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S. Hrg. 118–321

TAKING A SERIOUS LOOK AT THE RETIREMENT CRISIS IN AMERICA: WHAT CAN WE DO TO EXPAND DEFINED BENEFIT PENSION PLANS FOR WORKERS?

HEARING

[BEFORE THE]

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

FEBRUARY 28, 2024

Printed for the use of the
Committee on Health, Education, Labor, and Pensions

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TAKING A SERIOUS LOOK AT THE RETIREMENT CRISIS IN AMERICA: WHAT CAN WE DO TO EXPAND DEFINED BENEFIT PENSION PLANS FOR WORKERS?

Wednesday, February 28, 2024

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The Committee met, pursuant to notice, at 10 a.m., in room 430, Dirksen Senate Office Building, Hon. Bernard Sanders, Chairman of the Committee, presiding.

Present: Senators Sanders [presiding], Casey, Baldwin, Kaine, Hassan, Hickenlooper, Cassidy, Braun, Marshall, Tuberville, and Budd.

OPENING STATEMENT OF SENATOR SANDERS

The CHAIR. The Committee on Health, Education, Labor, and Pensions will come to order. The purpose of this hearing is—the issue we are going to discuss is of enormous consequence. But unfortunately, I don't think it is getting the attention that it deserves.

I want to thank all of the witnesses for being here and I look forward to a good and serious discussion. Let me start off by saying that as a Nation, we have more income and wealth inequality today than we ever had in the history of America.

While the billionaire class becomes wealthier, our social safety net for the most vulnerable in our Country remains far behind other wealthy nations. It's a disaster, and if we do not get our act together, it's only going to get worse. We have the highest rate of childhood poverty of almost any major nation.

Our childcare system is now dysfunctional. More than 600,000 fellow Americans are homeless and over 85 million are uninsured or underinsured. But let's be clear, it's not just the children and the poor who in the richest country on earth are hurting. Our nation's senior citizens are struggling as well.

The truth is that we now have a retirement crisis in America that demands our immediate attention, which brings us to the subject of today's hearing. In the United States today, almost 45 percent of older Americans between the ages of 55 and 64 have no savings at all and no idea how they will retire with any shred of dig-

nity or respect. 45 percent of workers between 55 and 64, zero retirement savings.

As frightening as the retirement crisis is for older workers, it is even a bigger concern for the millions of senior citizens who are no longer able to work, who have exhausted all of their savings, and who have no pensions at all.

Incredibly, and this really is quite incredible, one out of every four senior citizens in America are trying to live on an income of less than $15,000 a year. Think about that. While over half of our Nation's seniors are trying to survive on an income of less than $30,000 a year.

Just put yourself in the place of that person. How do you pay the rent? How do you pay for health care? Prescription drugs? How do you put food on the table on just $15,000 or even $30,000 a year? And the truth of the matter is that many cannot. That should not be happening in our Country.

According to the OECD, the Organization for Economic Co-operation and Development, we now have the dubious distinction of not only having one of the highest rates of childhood poverty in the industrialized world for our children, we also have one of the highest rates of senior poverty compared to other wealthy nations as well. In Denmark, only 3 percent of seniors live in poverty.

In France, 4.4. The United Kingdom, 15.5. But in America, over 23 percent of seniors are living in poverty. I would hope that we would agree that is simply unacceptable and that has got to change. 50 years ago, it was not uncommon for corporations to provide workers with a defined benefit pension plan that guaranteed a monthly income in retirement.

Back then, many corporations made a promise to their workers, if they worked at the same company for a reasonable period of time, they would be rewarded with a monthly check that would enable them to live comfortably in retirement.

Not a radical idea. That is what it was then. The longer you worked at the same company, the bigger your retirement check would be, and the employer would bear in those days all of the responsibility to fund the pensions of their workforce.

Sadly, tragically, those days are mostly behind us. As a result of a relentless 40 year war on the working class waged by corporate America, traditional pension plans have become an endangered species on their way to extinction, and the result for workers has been tragic. In 1983, 31 percent of American workers were at risk of not being able to maintain their standard of living in old age.

In 2020, that number rose to 51 percent. In other words, we are moving in exactly the wrong direction. All right, that's the problem. What do we do to address that crisis? First, at a time when far too many seniors are living in poverty and many have nothing in the bank for retirement, we must expand Social Security, not cut Social Security as many of my colleagues in Congress would have us do.

Congress—and we must make Social Security solvent for the next 75 years so it will be there for our kids and our grandchildren. Legislation that I have introduced, along with nine co-sponsors, accomplishes those goals.

According to the Social Security Administration, the legislation that I have introduced would make Social Security solvent for 75 years and increase benefits by $2,400 a year for seniors who need them. How do you do that?

My goodness. How do you do that? Well, at a time of massive income and wealth inequality, we have the radical idea that maybe the people on top should start paying their fair share of taxes.

Today, a billionaire pays the same amount of money into Social Security as somebody who makes $168,000 a year as a result of the cap on the Social Security payroll tax cut. You make $1 billion a year, you make $168,000 a year, you pay the same amount. Anybody in America think that makes sense? I don't.

Legislation we have proposed would lift the cap on Social Security starting at $200,000. You do that, taxable income, Social Security is solvent for the next 75 years, increased benefits by $2,400 per person. But that's not all that we have to do. In my view, every corporation in America should be required to provide a retirement plan for their workers.

If corporations choose not to offer a retirement plan, they must give workers the option of contributing to a Federal pension plan similar guess what, to what Members of Congress have. How is that? Good for Congress, good for the American people.

Today, Federal employees and Members of Congress have a certain percentage of their salaries deducted from their paychecks and put into the First Program that provides a pension based on salary and years of service.

Bottom line, if it is good for Members of Congress, our staff, it is good for the American people. So, it is where we are. We got a crisis. I think we have some commonsense solutions, and I look forward to working with Members of this Committee to address them. Senator Cassidy, the mic is yours.

OPENING STATEMENT OF SENATOR CASSIDY

Senator CASSIDY. Thank you, Chair Sanders. A little odd, the focus today seems to be promoting the defined benefits system, prescribing an agenda, frankly, that is outdated and a little disconnected.

In 1974, Congress passed the Employment Retirement Income Security Act, the ERISA Act, in response to tens of thousands of Americans losing their retirement security because their employers defined benefit system failed, exemplified by the collapse of Studebaker Automobile Company and about 1,800 other pension plans terminating over a 4-year period.

Imagine the impact upon those hundreds of thousands of workers who were employed by them. Since ERISA, the defined benefits system has been largely replaced by the defined contribution which has flourished. As of 2021, 146 million Americans collectively own $9.5 trillion in retirement assets.

Now, the advantage of the defined contribution system, why many have flocked to it, is that workers own their own retirement system. No matter what happens to the worker's current or previous employer, their retirement funds are secure and very few

people now retire after 50 years at a company and get a golden watch. Most will move between employers. This allows them to do so while maintaining their retirement fund.

Importantly, Congress just passed Secure Act 2.0 on a bipartisan basis, making improvements to our Nation's retirement system. We had the option to take the one such as the Chair is advocating for, and on a bipartisan basis, chose not to. Instead, based the solution primarily on the success of the defined contribution system.

Secure 2.0 was so popular it passed out of all four Committees of jurisdiction with unanimous votes and on the House floor, can you imagine this, by a vote of 414 to 5. The Chair speaks of needing to find a solution to a crisis, but we have that solution. By the way, there are still provisions of Secure act 2.0 that have yet to be implemented, including those helping low income individuals.

For example, the enhanced savers match, a tax credit going right into low income Americans' retirement accounts, which goes into effect in 2027. The Chair has referenced statistics pointing to a retirement crisis, but many of these are from 2021, which pre-date the passage of Secure 2.0, the improvements it has made, and the improvements that it will make, especially those targeting lower income Americans.

Now, by the way, there is a place for defined benefit systems. With reforms, it can be successful. In 2006, we passed these reforms, which resulted in some of those funds now being overfunded, even weathering the 2009 financial crisis. However, these reforms have not been implemented in the largely unionized, utilized—union utilized multiemployer defined benefit space.

