu/wp-content/uploads/2019/10/Table-17.pdf; Center for Retirement Research (2019), "Average Years in Retirement, 1962-2050," http://crr.bc.edu/wpcontent/uploads/2015/10/figure-10.pdf.

[18] Thea Garon, Andrew Dunn, Katy Golvala, and Eric Wilson (2018), "U.S. Financial Health Pulse: 2018 BaselineSurvey Results," Center for Financial Services Innovation, https://s3.amazonaws.com/cfsi-innovation-files- 2018/wpcontent/uploads/2019/02/25191008/Pulse-2018-Baseline-Survey-Results.pdf.

[19] When comparing coverage and participation statistics, it is important to look at which populations are being considered. Most studies cover private sector workers only but differ on including only full-time employees or both full and part time. Similarly, studies focusing just on employees don't include the millions of contingent workers of differing types, who may be paid by an employer, but who are not considered as employees and thus are not eligible to participate in a retirement plan.

[20] https://www.aarp.org/content/dam/aarp/ppi/2017-01/Retirement%20Access%20Race%20Ethnicity.pdf.

[21] Center for Retirement Research, "Pension Participation of All Workers, By Type of Plan, 1989-2016," http://crr.bc.edu/wp-content/uploads/2015/10/Pension-coverage.pdf; Craig Copeland (2014), "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013," Employee Benefit Research Institute (EBRI), Issue Brief 405, p. 27, Washington, DC.

[22] https://www.aarp.org/content/dam/aarp/ppi/2014-10/aarp-workplace-retirement-plans-build-economic-security.pdf.

For decades, Congress has enacted laws with the aim of making retirement saving easier. Congress has created many different types of plans for employers to offer their workers, including IRAs, SIMPLEs, Simplified Employee Pensions (SEPs), and Multiple and Pooled Employer Plans (MEPs/PEPs). Congress has also authorized a number of automatic features – including automatic enrollment, automatic deferral amounts, automatic escalation, and automatic default investments – to help workers who do not make affirmative decisions to begin saving for their retirement. Such automatic features and payroll deductions have resulted in significant higher savings. Among new hires, participation rates nearly double to 93 percent under automatic enrollment, compared with 47 percent under voluntary enrollment. Over time, 8 in 10 participants increase their contribution rates, either automatically or on their own, while three quarters of participants remain exclusively invested in the default investment fund. Furthermore, plans with automatic enrollment had an 87 percent participation rate as of the end of the second quarter, whereas plans without automatic enrollment had a participation rate of 52 percent. Since 2008, the average savings rate among employees automatically enrolled has risen from 4 percent to 6.7 percent, and 63 percent of automatically enrolled participants in the past 10 years have increased their savings rate.[23]

However, these automatic savings features can only help workers whose employers offer a workplace retirement plan, and as noted earlier, over 50 percent of the workforce lacks any workplace retirement coverage. A recent AARP survey[24] found overwhelming support for automatic retirement savings legislation. Nine in ten voters agreed that elected officials should support legislation for all workers to save from their paycheck, and support establishing a program to help workers save at work if their employer does not currently offer them a way to save. Expanding coverage for the tens of millions of workers without coverage continues to be a high priority, and AARP supports several approaches to extend retirement coverage in the workplace at both the federal and state levels.

State Work and Save Programs

To complement our work at the federal level and help address the coverage gap, AARP has focused on passing state-level Work and Save programs, which are intended to provide access to payroll deduction retirement savings options for workers who don't otherwise have a way to save for retirement at work. State-facilitated Work and Save programs, such as OregonSaves, CalSavers, and Illinois Secure Choice, are providing critical access to large, currently underserved populations, such as women, workers of color, and much of the contingent workforce, including gig workers. Such access is essential to addressing the retirement income gap because workers are 15 times more likely to save for retirement simply by having access to payroll deduction at work. While

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[23] Fidelity, August 2018, https://nam05.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.planadviser.com%2Fautomati c- enrollment-helping-participants-increase-retirement-savings%2F&data=02%7C01%7C%7C34dd87bd990145d2669c08d6d3fd5585%7Ca395e38b4b754e4493499a37de460a33%7C0%7C0%7C636929482340429841&sdata=FQXZs0ELy8txGgDLIfREGecvdvjKlpmFi ghaFYer8rA%3D&reserved=0

[24] Kathi Brown, Saving for Retirement at Work: Views of Voters Ages 25+, AARP Research, October 2021, https://www.aarp.org/research/topics/economics/info-2021/retirement-saving-work.html.

participation rates in traditional retirement plans have not budged in decades, Work and Save programs are leading a change for the better.

Nationwide, the majority of states have considered laws to address the retirement gap in their states through program legislation or studying the issue.[25] Oregon was the first state to launch a Work and Save program in 2017, followed by California and Illinois. These programs have had tremendous success. As of September 30, 2021, assets under management between these three states exceeded $333 million, with more than 400,000 funded accounts and more than 37,000 employers registered.[26] The momentum is not slowing down, and other states continue to pursue enactment and implementation of programs. Last year, even during the pandemic, Colorado and New Mexico passed full program legislation. This year, Virginia and Maine passed new program legislation, New York and Illinois passed significant program improvement bills dramatically increasing future participation rates, and California successfully defeated a lawsuit. States with program legislation like Vermont, Maryland, and Connecticut continue to work towards implementing a full and comprehensive program. Meanwhile, efforts are underway in a number of additional states, including North Carolina, Pennsylvania, Wisconsin, and Delaware.

These retirement savings programs generally operate much like 529 college savings plans and are operated through public-private partnerships. Notably, while employers facilitate payroll deductions, the retirement programs are not operated or overseen by employers and are not employer-sponsored retirement plans. Rather, employers are afforded the ability to offer access to a simple, plug-and-play retirement program to their workers, which only requires employers to disseminate information packets to their workers and facilitate payroll deductions, similar to what they must already do to remit taxes. Worker participation is easy, and contributions are typically automatic; however, worker participation remains voluntary, as they always retain the option to opt-out of the program at any time. How much a worker saves, if at all, is entirely up to them, as are investment decisions. Workers choose if they want to participate, how much they want to contribute, and the way in which they invest their money. When a worker changes jobs, their accounts are portable and can be taken with them.