Many of these multiemployer defined benefit plans have struggled for years when in 2021, they told Congress they needed a bailout. Many of the plans were badly mismanaged. Democrats passed a $90 billion bailout of the multiemployer defined benefit system on a party line vote without strings on the tax dollars to prevent—strings that would say you have to make these reforms to prevent future failures.

Now, this lack of reform system is that which some wishes to expand. Unfortunately, the large labor unions successfully lobbied to make sure the bailout did not come with any meaningful reforms protecting workers and preventing future failure.

Simple reforms like requiring certain funding levels, disclosures for defined benefit plans, requiring unions to provide beneficiaries with a clear report of their defined benefit program's financial state.

Now we are seeing the results of the failure to enact these provisions. The Central States Pension Fund received a $127 million overpayment in their bailout because they included thousands of deceased participants in their bailout application. Let me give credit where credit is due.

Teamster President Shawn O'Brien told this Committee the money should be repaid. However, the Central State Pension Fund now tells the Committee it would be impossible for them to repay the money that they were improperly paid. Workers covered by the Central State should be alarmed about the financial state of their

retirement plan if returning money they weren't supposed to receive, would you stabilize the fund now.

Frankly, it is infuriating to hear that the union's pension plan could be on the verge of collapse only a few years after they received tens of billions of dollars to bail.

If the Chair truly wishes to expand the use of defined benefit plans, I am so happy to discuss reforms similar to the ones that have been very successful in the individual employer space, and pass them, to stabilize the entire defined benefit system.

But we will have to overcome staunch union opposition to any reform that provides greater oversight and protection for their workers. Together, though, I think we could do it. To be clear, Republicans do not support putting the thumb on the scale to prefer either defined benefit or defined contribution.

We support what works. Most businesses with individual employer defined benefit plans wish to continue to offer and expand their programs.

If it is working, don't fix it. We are seeing the good work of companies who are importing the best of defined benefit system into the defined contribution, including many innovative lifetime income products. I agree with the Chair that lifetime income is desired by many Americans.

Let's make it easier for the defined contribution to include them. There are things we can do on a bipartisan basis, which is why it was disappointing that rather working together to hold a bipartisan hearing, the majority planned this hearing on a partisan basis with no input from the minority on scope or legislative focus. We will need something bipartisan to pass with 60 votes.

We can do it. Earlier this year, Senator Kaine and I introduced two bipartisan bills. The Helping Young Americans Save Retirement Act makes it easier for younger workers between the ages of 18 and 20 to save for retirement by removing barriers currently making it harder to join an employer's retirement plan.

The Auto Enroll Act of 2023 assist workers who previously declined to participate or contributed little to the employer's pension plan. Many workers earlier in their career make less money. They want the money in their paycheck to pay for bills as opposed to contributing to retirement. But when their wages grow, we find they forget to opt back in to start contributing to their retirement.

This legislation allows the business to periodically auto enroll employees back into their plans with the option to opt out, but that way they don't accidentally miss out on crucial years preparing for retirement. I hope the Chair will indulge with a markup of these bipartisan pieces of legislation.

In closing, many other Members of this Committee had wonderful ideas that were included in the Secure 2.0. It will be great to explore the current—effectiveness of these provisions and discuss any other creative ideas that enhance the system we have. Thank you and I yield.

The CHAIR. Thank you, Senator Cassidy. We have five excellent, knowledgeable witnesses. We are going to begin with Sarah Schambers.

Ms. Schambers is a fourth generation Ford autoworker and has been a UAW member for 17 years. She spent her first 6 years as a full time—temporary employee at a Ford subsidiary in Plymouth, Michigan.

In 2012, to secure permanent status and support her family, Sarah was forced to move from Michigan to Ford's Louisville assembly plant in Kentucky. She now works at Ford's Livonia transmission plant in Michigan as a member of the UAW Local 182.

Ms. Schambers, thanks very much for being with us.

STATEMENT OF SARA SCHAMBERS, UAW MEMBER, LOCAL 182, FORD LIVONIA TRANSMISSION, LIVONIA, MI

Ms. SCHAMBERS. Thank you, and good morning. As Senator Sanders said, my name is Sarah Schambers. I am a proud fourth generation auto worker.

I follow to my great grandfathers', my grandparents', and my mother's footsteps. I build cars for a living, and I am proud of the work that I have done. But the difference between my generation and past generations is they had a pension. I do not. I don't have health care when I retire, and I do not have retirement security.

I have been an autoworker for 17 years. Six of those years I worked at Ford as a full time temporary employee until 2012. That was a big moment for me, because for generations, getting a job at Ford meant stability and security. It meant being able to plan for your yourself and your children. It meant being able to buy a house and see a future for yourself.

But for those of us that hired in after the financial crisis, that has not been our truth. Instead, we have been fighting to get back the American dream and try to turn these jobs back into careers, just like they were when my parents and grandparents who built this country and the American auto industry.

Two of my grandparents who retired from the big three had very different paths. My grandfather gave three decades to Ford Motor Company, and in return, he got to retire at age 55 with the pension and health care. He was afforded the dignity to have a life after Ford Motor Company. He was able to have a life with his kids, his grandchildren, and his great grandchildren, be a part of his community and not just work until he died.

My grandmother, she had a different path. She was hit with Lou Gehrig's disease. She had to retire early for her illness. But she didn't have to choose between doctors, rent, or food. She knew she had health care and a pension to rely on as she retired and struggled through her health.

For me, in sickness or in health, I don't know what my future holds. It causes fear and anxiety in the working people that don't know how long they are going to be able to last in a job. It makes people say, maybe I won't buy that house, maybe I won't put down roots in this community, or maybe I won't stay at this company.

I didn't become a fourth generation autoworker because I loved building cars. I didn't become a fourth generation autoworker because I loved the low starting pay, or the lack of a retirement security that we now know. I come from a family of auto workers be-

cause for years it was a career, one that you would put work in and get something out of it.

In a lot of ways, for generations, Ford was the American dream. It meant if I pitched in, if I worked hard, I would be able to have a life after Ford Motor Company. But without a pension, without health care, we have people leaving these companies after 30 years with nothing more than a have a nice day and I hope the stock market doesn't crash. That is unacceptable for America.

As you know, the UAW won major victories in our 6 week strike. I am proud of the accomplishments that we have made after 15 years of falling behind after the financial crisis, but we still fall short of what generations of autoworkers had. We still fell short of what the American dream should be.

The companies were adamant that they couldn't afford to add to our pension liability. They said that Wall Street would look down on them, and that giving back our pensions could affect their stock prices and possibly lead to lower credit ratings. Nowadays, a stock price is more important than 150,000 autoworkers. That is a shame.

Our next big three contracts expire in 2028, and we are ready to fight like hell for retirement security, for pensions and health care when I retire. There is an old saying, we will strike if provoked.

Well, I think that Wall Street calling the shots and telling the big three that autoworkers can't have retirement security, that is what I call being provoked. There is another old saying, which side are you on?

I want to close by asking you, our U.S. Senators who represent us, which side are you on, the American workers who elect you or corporate greed in Wall Street who say a dignified retirement is too much for the American people to ask for. Thank you for your time.

[The prepared statement of Ms. Schambers follows.]

PREPARED STATEMENT OF SARA SCHAMBERS

Good morning,

My name is Sara Schambers, and I am a proud fourth-generation Ford autoworker. I followed my great-grandfather, two of my grandparents, and my mother's footsteps. I build cars for a living and am proud of the work I do. The difference between myself and those prior generations is I don't have a pension. I don't have retirement security. Do you know what that feels like?

For seventeen years, I've been an autoworker. I worked my way up as a temp, working for a Ford spinoff, and finally after 6 years getting hired on permanently in 2012. That was a big moment for me. For generations, getting a job at Ford has meant stability and security. It has meant being able to plan a life for yourself, for your kids. It meant being able to buy a house, and see a future for yourself.

For those us of that hired in after the financial crisis, it hasn't been that for us. It has been us fighting tooth and nail to get back the American dream and try to turn these jobs back into careers again, like they were for my parents and grandparents who built this country and the American auto industry.