Work and Save programs are designed to be self-sustaining and participant-funded – what an individual contributes to their account is what they get out of it, plus or minus investment gains and losses. These are not employer pension programs - states play the role of aggregating employers who otherwise would have to sponsor, pay for and manage a retirement plan, including choosing the investments and providers and incurring fiduciary responsibility. Work and Save programs can ultimately help U.S. taxpayers as well. By affording workers access to a simple way to save for retirement, fewer households will need to rely on social services, ultimately foregoing additional expenditures by the government. The U.S. could save an estimated $33 billion on public

[25] State Interactive Savings Retirement Map, September 2021, https://www.aarp.org/ppi/state-retirement-plans/savings-plans/.
[26] State Implementation Infographic, June 2021, https://cri.georgetown.edu/wp-content/uploads/2020/05/Infographic-20-05.pdf.

assistance programs between 2018 and 2032 if lower-income retirees save enough to increase their retirement income by just $1,000 more per year.[27]

Policies to Increase Retirement Savings

In addition to our state work, federal policies that further encourage automatic payroll deduction savings for workers who lack retirement coverage should be enacted. AARP has supported various efforts – at both the federal and state levels – to ensure individuals nationwide are covered by an automatic retirement savings system. AARP has been a long-time supporter of federal Automatic IRA legislation, most recently proposed in the Senate by Senator Whitehouse. We believe state programs should work in tandem with federal legislation to be most effective at offering enhanced coverage and more appropriate retirement investments. AARP has emphasized that federal legislation and regulations regarding retirement security should continue to encourage and allow for state enactment and implementation of these programs.

AARP also is supportive of the legislative efforts initiated by Senators Cardin and Portman and Chairman Neal and Ranking Member Brady, known as SECURE 2, and looks forward to working with the Congress to harmonize and update any final bill (the Retirement Security and Savings Act, S. 1770, and the Securing a Strong Retirement Act, H.R. 2954). Among other changes, the bills would extend greater coverage to more part-time workers and automatically enroll workers in new employer retirement savings plans once they have been in business for three years and employ more than 10 employees. As previously noted, automatic payroll deduction is a proven method of increasing coverage and participation.

AARP urges Congress to improve coverage for the 27 million part-time workers who generally are not covered by retirement savings plans. This is especially important for older workers and caregivers who often shift from full-time to part-time work or return to the workforce less than full-time due to caregiving responsibilities. Moreover, women are far more likely to work part- time than men -- two-thirds of part-time workers are women.[28] AARP supports Senator Murray's and Rep. Underwood's Women's' Pension Protection Act, Reps. Neal and Brady's Securing a Strong Retirement Act and Senators Cardin and Portman's Retirement Security and Savings Act, all of which would offer coverage to part-time workers after two years of employment.

In addition to extending coverage to more workers, Congress should also act to encourage greater savings for those who participate in workplace retirement plans. While defined benefit plans are generally designed to provide more adequate retirement benefits to longer service employees, defined contribution plans – like 401(k) plans – do not always lead to adequate retirement savings. The 2006 Pension Protection Act permitted employers to enroll employees automatically at a three percent contribution

[27] https://mcspolicycenter.umaine.edu/wp-content/uploads/sites/122/2017/03/final-aarp-report.pdf
[28] Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Household Data Annual Averages, Table 8: Employed and unemployed full- and part-time workers by age, sex, race, and Hispanic or Latino ethnicity, January 2019, https://www.bls.gov/cps/cpsaat08.htm.

level, but this has proven to be too low to fund a secure retirement.[29] AARP supports increasing the default contribution level to five or six percent, provided individuals always have the ability to select a different level. Retirement plan sponsors should also offer automatic escalation of employee contributions.

AARP supports improvements to the Saver's Tax Credit, and we appreciate Chairman Wyden's initiative to improve the credit. Created in 2001, the Saver's Credit is available to low- and moderate-income taxpayers who contribute to a retirement savings plan. Unfortunately, the Saver's Credit is woefully underutilized. From 2006 through 2014, between 3.25 percent and 5.33 percent of eligible filers claimed the credit, and the average value of the credit ranged from $156 to $174 over this time period. A series of changes – some small and others more substantial – would enable more of the tax credit's target population to benefit from the Saver's Credit to help build significant retirement resources. One beneficial change for low- and moderate-income savers would be to make the Saver's Credit refundable. This reform would especially reward saving among Latinos, who are least likely to be covered by a workplace retirement plan and are more likely to earn low incomes.[30] Other ways to strengthen the Saver's Credit are to raise the income thresholds and reduce the phase-out of the credit to create more value and reach more moderate-income filers.

AARP would also like to firmly address the issue of retirement plan disclosures. Along with fiduciary duty, retirement plan disclosure is a fundamental consumer protection of ERISA. Workers not only need current plan information, but often need past records of 30-40 years when future benefits are due. ERISA and the tax code require information to be disclosed to workers about the actions they need to take and the benefits they are earning. We agree with many critics of current disclosure documents that they should be shorter, simpler and more timely. We support efforts to streamline and improve retirement plan documents and disclosures. We also understand that changes in technology allow for more electronic disclosure.

However, we strongly oppose efforts to primarily provide all required disclosures electronically through generally time-limited website postings. Employers already may automatically provide electronic disclosures to workers who typically work with computers, but most plan participants prefer paper delivery of retirement information. A 2016 FINRA study showed that only 31 percent of respondents preferred receiving disclosures by email or through internet access; the remainder preferred physical mail (49 percent) or in person meetings (14 percent). Older respondents preferred paper documents, while younger respondents preferred in person meetings. There was no age differential between those who preferred to receive disclosures by email.[31] Moreover, the Pew Research Center found that a third of individuals aged 65 and older

[29] Carla Fried, The Problem with too-low 401k Contribution Rates, August 2017, https://www.cnbc.com/2017/08/02/the-problem-with-too-low-401k-contribution-rates.html.
[30] Retirment Security for Latinos, June 2005, http://publications.unidosus.org/bitstream/handle/123456789/888/32551_file_Retirement_security_brookings_Fact_Sheet_Final.pdf.
[31] FINRA, Investors in the United States 2016 at 14, December 2016, https://www.usfinancialcapability.org/.downloads/NFCS_2015_Inv_Survey_Full_Report.pdf.

do not use the internet, only half have broadband at home, and only approximately 40 percent own a smartphone. Among all adults, a third do not have high-speed internet at home and 13 percent only own a smartphone. Disadvantaged populations have even less access – approximately only half of rural Americans, African Americans, and Americans with a high school degree or less have broadband internet at home.

With such discrepancies in access, and a generally greater consumer preference for paper copies of important financial documents, it is crucial that important material be distributed in paper form and that electronic disclosure not become the default method of delivery. Full and meaningful disclosure is critical to retirement security and pension law, and Congress needs to ensure workers will receive and can review important retirement plan documents. A paper annual benefit statement, similar to the Social Security and Federal Employee statement of earned benefits, is essential to help employees better understand and successfully manage their plans and determine if they are on track for retirement. We applauded Chairman Wyden and Sen. Cassidy for taking the lead on retaining paper Social Security statements, and an annual paper statement for both public and private retirement benefits is potentially a more important consumer protection, as workers must manage their own retirement plans. AARP supports default paper delivery of annual benefit disclosures and supports the availability of electronic disclosures when a participant chooses an electronic option.

The bipartisan committee-passed House version of SECURE 2 includes an important requirement for an annual paper retirement earnings benefit statement, which AARP strongly supports, and which we urge the Senate bill to include as well. We are willing to work with interested Senators to address employee preferences and any other issues of concern.

We also note the need to establish a national retirement Lost and Found office to help workers locate retirement accounts with previous employers. This has become increasingly important as more and more workers change jobs several times over the course of their careers. There are at least 21.3 million inactive 401(k) plan accounts as of 2018, the latest year of full data from the Department of Labor Form 5500.[32] Senators Warren and Daines, and Reps. Bonamici, Messer, Banks, Neal, and Brady have introduced bipartisan bills to help workers find "lost" accounts. A Lost and Found office could help savers reclaim their investments and combine accounts to more appropriately invest their assets and lower their fees and expenses.[33] The Pension Benefit Guaranty Corporation (PBGC) is starting a preliminary effort matching individuals with former retirement accounts. Several other countries with similar types of retirement systems also are setting up such low-cost matching programs.

AARP is also continuing to examine provisions related to multiple/pooled retirement plans for employers, which were established in SECURE 1, including a new proposed

[32] The True Cost of Forgotten 401(k) Accounts, October 2021, https://hicapitalize.com/resources/the-true-cost-of-forgotten-401ks/.
[33] David C. John, Grace Enda, William Gale, J. Mark Iwry, October 2020, https://www.brookings.edu/wp-content/uploads/2020/10/Retirement-Security-Project-Dashboards-Oct-2020.pdf.

expansion to 403(b) non-profit plans. AARP supported pooled plans in large part because the SECURE Act required the Department of Labor to issue rules for the operation of these plans, including a model plan. However, while DOL several times solicited public comments, it has not yet issued any rules. As a result, some firms have registered to sell pooled plans, but without rules, neither the plans, nor employers or consumers know how they should operate or if they are operating fairly. Congress should ensure adequate guidance for pooled plans, including for non-profit 403(b) retirement providers, who are interested in adopting pooled plans. Relatedly, any legislation should consider the U.S. Supreme Court's review of 403(b) plan fiduciary compliance with ERISA, which is under review this term (Hughes v. Northwestern University). AARP urges the Committee to strengthen the requirements for pooled plans and ensure that any covered plans are governed by clear fiduciary standards for all plan providers.

AARP also looks forward to working with the Committee and interested members on a wide range of promising and needed additional retirement improvement ideas. As retirement savings has become more individualized and technology improved, new ways to create and maintain accounts over a lifetime are emerging. Retirement experts are just starting to understand the many ways in which economic and racial disparities affect retirement savings. A larger role for participants in retirement system design is likely to improve coverage of marginalized groups and improve benefits. From the ERISA Advisory Council to individual plan retirement committees, a greater role for covered employees and retirees would be beneficial to the system. Regular agency reporting on what works and better interagency coordination also should be considered. The Committee also should ensure that spouses are always protected and fully apprised of their benefit rights. Additionally, workers should always have full legal protections for their benefits, including de novo legal review.

Ensure Fiduciary and Account Retention Protections

For the millions of Americans who have access to a workplace savings plan and started to save for their retirement, Congress can do more to protect their hard-earned nest eggs. All tax-preferred retirement savings should be prudently invested, with reasonable fees and without conflicts of interest. While ERISA is clear that any person who exercises discretion over employee benefit plan assets must do so in a fiduciary capacity, efforts have been made to lower the important standards that protect retirement investors. Recently, the Securities and Exchange Commission (SEC) weakened financial adviser investment advice standards, and the Department of Labor adopted similar proposals. AARP strongly opposed those efforts and urges both agencies and Congress to restore ERISA's longstanding protections. A strong fiduciary standard should include the core principle that when providing personalized investment advice to customers, financial professionals must always act in the sole interests of those customers – whether they be employers acting on behalf of workers or the workers themselves. That fiduciary standard should be uniform for all financial professionals and should apply to all types of accounts to rectify the existing confusion among investors in the marketplace because of standards that are not uniform. These rules are especially important when workers terminate employment and help protect workers who may be considering rollovers from their ERISA protected savings to often less protected individual retirement investments.

Congress should also discourage pre-retirement cash-outs of retirement funds and instead encourage account portability and stable lifetime income streams, such as periodic withdrawal options and fixed lifetime annuities at retirement age. Too many workers cash out their savings when they change jobs or experience financial emergencies. While this may provide short-term relief, cash-outs create significant risk for diminished financial security for retirees and their spouses in the future. Cash-outs related to emergencies could be reduced if individuals could save in more liquid accounts or have greater access to accounts that have been created through regular payroll deduction.[34] Research shows that individuals with emergency savings accounts are 2.5 times more likely to be confident in their long-term financial goals.[35] Employer-facilitated emergency savings programs—some of which leverage existing retirement savings vehicles—are growing in popularity.[36] In a recent AARP survey, 87% of working adults said they support "laws that make it easier for employers to offer a safe and simple way for employers to save for emergencies."[37]

In addition, most defined contribution plans do not accept former account rollovers or permit contributions to be made to portable accounts to help workers consolidate savings. Most DC plans also do not offer fixed annuities or periodic payment options to help ensure that retirees have more adequate distribution options and do not outlive their money. AARP looks forward to working with the Committee and other groups to encourage asset preservation, portability, and to provide low-cost distribution and spend-down options that meet workers' needs.