My two grandparents who retired from the Big Three had very different paths. My grandfather gave three decades to Ford, and in return was able to retire at 55 with a pension and post-retirement healthcare. He was afforded the dignity of a life after retirement. He was able to have a life with his kids, his grandkids, and even great grandkids and be a part of his community, not just work 'til he died.

My grandmother had a different path. She was hit with Lou Gehrig's disease and had to retire early for her illness. But she didn't have to choose between doctors and rent, or food. She knew she had post-retirement healthcare and a pension to rely on, as she struggled with her health.

For me, in sickness or in health, I don't know what the future holds. And that kind of instability is its own kind of disease. It causes fear and anxiety among working class people who don't know how long they're going to last at a job. It makes you say "*maybe I won't buy that house. Maybe I won't put down roots. Maybe I won't stay at this company.*"

I didn't become a fourth-generation autoworker because I love building cars. I didn't become a fourth-generation autoworker because of the hard work, the low starting pay, and the lack of retirement security we know now. I come from a family of autoworkers because for years it's been a good blue-collar job where you can put in your time and get something back for it.

In a lot of ways, for generations, Ford was the American dream. It meant if I chipped in, if I worked hard, I would be able to have a life after Ford. But, without a pension and post-retirement healthcare, you have people leaving this company after 30 years service with nothing more than a "*have a nice day. Hope the stock market doesn't crash.*"

As you know, the UAW won some major victories last fall in our six-week strike. I'm proud of what we accomplished after 15 years of falling behind after the financial crisis. But we still fell short of what generations of autoworkers had. We still fell short of that American dream.

The companies were adamant that they couldn't afford to add to their pension liability. They said that Wall Street would look down on them for adding to their liability, which could affect their stock prices and possibly lead to a lower credit rating.

Nowadays, a stock price is more important than the lives of 150,000 autoworkers. That's 100 percent wrong.

Our next UAW contract expires in 2028. And we're ready to fight like hell for real retirement security, for a pension and post-retirement healthcare. There's an old labor saying, "*will strike if provoked.*" Wall Street calling the shots and telling the Big Three that autoworkers can't have retirement security, that's what I call being provoked.

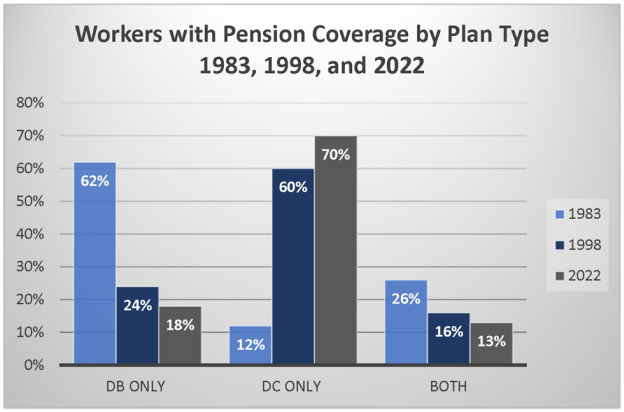
There's another old labor saying: "*Which Side Are You On?"* So, I want to close by asking you, our US Senators, Democrat, Republican, or Independent, who are meant to represent us: Which Side Are You On? The American worker who elects you? Or corporate greed and Wall Street executives who say a dignified retirement is too much to ask?

Thank you for your time.

###

RETIREMENT SECURITY FACT SHEET

If you work your entire life, you should not have to worry about poverty or being able to see a doctor. We used to take care of workers in this country. People used to have real pensions and knew that they would be stable in their old age. For most Americans, though, that secure knowledge no longer exists. The defined benefit pension is no longer the primary source of retirement security for most Americans:



HISTORY | Defined benefit pensions epitomized retirement security for generations ►

- In September 1949 the UAW won a $100-a-month pension (including Social Security benefits which averaged $32.50 a month) at age 65 with 30 years of service. For many contracts following this breakthrough, we were able to improve the benefits with each passing contract so that retiree pensions kept up with the rate of inflation, in addition to negotiating increases for existing retirees.
- In prior generations, retirement security was provided through a stable defined benefit pension plan and company-provided post-retirement healthcare. This accomplished many goals. It was a source of pride and dignity to work for and be a part of a team with a company that was willing to share in the prosperity and success of the company. Workers were able to retire with dignity without fear of having to find different employment.
- The communities in which they lived, thrived due to this reinvestment back into the community in which the employer operates. Everybody from the local coffee shop to the area medical center thrived.

- At Ford, GM, and Stellantis (formerly Chrysler), before 2007 and leading up to the financial crisis, every hourly employee who met retirement eligibility would receive a defined benefit pension that replaced about 40% of active pay. Employees hired after the 2007 contract would no longer be eligible for the pension.

TODAY | Defined benefit pensions are increasingly absent for the current generation ►

- As of 2022, only 43% of the Big Three workforce is eligible for a defined benefit pension. The following proportion of the workers are NOT eligible for a DB pension: GM: 52% - Ford: 57% - Stellantis: 61%.
- Unfortunately, many employers are closing plans to new entrants. The union still works hard in bargaining to maintain and restore these benefits. Examples of plans that are closed to new hires/entrants:
  - Mack Truck – Closed on June 1, 2009
  - Volvo Truck – Closed on March 17, 2011
  - Navistar – Closed on October 1, 2002
  - Caterpillar – Closed on January 10, 2005 – Benefit Accruals frozen on January 1, 2016.
  - Case New Holland – Closed on July 1, 2003
  - General Dynamics – Closed on January 1, 2011
  - Stellantis/Ford/GM – Closed in October/November 2007
- Examples of plans that remain open to new hires:
  - Freightliner – Final Average Salary Pension Plan still open to new hires.
  - John Deere – Plan is still open to new hires.

NO REAL ALTERNATIVE | 401k or defined contribution plans are wholly inadequate ►

- Defined contribution or 401K plans have replaced the defined benefit pension at the automakers and other companies. However, data shows that defined contribution balances are not keeping up with the need for a secure retirement:

ALL UAW PARTICIPANTS 2021			
Mean	$117,254	Median	$62,939

IN PROGRESSION PARTICIPANTS 2021			
Mean	$75,866	Median	$58,282

TRADITIONAL PARTICIPANTS 2021			
Mean	$175,766	Median	$80,580

ALL UAW PARTICIPANTS 2022			
Mean	$96,854	Median	$54,736

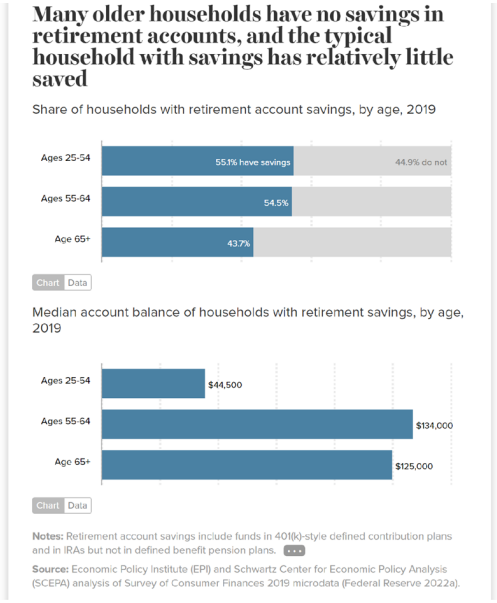
IN PROGRESSION PARTICIPANTS 2022			
Mean	$64,250	Median	$50,324

TRADITIONAL PARTICIPANTS 2022			
Mean	$148,843	Median	$72,779

ALL UAW PARTICIPANTS 2023			
Mean	$104,683	Median	$59,662

IN PROGRESSION PARTICIPANTS 2023			
Mean	$70,261	Median	$55,004

TRADITIONAL PARTICIPANTS 2023			
Mean	$160,995	Median	$78,645



MYTHBUSTING | Defined benefit pensions are good for business, too ►

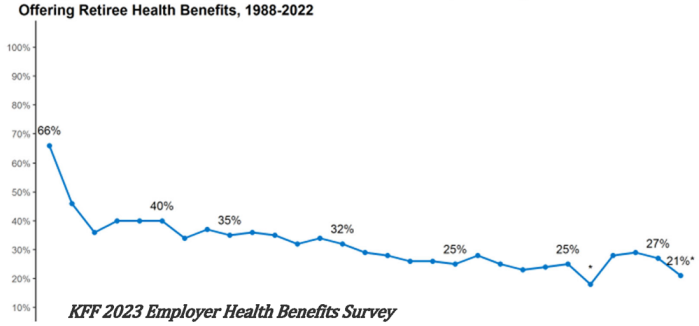
- Recruitment and Retention: In today's competitive labor market, offering an attractive pension plan might be a cost-neutral or cost-effective way to reduce turnover and differentiate the organization among quality candidates.
- The funded status of the defined benefit plan: In some cases, the upswing in interest rates has significantly improved the funded status of pension plans and lowered plan liabilities to the point where it is prudent for senior management to start evaluating pension plan options.
- The organization's tax status: A detailed analysis will determine if changes to the pension plan would be advantageous to the company's bottom line, even for non-profits with unrestricted net assets that affect their balance sheet and loan covenants.

TOO OLD TO WORK, TOO YOUNG TO DIE | Retirement security must include health care ►

- "Health care is creating a 'retirement cost gap' for many pre-retirees," says Steve Feinschreiber, senior vice president of the Financial Solutions Group at Fidelity. "Many people assume Medicare will cover all your health care cost in retirement, but it doesn't. So, you should carefully weigh all options."

- In fact, a single aged 65 person in 2023 may need approximately $157,00 saved to cover health care expenses in retirement. (Fidelity Retiree Health Care Cost Estimate).
- Similar to the defined benefit pension, health care in retirement has become less prevalent over time and must be addressed as a critical factor leading to retirement security.

Figure 11.1
Among Large Firms Offering Health Benefits to Active Workers, Percentage of Firms Offering Retiree Health Benefits, 1988-2022



KFF 2023 Employer Health Benefits Survey

PENSIONS ARE POLITICAL | UAW is fighting to win back defined benefit pensions ►

- Pensions are central to the UAW's political and legislative program going forward. In our contract fights and new organizing we are explicit about fighting for retirement security.
- We continue to work in bargaining to win back defined benefit pensions, including proving that there is very little cost differential. We also critically push back on companies that want to liquidate pensions for our current members through annuity purchases or lump sums. Companies are still trying to profit off our pensions through such pension risk transfer schemes.
- To counteract the employers' attack on pensions and retirement security, the law's low funding requirements must be addressed. Legislation is important to the future viability of pension plans in America.
- At a time when we need more retirement security – not less, Republicans in Congress have proposed raising the retirement age and cutting billions from Social Security.
- When he was President, Donald Trump proposed social security by $26 billion.

CONGRESS MUST ACT | Social Security is central to retirement security ►

- Social Security is meant to provide a supplement to retirement income. Many Americans are living solely off their Social Security benefit. The average social security check is about $1,900 a month. That isn't enough to pay the rent, food, health care, and other living expenses. It is our responsibility to maintain and improve the Social Security program and resist all efforts to weaken or eliminate its benefits. Social Security must be preserved and strengthened to protect American retirement security.

- Protect and expand Social Security through the Social Security Expansion Act which would:
    - Extend the solvency of Social Security for 75 years by requiring the wealthiest American households to pay their fair share of taxes. All income above $250,000 would be subject to payroll taxes.
    - Expand Social Security benefits across-the-board by $2,400 per year for current and new beneficiaries.
    - Increase Cost-Of-Living-Adjustments (COLAs) by adopting the Consumer Price Index (CPI) for the Elderly.
- Retirement for All
    - Require all businesses to offer their workers a way to automatically save for retirement via their regular paycheck.
    - Require employers to offer a way for workers to get retirement income in reliable monthly checks, as is the case with Social Security.
    - Set up a federal retirement plan for employers to use, should they choose not to set up their own plan.

[SUMMARY STATEMENT OF SARA SCHAMBERS]

Sara Schambers is carrying on the legacy of four generations of autoworkers at Ford. She is the first generation without a pension.

For the previous generations, a pension offered a dignified life after retirement or a safety net for when the times got tough, or their health declined.

The work at Ford used to be a good, stable job. But, following the financial crisis, autoworkers have only known instability. Today, without a pension, we must fend for ourselves in retirement and hope that our investments pan out.

Last year, the UAW's Stand Up strike won a 10 percent defined employer contribution at Ford, General Motors, and Stellantis—but not a pension. The companies claimed that Wall Street would not look favorably on an increase in their pension liability.

In 2028 when the Big Three contracts expire, the UAW will fight for real retirement security—a pension and post-retirement health care. For that fight, we need Congress on our side.

The CHAIR. Thank you very much, Ms. Schambers. Our next witness will be Teresa Ghilarducci, who is a Professor of Economics at the New School in New York City.

She has frequently published in economic journals and has authored several books on how we can ensure retirement security for all American workers. Thanks very much for being with us.

STATEMENT OF TERESA GHILARDUCCI, IRENE AND BERNARD L. SCHWARTZ PROFESSOR OF ECONOMICS AND POLICY ANALYSIS, THE NEW SCHOOL FOR SOCIAL RESEARCH, NEW YORK CITY, NY

[Technical problems.]

Ms. GHILARDUCCI. Sorry. Because of an inadequate pension system in the United States, our elder poverty rate exceeds all of our peers. We are the highest at 23 percent. In contrast, the poverty risk for Dutch elders is a very low 3 percent.

The U.S. retirement system gets C's and D's on international benchmarks, and the Dutch system gets an A. You might hear about the average retirement wealth being quite high and actually growing, but for the typical American, the median retirement wealth has gone down for the bottom 90 percent because averages don't tell the story, distribution does.

If Elon Musk walked on the witness stand today, he would be the richest on average witnesses of all time in the HELP Committee. But the typical retirement wealth for us would not go up. For the typical American approaching retirement, and my study looks at the elder households and their typical retirement wealth, the Social Security wealth is the most important.

The stream of Social Security benefits, a defined benefit system, for those in the bottom half of the wealth distribution, is worth about $188,000, but they have zero retirement wealth and zero home equity.

For the typical household in the next 40 percent, the middle class, their retirement wealth is only about $20,000, and they have, we have about $129,000 in home equity. It is only the top 10 percent who over the past 30 years have had rapid increase in their retirement health—retirement wealth, their health as well, and their home equity exceeds four times that of the middle class.

This all adds up—into a lack of retirement readiness, and that lack of retirement readiness has materialized even though Congress has given lots of tax breaks for retirement savings. There are a lot of other proposed savings, policies like home owning incentives.

There have been soaring tax breaks for savings, and there's been lots of substantial investments into financial advice and all sorts of retirement products. The U.S. retirement system has not flourished. It lacks three fundamental elements of a well-designed pension system.

A well designed pension system only needs three things. It needs to help all Americans accumulate enough money into their retirement accounts. It needs to help all Americans invest well into their retirement accounts. It needs to have a good way for Americans to de-accumulate their retirement accounts and lifetime benefits.

What is to be done? Well, Senators here have tried to protect the defined benefit system. Senators Cassidy and Kaine would mandate that ERISA plans let people into these plans earlier, at 18 not at 21. Your auto enroll act would help reinvigorate these auto enrollment provisions to help more participation.

You may hear about auto IRAs. These are automatic individual retirement accounts. They are at the state level and at the Federal level. They are good baby steps for more access, but IRAs permit leakages and they do not pool investments. And because people access their individual retirement accounts for emergency savings, homeownership, and other life events, they should be called individual emergency savings accounts.

They are not retirement accounts. But we can extend wealth building opportunities to all Americans. And one bipartisan, powerful proposal already exists. Senator Hickenlooper, along with Senator Tillis, Republican, Democrat, and also a Democrat and Republican in the House of Representatives, Terry Sewell and Lloyd Smucker, would expand retirement accounts to all public sector workers who don't have one. They do not crowd out existing accounts.