Finally, AARP commends the Congress for enacting important legislation to protect the earned benefits of millions of workers and retirees counting on multiemployer pensions for their retirement security. While most multiemployer pension plans are well funded, over 100 plans – due to industry changes and market downturns, among other reasons – do not have enough assets and contributing employers to pay out full, earned pensions. Many retirees have already been devastated by significant reductions to their earned benefits, and over one million retirees and their families were at substantial risk of losing needed retirement income. While this was a difficult problem with no easy solution, the legislative support was critical to protecting the benefits of workers and retirees who had worked hard, earned their benefits, and were put at risk through no fault of their own.

[34] John Beshears, James Choi, J. Mark Iwry, David John, et al, Building Emergency Savings Through Employer Sponsored Rainy-Day Savings Accounts, November 2019, https://www.nber.org/system/files/working_papers/w26498/w26498.pdf.
[35] Harvey, Catherine S. Unlocking the Potential of Emergency Savings Accounts. Washington, DC: AARP Public Policy Institute, October 2019. https://doi.org/10.26419/ppi.00084.001.
[36] https://www.ebri.org/content/emergency-fund-focused-employers-goals-motivations-and-challenges
[37] Kathi Brown, How Financial Experiences During the Pandemic Shape Future Outlook, Washington, DC: AARP Research, April 2021, https://doi.org/10.26419/res.00450.001.

Closing

Once again, AARP would like to thank the Committee for the opportunity to share our policy priorities to improve the retirement savings of Americans and their families. We stand ready to work with the Committee to improve Americans' retirement security.

THE ERISA INDUSTRY COMMITTEE
Shaping benefit policies before they shape you.

ANDREW BANDUCCI
Senior Vice President, Retirement and Compensation Policy

STATEMENT FOR THE RECORD BY

THE ERISA INDUSTRY COMMITTEE

TO THE UNITED STATES SENATE SPECIAL COMMITTEE ON AGING

HEARING ON

A FINANCIALLY SECURE FUTURE: BUILDING A STRONGER RETIREMENT SYSTEM FOR ALL AMERICANS

October 28, 2021

Chairman Casey, Ranking Member Scott, and Members of the Senate Special Committee on Aging, thank you for the opportunity to submit a statement for the record on behalf of The ERISA Industry Committee (ERIC) on retirement security and building a stronger retirement system. ERIC is the only national association that advocates exclusively for large employers on health, retirement, and compensation public policies at the federal, state, and local levels. ERIC's members are leaders in every industry sector and provide comprehensive retirement benefits to tens of millions of active and retired workers and their families across the country. As such, ERIC has a strong interest in policies that impact employers' ability to provide cost-effective retirement programs and the ability of employees to receive such benefits.

ERIC member companies are working hard to keep their businesses viable, to keep workers employed, and to continue providing benefits that are tailored to provide value to their employees. ERIC appreciated the retirement provisions enacted in the last two years that provided relief to retirement plan participants and sponsors during the COVID-19 pandemic.

ERIC member companies want to expand opportunities for workers and optimize resources for retirement savings. Our member companies have different workforces and benefits designs, but employers, workers, and retirees can gain from a retirement system bolstered by policy enhancements. To further support the financial and retirement security of workers and retirees, ERIC encourages Congress to implement the following provisions:

- Allow defined contribution plans to permit participants to **withdraw or use limited, pre-tax elective deferrals for critical short-term financial needs** without imposing an early distribution tax penalty

- **Expand cafeteria plans to allow participants additional pre-tax benefit options** such as student loan repayment, disability insurance, long-term care insurance, longevity insurance, and retirement planning services

- Provide additional savings opportunities for those close to retirement by **increasing catch-up limits in plans**
- **Increase the age for required minimum distributions** to age 75
- Provide a safe harbor for **the recovery of retirement plan overpayments**
- Modify the **definition of a Highly Compensated Employee (HCE)** to encourage the inclusion of employees who meet the definition but are not on an executive or management level

Employers voluntarily offer retirement plans for their workers, expending significant resources to provide retirement benefits. As such, ERIC urges Congress to pass legislation that will allow these employers to optimize resources by eliminating unnecessary administrative burdens. Specifically, we recommend Congress enact legislation that would:

- **Maintain electronic disclosure** as a default distribution
- **Simplify reporting and disclosure requirements** by eliminating redundant and unnecessary disclosures
- **Prevent raising single-employer Pension Benefit Guaranty Corporation premiums** to offset non-retirement legislation
- **Establish an Office of Retirement Savings Lost & Found** that would serve as a repository for information about lost retirement accounts accessible through a searchable online database
- **Protect ERISA preemption** in efforts to increase retirement coverage

Many of these provisions were included in the *Retirement Security and Savings Act of 2021* introduced by Senators Cardin and Portman, and in the *Securing a Strong Retirement Act of 2021* introduced by Congressmen Neal and Brady in the House this year. ERIC applauds congressional leaders for recognizing the continued need to focus on retirement security.

Thank you for the opportunity to share our ideas. ERIC and our large employer plan sponsor members look forward to working with you and other interested parties to advance these measures and explore additional provisions that can be included to further promote retirement security for working Americans. If you have any questions, please contact me at abanducci@eric.org or by calling 202-789-1400.

United States Senate

Special Committee on Aging

Hearing Entitled:

"A Financially Secure Future: Building a Stronger Retirement System for All Americans"

Statement for the Record

of

Wayne Chopus

President and CEO, Insured Retirement Institute

October 28, 2021

Insured Retirement Institute

Chairman Casey, Ranking Member Scott, and Members of the Senate Special Committee on Aging, my name is Wayne Chopus. As the President and CEO of the Insured Retirement Institute (IRI), I am pleased to provide you with our perspective on the importance of this Congress enacting common-sense, bipartisan solutions that will help America's workers, retirees, and their families build economic equity, strengthen financial security, and protect income in a manner that can sustain them throughout their retirement years.