It follows a successful thrift savings plan, again, the savings plan for the staff Members of Congress and for Members of Congress. It would feature automatic enrollment. It would feature portability, a good investment offer option, and sensible de-accumulation.

It meets that three-prong test, and there is also a 5 percent match, which helps mitigate the top heaviness of our current match. It is endorsed by experts all across the political spectrum, the AARP, The Charles Schwab.

Last week I was on a radio talk show, and the 25 year old NPR host asked me why professor is retirement in America becoming a luxury? My students asked me every semester, why do so many people in America who are old, why are they poor or why do they have to work?

I congratulate Committee Members from both parties for recognizing the urgency, the disaster, and the crisis, and for your caring and your wisdom to solve it. I heard you all say that you need a bold bipartisan reform. Thank you.

[The prepared statement of Ms. Ghilarducci follows.]

PREPARED STATEMENT OF TERESA GHILARDUCCI

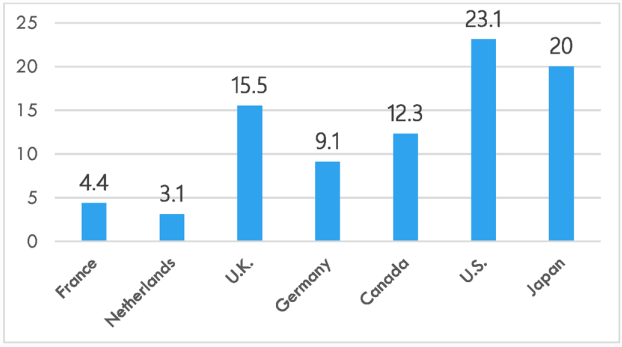
Go-Fund-Me Pensions Are Not A Solution

In April 2023, Betty Glover, a 91-year-old grocery store clerk in Oregon, could finally retire after a dedicated GoFundMe campaign raised $82,000. Glover was not the only one with a GoFundMe pension. Earlier that year, 82-year-old Walmart cashier Butch Marion retired thanks to a kindly gentleman with a Tik-Tok video who raised money for Butch. In the same year, young Texas school children raised money for their 80-year-old janitor's retirement.[1]

These outpourings of generosity are not feel-good stories. They reveal America's severely broken national retirement system where desperate seniors must work or rely on the kindness of strangers to dodge the increasing risk of elder poverty.

By international standards, elderly poverty in America is remarkably high: 23% of American elders are poor; in Canada the elder poverty rate is 12%; in the UK the elder poverty rate is over 15%; in France, it's 4.4%; and in the Netherlands (whose pension system consistently ranks as one of the world's best) just 3.1% of elders are poor.[2]

Table 1: The U.S. Tops Elder Poverty Rates Among Rich Large Nations (OECD)



The Coming Retirement Security Crisis

Most Americans over age 62 who are working do so out of necessity.[3] At the end of their working lives, most Americans, except those at the top of the income distribution, do not

have enough money to retire. Forty-four percent of households with members aged 55-64 have no savings at all[4] and will have to rely entirely on Social Security.

Social Security is the only source of significant retirement wealth for most households. In my recent research paper,[5] my co-authors (Siavash Radpour and Jessica Forden) and I document where Americans who are about ready to retire have placed their assets. Using data from the Federal Reserve and University of Michigan, we found that wealth for the bottom 90% of households nearing retirement has fallen in real terms over the past 30 years.

The largest source of wealth supporting retirement security for the bottom 90% is Social Security. The median amount of retirement savings for all households is $39,000, while the present value of their Social Security is worth over $235,000.[6] You may be surprised to learn that the median amount of home equity for all Americans is just $60,000 for all households who are ages 51-64.

But the really telling of what is going on with typical Americans is what households are doing by socio-economic class.

For households in the bottom half, remember these are households who have lived their lives and now assessing where they stand in terms of retirement income security, they have next to nothing but Social Security. The bottom half have $188,300 in Social Security; nothing in retirement accounts, and the median home equity amount is zero. For the next highest 40% in the wealth distribution the median Social Security wealth is $300,500, $200,000 in retirement accounts, and $128,500 in home equity. For the top ten percent of households on the verge of retirement they $311,800 in Social Security; $764,700 in retirement accounts, and 305,000 in home equity. [7] See Table 2.

Table 2: Median Wealth Levels In 2016, By Wealth Distribution For Households Aged 51-64

Median Wealth Levels in 2016 By Wealth Distribution For Households Aged 51-64			
Type of Asset/Debt	**Bottom 50%**	**Middle 40%**	**Top 10%**
Primary residence net of mortgage debt	$0	$128,000	$305,000
Social Security	$188,300	$300,500	$311,800
Retirement savings and benefits (DC, DB, IRA)	$0	$200,000	$764,700
Other sources of wealth and debt	$5,000	$23,000	$67,000
Net wealth	$265,700	$865,400	$2,690,400

Source: Author's calculations using 1992 and 2016 HRS data and 2020 RAND-HRS longitudinal data.

The stark reality is that wealth has not grown for most people—despite pro-savings policies, home-owning incentives, countless revisions to the tax code and ERISA, the billions spent on financial advice, the thriving business in retail financial products, and hundreds of

billions of dollars in tax breaks for savings. Over a 20-year period, the share of the bottom 50% having any retirement account didn't change—46% in 1992 and 47% in 2016. Even the middle class suffered, with the share of the next 40% having retirement savings plunged from 85% in 1992 to a low of 71% in 2016. [8]

Anyone thinking that housing equity is the most important source of income for the middle class would be wrong. Home ownership has increased a bit for the bottom 50% but has fallen among the middle class and upper middle class. Home equity for the working and middle class has declined.

It's important to reiterate: According to the latest and best data available, the bulk of working-class wealth is in Social Security.

The stark fact that more seniors will be poor and financially fragile, either forcing them to depend on family members and their communities for basic needs or to withdraw from social interactions, is vast and severe. Almost all 70 million boomers will be over age 65 and their children make up an even larger cohort with no better wealth status. The United States' system of providing old-age income security is disjointed, behind the rest of our peers, expensive, and causes unnecessary shame, anxiety, and deprivation.

After 30 years of economic and policy changes since 1992, over half of workers still don't have a retirement plan at work; and for those that do, the median balance is about $100,000, not nearly enough for a secure retirement.

For American households approaching retirement, the median retirement account balance is about $100,000. The bottom 50% have a zero median balance—no savings at all—but they will need about $400,000 to supplement Social Security and avoid poverty and maintain their pre-retirement living standards; the next 40%, middle-class older workers, have about $60,000 in their retirement accounts—but they'll need about $600,000 to maintain their pre-retirement living standards; and the top 10% (those with annual incomes over about $140,000) have only $200,000 but they'll need about $3 million to keep their living standards.

Perhaps not surprisingly, the more you make, the more you're able to save. My research lab at the New School for Social Research found that high-income workers save 6.1 percent of their income for retirement, while workers in the bottom half save only 2.8 percent.[9]

Why such huge shortfalls? Many blame American consumerism and lack of discipline. But there is no evidence that Americans have suddenly become impulsive and lost all their restraint and fiscal probity. There is a great deal of evidence that Millennials and Generation X have more financial literacy than previous generations.[10] Instead of blaming people for not surviving in the existing retirement system, we should blame the existing retirement system for failing hard-working Americans.[11]

Over half of American workers are left out of the nation's most important wealth-building system—retirement accounts[12]—because more than half of U.S. workers don't have a pension nor a 401(k) at their current job. Not only do most jobs lack retirement plans, the lowest-paying jobs are the least likely to sponsor a retirement account. Employers don't have to offer a pension, and most no longer do. The voluntary nature of our system means a low- or middle-income worker most often does not have a chance to save 15% to 20% of their income on their own.