I commend you for holding this hearing, and I welcome the opportunity to provide this statement for the record to the Committee to offer several proposals which can help address retirement insecurity and build a stronger and more inclusive retirement system by increasing access to workplace retirement plans, facilitating greater use of lifetime income options, and making information about past and possibly forgotten retirement accounts more readily available.

Summary of Testimony

Consistent with our consumer-focused mission, my statement for the record will address two key points:

1. America's workers and retirees were already facing a looming retirement income crisis before the onset of the COVID-19 pandemic, and the economic disruption it has caused further exacerbates the already existing retirement income anxiety.

2. Legislation, like the public policy measures contained in IRI's 2021 Federal Retirement Security Blueprint,[1] eleven of which are included in recently introduced legislation in the Senate offer a solid foundation of common-sense, bipartisan solutions to help more of our nation's workers and retirees strengthen and enhance their retirement security.

About IRI

For three decades, IRI has vigorously promoted consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors, and consumers under one umbrella. Our mission is to promote a better understanding of the insured retirement value proposition, modernize standards and practices to improve value delivery and the customer experience, and advocate before public policymakers on critical issues affecting consumers that rely on insured retirement strategies utilizing protected lifetime income solutions to sustain them during their retirement years.

IRI is the only national trade association representing the entire supply chain for the insured retirement strategies industry. Our member companies include major life insurance companies like Prudential, Equitable, Pacific Life, Nationwide, Transamerica, and Jackson National; broker-dealers like Morgan Stanley, Raymond James, and Edward Jones; and asset management companies like PIMCO, T. Rowe Price, and Blackrock. Our member companies represent more than 90 percent of annuity assets and include the top 10 distributors ranked by assets under

[1] The "2021 IRI Federal Retirement Security Blueprint," Insured Retirement Institute, March 2021.

management. Our members are represented by financial professionals serving millions across the country. Therefore, we bring a perspective not only from the entire supply chain of insured retirement strategies but, more importantly, from Main Street America to Congress.

America's Growing Retirement Anxiety and Savings Crisis

According to a recent survey of voters age 25-plus conducted for AARP[2] revealed that more than six in ten (63 percent) are anxious about having enough money to live comfortably throughout their retirement years, only three in ten (29 percent) of voters ages 25–44 believe that they will be able to save enough money for retirement and among voters ages 45-plus who are not yet retired, eight in 10 (81 percent) wish they had more money saved for their retirement years. The AARP survey also showed that virtually all voters (99.7 percent) say that it is important for people to be able to save money for retirement while they are working and roughly two in three (65 percent) employed voters say that they are currently participating in a workplace retirement savings plan offered by their employer and almost all of those employed workers (96 percent) say that having a workplace retirement savings plan is important in helping them save for retirement.

Another survey conducted by the Economic Innovation Group[3] found 82 percent of voters believe retirement security is a significant problem for our nation. Workers, retirees, and their families are concerned about their ability to accumulate sufficient savings to provide sustainable income to last during their retirement years. This anxiety has significantly grown in the past year with the COVID-19 pandemic's impact on retirees' and workers' physical and financial health.

A National Institute of Retirement Security[4] study provides further insights into the depth of this anxiety. The survey found that more than two-thirds – 67 percent – say the nation faces a retirement crisis, and more than half – 56 percent – are concerned that they will not achieve a financially secure retirement. The research also found that 51 percent say their concerns about their ability to achieve financial security in retirement has increased, 67 percent say that COVID-19 has changed or is causing them to consider changing their plans about when they will retire, and 65 percent of current workers say it is likely they will have to work past retirement age to have enough money to retire.

Fidelity Investments recently released its "2021 State of Retirement Planning Study,"[5] which further demonstrates the harm inflicted on workers and retirees plans for retirement due to the COVID-19 pandemic. The study found that 80 percent of America's workers said their retirement plans were disrupted in the past year due to actions such as job loss or retirement account withdrawals. The survey also found that one in three estimates that they will need two to three years to recover financially from the economic effects caused by the COVID-19 pandemic.

Furthermore, a study by Transamerica[6] also found that nearly 1 in 5 workers has reported contributing less to their retirement account now than before the pandemic, 18 percent have reduced retirement contributions since the coronavirus crisis started and 31 percent of those who are recently unemployed reported they are contributing less to their retirement. Those who reported contributing less to their retirement savings can be further broken down generationally, with about 16 percent being Baby Boomers, 18 percent being Generation Xers, around 15 percent being Millennials, and about 27 percent identified as Generation Z. A recent study conducted by IRI also found that 66

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[2] "Saving For Retirement at Work: Views of Voters Ages 25+", AARP, October 2021.
[3] The "Retirement Security and Wealth Attitudes: National Voter Survey," Economic Innovation Group, June 2021.
[4] "Retirement Insecurity 2021 – American Views of Retirement", National Institute of Retirement Security, February 2021.
[5] "2021 State of Retirement Planning Study", Fidelity Investments, March 2021.
[6] "Retirement Security Amid COVID-19: The Outlook of Three Generations", 20th Annual Transamerica Retirement Survey of Workers, May 2020.

percent of older Americans – aged 40 to 73 – do not think they will have enough income to last throughout their retirement and more than 55 percent have saved less than 10 percent of their income.[7]
As this research demonstrates, retirement insecurity remains an area of significant concern for America's workers, retirees, and their families. Additionally, this research confirms what IRI's members hear from the millions of workers and retirees they work with each day to plan and save for their retirement years: workers and retirees are shouldering the burden of accumulating savings to produce income to sustain them during their retirement years. This has caused enormous pressure for the individual consumer, particularly if they are lower- and middle-income workers.

Further adding to this anxiety is a lack of access to workplace retirement savings plans. According to Transamerica's "Navigating the Pandemic: A Survey of U.S. Employers,"[8] 48 percent of employers do not offer a 401(k) or similar retirement plan, and 63 percent of those employers said they are not too likely or not likely at all to start a plan within the next two years. Even though 65 percent of employers feel a sense of responsibility in trying to help their employees achieve a financially secure retirement and nearly three-quarters believe that offering retirement benefits is essential for attracting and retaining employees, concerns about plan costs remain a top reason why employers do not offer a plan.

In addition to the lack of access to workplace retirement savings arrangements, there is a growing need to facilitate and expand opportunities for workers to obtain much-needed protection against outliving their savings. Workers who are given the option to choose to save in an employer-provided plan should also be afforded a chance to secure monthly income generated from a protected lifetime income solution which will help sustain them throughout their retirement years.

By offering plan participants a chance to choose a lifetime income distribution option (rather than just providing for a lump-sum distribution of retirement savings), workers who may have difficulties allocating their savings across their retirement years will be helped. This is especially true for retirees who live longer than anticipated. A protected lifetime income solution, such as an annuity, ensures a steady income for however long a participant might live. It offers valuable protection and can help retirees solve how they time the spending down of their savings.

Recent IRI research[9] showed that workers have a high level of interest in having protected lifetime income solutions, such as annuities, included in workplace defined contribution retirement plans. The survey revealed that seven in 10 workers of the youngest age cohort (age 40-45) said they are very or somewhat likely to allocate a portion of their plan to annuities; 87 percent believe it is important that the income from savings is protected for life, and 26 percent indicated that lifetime income is the most important retirement investment trait.

Moreover, Allianz Life's July Quarterly Market Perceptions report further highlighted the market demand for including protected lifetime income solutions in workplace plans.[10] The Allianz report found that 73 percent of employer-sponsored participants would consider an option that offers protected income for life in their plan if available. Sixty-four percent stated that market volatility caused by COVID-19 has increased their interest in adding an option that offers protected lifetime income. Fifty-nine percent said they would consider adding an annuity to their plan if one was available. The Allianz report also found that many employees see an annuity offering as a form of recognition from their employer. Seventy-seven percent said a lifetime income option offering would demonstrate their employer has a vested

[7] "Retirement Readiness Among Older Workers 2021" Insured Retirement Institute. March 2021.
[8] "Navigating the Pandemic: A Survey of U.S. Employers," Transamerica Institute, June 2021.
[9] "Retirement Readiness Among Older Workers 2021", Insured Retirement Institute, September 2021
[10] "Allianz Life Announces Entry into Defined Contribution Market with Launch of Allianz Lifetime Income+Annuity," Allianz Life Insurance Company of North America, July 2021.

interest in their retirement readiness and wellbeing. Sixty-five percent say this option would increase their loyalty to their employer.

While the *"SECURE Act of 2019"* included three lifetime income measures, which made protected lifetime income portable, eliminated a roadblock to offering lifetime income benefit options under a defined contribution plan, and provided information to plan participants about their savings in their defined contribution plan as it correlates to a lifetime income stream, there is still more that can be done to facilitate access to and use of protected lifetime income solutions. Employers who offer their employees a protected lifetime income solution in a workplace retirement savings arrangement, will allow for more plan participants to be able to mimic some of the benefits of a more traditional pension that many retirees desire.

It is clear from the IRI research and other research conducted that an overwhelming majority of employees want to have retirement plan products that offer protected income for life amongst their options. Additionally, the research demonstrates that the insured retirement industry is ready to provide in-plan lifetime income solutions via products that are already readily available. In other words, the demand is strong, and the industry is poised to meet that demand.[11]

IRI respectfully submits for your consideration the measures outlined below to strengthen and enhance retirement security for America's workers and retirees as the Committee examines of how Congress can help to build a stronger retirement system for America's workers through the enactment of bipartisan retirement legislation.

Bipartisan, Common-Sense Solutions

Earlier this year, IRI published its 2021 Federal Retirement Security Blueprint. The Blueprint offers several measures which, if enacted into law, would expand opportunities for more of our nation's workers to save in a workplace retirement plan, facilitate the use of lifetime income products to better insure against the risk of outliving savings, and preserve and promote access for retirement savers to obtain information more readily about their retirement accounts.

Expanding Opportunities for More Workers to Save for Retirement

To expand opportunities for more of America's workers to save for retirement, IRI's 2021 Federal Retirement Security Blueprint put forth several measures that have attracted bipartisan support and have been introduced as bills during the 117th session of Congress. These include, further increasing the age at which required minimum distributions (RMDs) must be taken, enhancing automatic enrollment and escalation features, authorizing the formation of 403(b) pooled employer plans (PEPs), and clarifying the start up credit available to small businesses starting a retirement plan. These bills would also offer additional opportunities for military spouses to save, help workers save while paying back student loans, and enable Americans who are nearing retirement age to make catch-up contributions as they near retirement age. An additional item, although not included in IRI's 2021 Blueprint would enhance the current Saver's Credit.

Further Increase the RMD Age and Modernize RMD Rules

Workers and retirees today face an increased risk of outliving retirement assets because of longer lifespans. Under current law, workers and retirees must take a required minimum distribution (RMD) when they reach the age of 72. The *Retirement Security and Savings Act of 2021* (*S.1770 – 117th Congress*) contains a provision which would increase the RMD age to 75, allowing workers and retirees to have additional time to keep their savings in tax-deferred retirement accounts. The bill would also modify RMD rules to exempt certain annuity benefits and payments from the minimum income threshold test (MITT) to reflect more current circumstances regarding individuals working years and

[11] "BlackRock Is Adding Annuities to 401(k)s", Wall Street Journal, October 6, 2021

longevity. The proposed changes contained in the bill would allow more workers to accumulate and grow savings and, thereby, improve their retirement security.

Increase Automatic Enrollment Contributions Rates and Enhance Automatic Plan Features

Automatic enrollment in an employer-provided retirement plan has proven to be an extremely effective tool for encouraging Americans to save for retirement. Research shows a plan with automatic enrollment features increases participation rates at least 10 percentage points, and when there is an employer matching contribution, the likelihood an employee will participate goes up to 50 percent. A June 2021 study by Principal[12] found that 84 percent of employees automatically enrolled in a workplace plan say they started saving for retirement sooner because they were automatically enrolled than if they had to make that decision independently. The same survey found that 87 percent of plan sponsors increased plan participation through the use of automatic enrollment. The *Retirement Security and Savings Act of 2021* (*S.1770 – 117th Congress*) would direct the Secretary of the Treasury to develop regulations to simplify and clarify the rules governing the timing of participant notifications, specifically for employees who are enrolled immediately upon hiring and for employers who utilize multiple payroll and administrative systems. This measure will help workers save more for their retirement by ensuring they are informed in an effective manner when automatically enrolled in a workplace retirement plan unless they opt to not participate.