Over the last 40 years, the American pension system has eroded to the point where the U.S. system lacks the three basic elements of a well-designed pension system:

1. A well-designed pension system allows workers to accumulate money over their career.

2. A well-designed pension system allows workers to invest their retirement savings well.

3. A well-designed pension system makes it easy for retirement wealth to last a lifetime no matter how long you live.[13]

But most Americans do not have access to a well-designed pension system. The most effective way to save for retirement persistently is through tax-advantaged retirement savings accounts. As I mentioned above, most workers are not able to save for retirement in a workplace plan. And federal policy steers the bulk of the over $270 billion tax subsidies for retirement to those in the top 20% of the earnings distribution, leaving behind low- and moderate earners.

Even if workers save enough, they don't have access to pooled and professionally invested funds like defined benefit (DB) plans do. DB returns exceed 401(k) returns by about 1%, meaning that workers without DB plans end up with 15-20% less for the same amount of contributions.[14] And let's be honest: figuring out how to make $100,000 last a lifetime is vexing for anyone.

Since for-profit corporations have dropped DB plans (though notably not as commonly in the Defense and Pharma sectors), some lawmakers, employers, and workers have tried to put DB features in the defined contribution (DC) system.

The United States receives low marks in global pension comparisons. In the Mercer CFA Institute Global Pension Index, the U.S. persistently earns Cs and Ds for its inadequacy of coverage, inadequacy of benefits, and poor integrity of regulatory and governance systems regarding protecting savers against conflict of interests.[15]

Nations that receive the highest marks in international comparisons for their pension systems have many DB features that are not offered in typical 401(k)-type, DC plans. Finland, for instance, has maintained a DB plan for its earnings-related pension system which covers all workers. The biggest barrier to wealth accumulation for most American households is lack of access to either a DB or a DC plan.

It's important to understand the impacts of America's shift from DB to DC pension plans. Though employers were never required to offer a DB plan (unless in a union agreement), every DB plan automatically enrolled every eligible worker–and employees could not opt out. This universality cannot be duplicated in the DC world, unless employers, or another entity like the government, contribute to every worker. 401(k) plans with DB features are more efficient than DC plans. In a typical DC plan, participants pay retail marketing, management, and annuitization fees—whereas DBs pay wholesale, meaning that more of each dollar saved goes toward retirement benefits under a DB plan.

There are ways to import some key DB features into DC plans to help protect workers from idiosyncratic risk, market risk, and longevity risk. DC plans could do what DBs do—help workers create professional, low cost, easy to understand portfolios. A sane set of choices in a self-directed DC plan can mimic the efficient low-cost portfolios in pooled DB funds and substantial reduction of a worker's risk of making unwise or unlucky investment decisions. Also, DB plans have a long-term horizon—to mimic this, DC plans must steer workers into long-term investment to ride out bad market risks. And DB plans typically pay a monthly lifetime benefit upon retirement, thereby reducing the risk that a worker runs out of savings. DC plans could do that too, but it must be pooled.

The shift away from defined benefit plans DBs are structured so that people who are worn out from work or at risk of being involuntarily retired and pushed out can retire early. Thus, DBs are associated with lower risk of dying on the job and never having any retirement time. DBs are also associated with longer, healthier retirements, in which retirees spend less time sick and impaired.[16] A well-funded DC account balance could give workers the same capacity to retire before dying, being too sick, or getting pushed out of the labor market.

The demise of DBs brings another big loss: DB benefits are often distributed as payments for life and DBs lower the risk of anxiety and depression in old age because it reduces the risk of running out of money before you die.[17] (A well-designed DC plan, like the TSP, can mimic this annuity feature.)

Every worker deserves a retirement plan with automatic enrollment, simple and efficient investments, very low expense ratios, and matching contributions by the government (like the wealthy now have with top heavy tax breaks).

Solutions

What is to be done?

We must expand access to well-designed retirement plans. What is a well-designed pension plan? Remember the trinity of features of an effective retirement system: It provides for effective accumulation, efficient investment, and appropriate deaccumulation.

First, let's look at accumulation. All workers need access to wealth-building savings plans and contribution matches from employers and government subsidies like the highest earners have now. Plans with DB-like features work best because they prevent leakage and have automatic enrollment.

Now let's look at investment. All workers need access to a professionally managed, low-cost, efficient, and diversified financial portfolio, a basic feature of a DB plan. DB plans have automatic fiduciary protections.

And deaccumulation. All workers need a way to make retirement savings last a lifetime like DB plans and Social Security do. A DC plan can mimic those drawdown features, but they rarely do.

Pension reform will have to be bipartisan,[18] and I am happy to be part of a bipartisan effort to help all Americans build wealth and retire at the end of their working lives. There is a great deal we can do to expand and enhance retirement security for Americans, as outlined below.

Improving Current DB Plans

A comprehensive strategy to advance retirement security would be to protect existing DB plans. This includes shoring up the Pension Benefit Guaranty Corporations. Many entities have gone back to a DB plan after experimenting with a DC structure. Alaska public employers are attempting to reverse their choice in 2006 to end their DB plans for public employees because of their unusually high turnover and substantial levels of teacher and public safety employees.[19]

Other efforts to amend ERISA to expand access are worthy. Senator Kaine's bill, the Helping Young Americans Save for Retirement Act[20], requires ERISA plans to offer access to workers starting at age 18 (instead of the current 21-year-old threshold). And Senator Kaine's Auto Reenroll Act of 2023 reinvigorated the auto-enroll trigger every three years, encouraging more workers to be auto-enrolled in a retirement plan. This measure should help some workers who tend to opt out when they were young, or are not as well paid, or had other reasons not to join to re-enter a retirement plan.

Auto IRAs

Bipartisan legislation like Secure 2.0 provided important first steps toward improving the system. But the reforms did not address the more than 69 million Americans without any retirement plan. Congressman Neal's auto-(IRA) Individual Retirement Account bill, for instance, would exclude workers who are self-employed and whose employers have less than ten employees. These exclusions could leave out as many as 45 million workers who need help the most.[21] Additionally, IRAs only provide high-priced retail investment products, allow pre-retirement withdrawals that erode the value of assets by the time the person reaches retirement age (leakages severely erode the usefulness of retirement accounts for working people[22]), and do not allow employer contributions. The Auto-IRA bills would be more accurately called the "Auto ILA" bills--instead of the "Individual Retirement Account" (IRA) they would be more accurately described as Individual Liquid Account (ILAs). Liquidity is good, everyone needs emergency savings and savings to buy a house and fund a child's life course, but if retirement savings is used for all those purposes there is no money left for retirement. Women and nonwhite families are especially vulnerable to leakages for family member needs.[23]

Federal Thrift Savings Plan (TSP)

In 2021, I wrote a paper for the Economic Innovation Group, a bipartisan think tank here in Washington, with an economist on the other side of the political spectrum who I might not have crossed the room in a cocktail party to greet—Kevin Hassett, the former chair of the White House Council of Economic Advisors in the Trump administration. But we came together as economists worried about growing wealth inequality. We admire the Thrift Savings Plan design and want the more than 70 million Americans who currently do not participate in an employer-sponsored plan to be able to save safely and effectively for retirement.[24] Low-income workers in the populous states of Florida, Texas, and California would especially benefit since they have some of the lowest rates of pension participation among low-income workers in the country.[25]

In our paper we found that after TSP adopted automatic enrollment, those plans with workers with a high school degree or less rose to 95 percent; and those in the bottom one-third of earnings also saw their participation rates rise to 95 percent. Experience with TSP and unions representing low-income workers—warehouse workers, laborers, textile workers, janitors, retail clerks, nurses' aides—provides compelling evidence that workers left behind by the current top-heavy 401(k) system will avidly save for retirement in well-designed savings program.

It has been demonstrated by many experts and lawmakers that a comprehensive and bold retirement system plan can expand wealth-building to all American workers. Most notable was the comprehensive bill outlining Universal Savings Accounts (USA) by Senator Tom Harkin. I would also mention my proposals for a Guaranteed Retirement Account (GRA). I worked with the Economic Policy Institute to propose the establishment of GRAs right before the last financial crisis and most recently in 2015 book with co-author Tony James.[26] My new 2024 book, "Work, Retire, Repeat: The Uncertainty of Retirement in The New Economy" discusses a comprehensive set of reforms.

The Harkin bill[27] and the GRA include the following principles, which combine principles from Senator Harkin's report to the HELP committee in 2012 and work from a coalition that came together after the financial crises in 2009. The principles are timeless, practical, and shared by the best systems in the world.

I recently served as a moderator in a high-level convening of administrators of several nations' pension systems. I am sworn to confidentiality but I can say that the representatives from the countries that consistently earn the highest ratings in the Mercer Melbourne pension index told the small select group that their national systems earn those high ratings because they ignored pension advice from Americans and other interest groups that want to break up their systems into individual, voluntary accounts that people can choose not to participate in and withdraw money frequently before they retire and in lump sums at retirement.

Principles of Good Retirement Systems

The highly ranked Finnish system is mandatory, universal, provides earnings-related benefits even to very wealthy workers, and pays out an annuity for life. The benefits are advance-funded and managed by professionals. There is no leakage before retirement. Finland, the Netherlands, Denmark, and other nations that get high marks for their pension systems incorporate these 11 key principles:

1. Universal and Automatic Coverage: Every worker should be covered by a retirement plan, in addition to Social Security, and enrolled automatically as they are in Social Security. Most workers, including an increasing number of young workers, realize they should save for retirement, but there is significant competition for every dollar of earnings. Financial decisions are difficult and can cause a "freeze" reaction. When saving is easy and automatic, wealth grows.

2. Secure and Guaranteed Retirement Income: Retirement shouldn't be a gamble. Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security. The retirement system should provide people with certainty.

3. Adequate Retirement Income: The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

4. Shared Responsibility: Retirement should be the shared responsibility of employers, employees, and the government. Many sources of contributions help build wealth.

5. Required and Steady Contributions: Having employers, workers, and employees all contribute helps build wealth. The government should subsidize the contributions of lower-income workers, not just the rich. In Finland, there is no ceiling on pension contribution amounts.

6. Pooled Assets and Professional Portfolio Management: The American retirement system is the only one in the OECD that expects people to become investment experts. Everyone should have access to prudent, professional asset management.

7. Payouts Only at Retirement: No withdrawals or loans should be permitted before retirement, except for permanent disability. Otherwise, those savings accounts are meant for worthy events to be financed, like emergency income shocks, economic downturns, medical, and life events.

8. Lifetime Payouts: Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses. DC plans, that have well-designed withdrawal options (like the Thrift Savings Plan and the DC plan I am in – the Teachers Insurance Annuity Association) can mimic the annuity type payout of DB plans and Social Security with well-structured de-accumulation strategies.

9. Portable Benefits: Retirement accounts should be portable when workers change jobs.

10. Efficient and Transparent Administration: The system should be administered by a governmental agency or by private, non-profit institutions that are efficient, transparent, and governed by boards of trustees that include employer, employee, and retiree representatives. All retirement assets should be in fiduciary accounts.

11. Effective Oversight: Oversight of the new system should be by a single government regulator dedicated solely to promoting retirement security.

Retirement Savings for Americans Act (RSAA) of 2023

If every worker without a plan had access to the elegant and well-designed retirement plan that every member of Congress and federal employee has, we would make big leaps in updating our system and securing retirement for all Americans. Fortunately, we now have that opportunity.

Senators John Hickenlooper (D-CO) and Thom Tillis (R-NC), and Representatives Terri Sewell (D-AL-07) and Lloyd Smucker (R-PA-11) have introduced the Retirement Savings for Americans Act (RSAA) of 2023[28] for private-sector workers without retirement plans at work. The RSAA is modeled after the highly successful federal Thrift Savings Plan (TSP). The RSAA includes many important features of a successful retirement system, such as automatic enrollment, portability, low fees, and good returns. After 40 years of matched contributions and a reasonable rate of return, someone earning $30,000 annually without leaking could retire with about $600,000 in savings paid out in an annuity.[29]

The RSAA would also help fix the top-heavy retirement tax breaks in which the federal government currently provides the top 20% of taxpayers with over 60% of the $267 billion spent.[30] To adequately cover all Americans, we need to smooth out this imbalance. The RSAA would provide a match of up to 5% for the workers in the bottom half of the earnings distribution saving 5% for retirement.

The RSAA will help raise the U.S. pension system performance compared to other nations at a fraction of what we already spend on high-income workers through the tax code. Importantly, the RSAA is a continuation of the longstanding bipartisan cooperation in Congress on retirement policy. It isn't just a good idea on paper; because it has endorsements organizations and experts across the political economy ideological spectrum -- including AARP and the Charles Schwab – it is likely politically viable. It already has bipartisan, bicameral support. If there is a Secure 3.0, the RSAA should be the cornerstone of such legislation.

International Comparisons

As I mentioned earlier, the highly ranked Finnish, Dutch, and Danish pension systems have the design features of efficient and effective pension systems that provide universal coverage.

In Finland, universal coverage is ensured through statutory requirements that all workers, including self-employed individuals, be covered by a pension plan. In the Netherlands, occupational pension plans are established through industrial relations agreements. [31]

Many other nations with highly ranked pension systems prioritize the protection of low-income seniors, as evidenced by notable differences in elder poverty rates. For example, the Netherlands boasts a senior poverty rate of only 3.3%, in stark contrast to the U.S.'s 23%. The Netherlands provides a flat-rate, tax-funded state pension that is indexed to a percentage of minimum wages.

In Denmark, funded pension systems are administered at the sectoral or industry level rather than at the individual or firm level, ensuring efficient investment of funds. [32]

Various sources of contributions play a crucial role in building wealth within other nations' highly ranked pension systems. For instance, in Finland, the Netherlands, and Denmark, pension systems explicitly acknowledge the responsibility of multiple stakeholders to ensure effective operation.

The Netherlands imposes restrictions on withdrawals from the state pension, permitting early withdrawal only from additional occupational pension schemes. The table includes the international ratings. The U.S. System ranks lower than Kazakhstan

.

Table3: International Rankings of Global Pension Systems – Mercer-Melbourne Index

System	Rank	Overall Grade	Total	Adequacy	Sustainability	Integrity
Netherlands	1	A	85	85.6	82.4	87.7
Iceland	2	A	83.5	85.5	83.8	80
Denmark	3	A	81.3	82.5	82.5	77.8
Israel	4	A	80.8	77	82.7	84.4
Australia	5	B+	77.3	70.7	78.4	86.1
Finland	6	B+	76.6	77.4	65.6	90.9
Singapore	7	B+	76.3	79.8	71.6	77
Norway	8	B	74.4	79.4	59.1	87.8
Sweden	9	B	74	72.1	75.6	75
UK	10	B	73	77.3	62.7	80.6
Switzerland	11	B	72	69.6	70.6	77.9
Canada	12	B	70.2	71.1	64.5	76.7
Ireland	13	B	70.2	77.1	54.4	81.1
Chile	14	B	69.9	60	71.3	84
Uruguay	15	B	68.9	84	46.2	76.5
Belgium	16	B	68.6	82	39.4	88.2
New Zealand	17	B	68.3	65.6	64.3	78.3
Portugal	18	B	67.4	86.7	32	85.9
Germany	19	B	66.8	79.8	45.3	76.3
Kazakhstan	20	C+	64.9	46.9	74.8	80
Hong Kong SAR	21	C+	64	51.9	61.1	87.6
USA	**22**	**C+**	**63**	**66.7**	**61.1**	**59.5**

Now I'd like to take us back to the U.S. and briefly look at the important and often overlooked relationship between good pensions and good jobs.

An Overlooked Effect of Universal Pensions: Better Labor Markets

Pensions help boost worker bargaining power. When people are financially secure enough to retire, like Betty Glover and Butch Marion, they have leverage to raise pay and working conditions for all workers. Yet, instead, desperation reigns in the U.S. labor market. Workers over age 55 are disproportionately represented in low-reward, high-effort jobs, such as home and personal care and janitorial services. At least two-thirds of workers aged 62 and older are working because they can't afford to retire. At the same time, many who need to work can't because of layoffs, bad health, outdated skills, and age discrimination.