Authorize the Formation of 403(b) PEPs

The SECURE Act contained provisions that will make workplace retirement plans more available to small business employees and reduce barriers that have discouraged small business employers from offering their employees a workplace retirement plan. It amended the law governing multiple employer plans (MEPs) and established pooled employer plans (PEPs). The changes made by the SECURE Act will enable small employers to band together and delegate responsibility to a professional fiduciary while reducing the individual cost of offering a retirement plan.

A recent study conducted by Transamerica[13] demonstrates that the changes made by the SECURE Act will encourage more small business employers to offer their employees a retirement plan. The study found that of the employers not anticipating offering a plan within the next two years, nearly one-third would consider joining a multiple employer plan (MEP) or a pooled employer plan (PEP) because of their reasonable cost.

Unfortunately, the benefits of a workplace retirement plan that could be offered by a small business employer through a MEP or PEP in accordance with the changes made by the SECURE Act is not available to 501(c)(3) nonprofits, public educational organizations, and religious institutions. The SECURE Act did not authorize employers who offer their employees a 403(b)-retirement plan, which is typically utilized by nonprofit, public educational organizations, and religious institutions, to use MEPs or PEPs. Those employers offering a 403(b) retirement plan still have the barriers in place that the SECURE Act reduced for employers who offer other types of retirement plans. As a result of not including 403(b) plans in the SECURE Act, organizations eligible to offer a 403(b) plan must still assume the financial and administrative challenges and legal risks when offering a plan. Therefore, many do not offer a retirement plan to their employees.

The SECURE Act should be amended to encourage employers who would typically use a 403(b) plan to offer a retirement plan to their employees by authorizing these organizations to form and use 403(b) pooled employer plans in the same manner as other small businesses are permitted to do so under the SECURE Act. This change expanding PEPs to 403(b) plans will permit nonprofit, public educational and religious institution employers to also be relieved of

[12] "Principal Retirement Security Survey: Consumer and plan sponsor results", Principal, June 2021
[13] "Navigating the Pandemic: A Survey of U.S. Employers," Transamerica Institute, June 2021.

the burdensome administration challenges that now discourage these employers from offering their employees a workplace retirement plan, as they now would be able to achieve the same economies of scale and delegate responsibility for sponsoring the plan to a professional plan fiduciary as other small businesses. This measure was included in the *Improving Access to Retirement Savings Act* (S.1703-117th Congress).

Clarifying the Start-Up Credit for Small Businesses Joining a PEP

While the improvements made in the SECURE Act to enhance the tax credit available to help facilitate small businesses' starting and offering their employees a retirement savings plan by joining a Multiple Employer Plan (MEP) or Pooled Employer Plan (PEP), the start-up credit appears not to be available to a small business joining a MEP or PEP after the plan's first three years of operation. The *Improving Access to Retirement Savings* (S.1703-117th Congress) will clarify that the three-year start-up credit will apply to small businesses for three years from the time the small business joins the MEP or PEP and not from the time the MEP or PEP begins operations. This clarification will encourage more small businesses to offer a retirement plan and facilitate greater use of MEPs and PEPs as the means to provide employees a workplace retirement plan.

Enhance the Start-Up Tax Credit to Encourage Small Business to Establish Plans

Current law allows small employers to receive a tax credit equal to half of the cost associated with starting a workplace retirement plan. Although the SECURE Act increased the annual cap allowed for this tax credit, the increased percentage has not had its desired effect of encouraging more small employers to offer their employees the opportunity to save for their retirement at their workplace. The *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* will further increase the tax credit to 75 percent of start up cost for small businesses with 25 or fewer employees. The increase to 75 percent of qualified start-up costs will serve to encourage more small business employers to establish workplace plans to benefit their workers.

Establish Tax Incentives for Offering Retirement Savings to Military Spouses

Due to frequency of moves made due to their partner's assignments to new billets, military spouses often change jobs. Further compounding the problems associated with frequent changes in duty stations and retirement preparedness of military spouses is the fact that 92 percent of military spouses are women,[14] who due to a confluence of factors – wage disparity, time out of the workforce, and competing priorities – have retirement account balances which are on the aggregate more than 50 percent smaller than their male counterparts.[15] The *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* will offer a tax credit to an employer who enrolls a military spouse in a retirement plan within two months of their hiring. This new tax credit would encourage small business employers to provide military spouses with an opportunity to participate in a workplace retirement plan which would also increase military spouses' savings rate by requiring that they be made eligible for any matching or non-elective contributions like those available to employees with two or more years of employment.

Help Employees Save for Retirement While Repaying Student Debt

Student loan debt is a major challenge for America's workers who are trying to manage competing financial priorities. It is impacting the ability of workers to save for their retirement as individuals who have student loan debt have lower workplace retirement balances than those who do not. In fact, IRI's own research found that of 46 percent of Millennials are not saving for retirement with nearly 10 percent specifically citing wanting to pay off debts as their reason for not contributing to a retirement account.[16] The *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)*

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[14] "Women Versus Men in DC Plans", Vanguard, January 2019
[15] "Women's Perspectives on Savings, Investing, and Retirement Planning", Insured Retirement Institute, November 2015
[16] "Millennials and Retirement 2020 – Understanding, Saving, and Planning", Insured Retirement Institute, January 2020.

will better position America's workers who have incurred student loan debt and help them to start building their retirement nest eggs by permitting employers to make matching contributions into employees' retirement accounts based on the amount of workers' student loan payments.

Increase Catch-Up Contributions Limits for Baby Boomers

Current law allows workers who reach age 50 to make additional catch-up contributions to retirement plans up to an amount set by the Internal Revenue Service each calendar year. Current research demonstrates dramatic retirement anxiety among Baby Boomers. A study conducted by the Center for a Secure Retirement[17] found that 52 percent of non-retired Baby Boomers are worried that the impact the COVID-19 pandemic had on their financial lives has been so severe, they will never be able to retire. More than half (53 percent) report having to tap into savings to pay for daily expenses during the pandemic and 41 percent have been financially supporting family members – leading to 75 percent not being to save as much for their retirement. It is not surprising then that 61 percent of non-retired Baby Boomers came to the realization that they will need more savings to be secure in retirement. This is further compounded by IRI's own research that found that 45 percent of Baby Boomers have zero retirement savings.[18] The *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress) increases* the catch-up contribution limits to $10,000 for retirement savers who have attained the age of 60 by the close of a tax year. With a third of employed Baby Boomers saying they will be postponing retirement,[19] this measure will give them a chance to enhance their nest eggs and achieve greater financial security for their retirement years.

Increase the Amount Allowable Under the Saver's Credit

Under current law, certain lower-income retirement savers are eligible for a non-refundable tax credit for contributions made to IRAs and workplace retirement plans up to $2,000. Section 102 of the *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* would make this credit refundable and would contribute the credit into a Roth account as part of a retirement plan or into a Roth IRA. The provision would increase the number of savers eligible for the 20 percent credit. The bill also directs the Department of the Treasury to promote the Saver's Credit to increase public awareness to help more workers utilize the credit.

Facilitate the Use of Protected Lifetime Income Solutions

IRI's 2021 Federal Retirement Security Blueprint includes several measures to facilitate the use of protected lifetime income solutions to insure against the risk of outliving one's retirement savings during their retirement years. Several of these proposals have been introduced in bills during the 117th session of Congress. We offer these policy solutions for the Committee's consideration as it conducts its examination of how Congress can help to build upon bipartisan retirement legislation.

Allow for the Broader Use of QLACs

Qualifying Longevity Annuity Contracts (QLACs) are a valuable tool in retirement income planning because it is an investment vehicle that can be used as longevity insurance to help address the fear of growing older and outliving the funds an individual has accumulated to use during their retirement years. Current Treasury Department regulations have created a barrier that limits the amount a retirement saver can save when purchasing a QLAC. This reduces their ability to insure against outliving their savings throughout their retirement years. The *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* amends the current law to allow for more than 25 percent of a retirement plan or IRA to be rolled over into a QLAC and increases the dollar limitation on premiums from $135,000 to $200,000.

[17] "Pandemic Forces Boomers to Financially Support Family, Greatly Impacting Their Own Retirement Plans," Center for a Secure Retirement, July 2022
[18] "Boomer Expectations for Retirement 2019, Ninth Annual Update on the Retirement Preparedness of the Boomer Generation," Insured Retirement Institute, April 2019.
[19] *Ibid*

Additionally, the provision would authorize a diverse slate of indexed and variable annuity contracts with guaranteed benefits to be offered as QLACs. Increasing the dollar limitation on premiums and authorizing QLACs to be offered through a diverse slate of indexed and variable annuity contracts with guaranteed benefits are critical elements of reforms needed to make QLACs more available to workers and retirees who are seeking the opportunity to insure against the risk of outliving their accumulated retirement savings by keeping more of their tax-deferred savings longer with a protected, guaranteed monthly income throughout their lifetime.

Facilitate the Use of Low-Cost ETF Investments in Variable Annuities

Currently, exchange-traded funds (ETFs) are widely available through retirement plans, IRAs, and taxable investment accounts but generally are not available within variable insurance products. The reason why they are not available is that Treasury Department regulations, which pre-date ETFs, have created a technical gap that prevents ETFs from being included on the menu of investment options offered in variable insurance products. The *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* directs the Treasury Department to amend its regulations to allow ETFs to be offered within variable insurance products. This would allow for an ETF structured annuity to be offered which would provide consumers with lower-cost investment options and allow for more consumers primarily in the fee-based advisory market to utilize and benefit from variable insurance products in obtaining protected lifetime income for their retirement years.

Promote Greater and Easier Access to Information About Retirement Plans

To promote greater and easier access for retirement savers to information that can help guide their planning for retirement, IRI's 2021 Federal Retirement Security Blueprint included several measures that have attracted bipartisan support and have been introduced as bills in previous sessions of Congress. One of the measures included in the *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* would aid individuals in planning for their retirement by providing them with an opportunity to obtain information more readily about past and possibly forgotten accounts.

Establish a National, Online Lost and Found for Americans' Retirement Account

Today, workers in America change jobs more frequently, and they often leave retirement savings in plans maintained by their previous employers. Over the past decade, 25 million workplace retirement plan participants changed jobs and left behind a retirement savings plan. Millions more have left two or more accounts resulting in roughly $8.5 billion in "lost" retirement savings. To facilitate workers planning for their retirement, Congress should provide the tools and resources necessary for retirement savers to locate employer-sponsored retirement accounts. A national, digital database utilizing information already provided to the Department of Treasury, should be established. This database would enable retirement savers to search and locate their former employer-sponsored retirement savings accounts to ensure they are not leaving retirement savings behind.

The creation of this one-stop-shop database will help workers – especially Generation Xers, Millennials, and future generations – to track their past and possibly forgotten workplace retirement accounts. By making it easier to track past or forgotten retirement savings accounts, workers will have additional opportunities to either establish or rollover their found savings into a new or their current retirement savings account, thereby increasing their retirement savings. Creating a national, online lost and found database will also allow workers — to better keep track of their employer-sponsored retirement savings and not leave thousands of dollars on the table. This measure was included in the *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress).*

Conclusions

IRI appreciates the opportunity to submit this statement for the record to the Committee. The enactment of the SECURE Act in late 2019 was a big step forward that has put workers and retirees on a path towards relieving some of the anxiety and insecurity they are feeling about how they will be able to have a secure and dignified retirement.

However, there is still much more that needs to be done. IRI is respectfully submitting this statement for the record in which we are expressing our support for several measures included in the *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* and the *Improving Access to Retirement Savings Act* (S.1703-117th Congress). These bills will help to strengthen and enhance our nation's private-sector retirement system. The bills will also offer help to those individuals whose long and short-term retirement security has been impacted by the economic consequences stemming from the pandemic and those who are affected by America's long-standing, looming retirement savings crisis.

The proposals we expressed support for included in the *Retirement Security and Savings Act of 2021 (S.1770 – 117th Congress)* and the *Improving Access to Retirement Savings Act* (S.1703-117th Congress) all will help to enhance retirement savings opportunities, facilitate access to lifetime income solutions, and increase plan participants access to information to reconnect them with "lost" savings. IRI believes these solutions will provide workers and retirees with the opportunity to build economic equity, strengthen their financial security, and protect their income in a way that can sustain them throughout their retirement years.

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