In 2020, over one-fifth (21%) of the 35 million American workers 55 and over earned so little that they qualified as the working poor.[33] In comparison, 19% of mid-career workers—ages 35-54—earned wages low enough to be deemed working poor. (We use the conventional definition of low-wage as earning below two-thirds of the U.S. median annual hourly wage; the cutoff for low-wage was $15.29 an hour in 2020.[34])

Despite the obvious solutions—improve the design, effort, and money into the retirement system—the prevailing mantras of "work longer" and "we don't need better pensions" persist. *The Economist* recently trumpeted, "why you should never retire."[35] Working until you drop is not a civilized old age income support plan for a civilized society. The nation should not depend on people working longer to make up for inadequate retirement-income security or blame their flaws for old age poverty.

Conclusion

America's retirement payment crisis is significant as more baby boomers are retiring now and will live for another 15 years or more. Their children constitute a large generation and have lived under a system without robust defined benefit plans. Debt-creating institutions such as home equity loans, credit cards, and student loans have overwhelmed our wealth-creating institutions. SECURE, SECURE 2.0, and other incremental policies—while all good steps—are not bold enough or comprehensive enough for us to catch up to other nations' comprehensive pension systems that help people accumulate wealth, invest it well, and arrange it so that it lasts a lifetime.

On a personal note, over the decades that I have studied aging in America it is the stubbornly low relative status of elders' income security that always surprises me. Why do old people in America do so much worse than in other rich countries? When I was in college I thought the solution was just to increase Social Security and have people in their unions bargain for better pensions. I thought Medicare would add long term care insurance, I even thought the stock market and more home ownership would bring down elder poverty rates when my mother retired and shrunk them even more when I retired. But she retired at 72 and still depended on Social Security and a program for low-income seniors and generous cash gifts from my brother. And the fragility of seniors and their families has only grown.

I am so happy the Committee is paying attention people in the working and middle classes challenges to retire in dignity. My undergraduate and graduate students want to know why the U.S. fails in providing income support to the elderly when it can afford to.

In closing, I want to thank the HELP Committee members for your time, attention, and interest in this critical issue. Based on my thirty-plus years of study in this field, I want to strongly encourage this committee, the Senate, and Congress to think big and pursue bold, *bipartisan* comprehensive reforms that provide every hard-working American with the retirement security they need and deserve. It's an investment we can afford to make, and that will pay huge human and economic dividends.

NOTES:

[1]"Grocery cashier, 91, can finally retire after raising $75K on GoFundMe." April 25, 2023. Michelle Butterfield. *Global News*.https://globalnews.ca/news/9649410/grocery-cashier-retirement-gofundme-betty-glover/; "A Maryland TikToker raised more than $140K for an 82-year-old Walmart worker." JANUARY 13, 2023. Jaclyn Diaz NPR. https://www.npr.org/2023/01/13/1148742950/walmart-employee-gofundme-tiktok-retirement; "Students raise more than $270K so 80-year-old janitor can retire." Gustaf Kilander. February 24, 2023. *The Independent*. https://www.independent.co.uk/news/world/americas/janitor-retire-texas-student-fundraise-b2289203.html

[2] Organisation for Economic Cooperation and Development. https://www.oecd-ilibrary.org/sites/d76e4fad-en/index.html?itemId=/content/component/d76e4fad-en

On average in the OECD, 14.1% of individuals over the age of 65 live in relative income poverty, defined as having an income below half the national median equivalized household disposable income.

[3] Ghilarducci, T., Papadopoulos, M., & Webb, A. (2022). The Illusory Benefit of Working Longer on Retirement Financial Preparedness: Rethinking Advice that Working Longer Increases Retirement Income. *The Journal of Retirement*. Exhibit 1.

[4] SCEPA and Economic Policy Institute 2023 Retirement and Older Worker Chart Book https://www.epi.org/publication/chapter-2-retirement/#charts.

[5] Ghilarducci, T., Radpour, S., & Forden, J. (2024). No Rest for The Weary: Measuring the Changing Distribution of Wealth in The United States. Forthcoming in the *Review of Political Economy. https://ideas.repec.org/p/epa/cepawp/2023-02.html*

[6] Ghilarducci, T., Radpour, S., & Forden, J. (2024). No Rest for The Weary: Measuring the Changing Distribution of Wealth in The United States. Forthcoming in the *Review of Political Economy. https://ideas.repec.org/p/epa/cepawp/2023-02.html*

[7] Ghilarducci, T., Radpour, S., & Forden, J. (2024). No Rest for The Weary: Measuring the Changing Distribution of Wealth in The United States. Forthcoming in the *Review of Political Economy. https://ideas.repec.org/p/epa/cepawp/2023-02.html*

[8] Ghilarducci, T., Radpour, S., & Forden, J. (2024). No Rest for The Weary: Measuring the Changing Distribution of Wealth in The United States. Forthcoming in the *Review of Political Economy. https://ideas.repec.org/p/epa/cepawp/2023-02.html*

[9] No wonder there are 39 million workers aged 55 and older in the U.S., and workers 75 and older are the fastest-growing age segment of the workforce. These workers aren't typically professors or lawmakers, many millions of older workers flood the labor market desperate to work in low-paying, physically demanding and dangerous jobs with little voice or power.

[10] Carlin, B., Olafsson, A., & Pagel, M. (2017). *FinTech Adoption Across Generations: Financial Fitness in the Information Age* (No. w23798). National Bureau of Economic Research. "Millennials and Generation Z Are More Likely To Discuss Salary Than Older Generations." September 29, 2023. Jamela Adam. *Forbes*. https://www.forbes.com/advisor/banking/talking-about-money-by-generation/

[11] Complaints about 25-year-olds eating too much avocado toast and not saving for a house are common. But we should blame the system for leaving so many people out of the wealth-building system that retirement is becoming a luxury. https://www.cnbc.com/2021/04/13/the-reality-of-millennials-spending-habits.html.

[12] Ghilarducci, T., Radpour, S., & Forden, J. (2024). No Rest for The Weary: Measuring the Changing Distribution of Wealth in The United States. Forthcoming in the *Review of Political Economy*

[13] The badly designed pension system means that the bulk of current and future older Americans will face relatively more fragility.

[14] Munnell et. al. (2015). https://crr.bc.edu/wp-content/uploads/2015/12/IB_15-211.pdf Milevsky, M. A., & Promislow, S. D. (2004). Florida's Pension Election: From DB to DC and Back. *Journal of Risk and Insurance*, *71*(3), 381-404.

[15] Knox, D. (2023). *Mercer CFA Institute Global Pension Index 2023.* Melbourne: Mercer LLC. Retrieved from https://www.mercer.com/assets/global/en/shared-assets/global/attachments/pdf-2023-mercer-cfa-global-pension-index-full-report-11-09-2023.pdf.

[16] Ghilarducci, T., & Webb, A. (2018). The Distribution of Time in Retirement: Evidence From the Health and Retirement Survey. *Work, Aging and Retirement*, *4*(3), 251-261.

MEN AND WOMEN (Only significant results are reported)	Retirement Time (OLS)	Sick Share (Tobit)	Share who died without retiring (share with zero retirement time) (Probit)

Black	-1.09	0.15	-0.02
Low Education		0.11	
Had Defined Benefit Plan	2.635	-0.03	-0.42
No Retirement Plan	-1.83	0.05	0.34
Married/Partnered	2.39	-0.08	-0.29
Observations	1246	1159	1246

[17] Bender, Keith A., and Natalia A. Jivan. *What Makes Retirees Happy?* Vol. 28. Boston: Center for Retirement Research at Boston College, 2005.

Lim, H., & Lee, J. M. (2021). Retirement Income Sources and Subjective Financial Well-Being: A Comparison of Retirees and Non-retirees. *Journal of Financial Counseling and Planning*, *32*(3), 517-534.

Bender, K. A. (2012). An analysis of well-being in retirement: The role of pensions, health, and 'voluntariness' of retirement. *The Journal of Socio-Economics*, *41*(4), 424-433.

Panis, C. W. (2004). Annuities and Retirement Well-Being. *Pension Design and Structure: New lessons From Behavioral Finance*, 259-274.

[18] In 2022, Congress passed SECURE 2.0, widely considered an effort at pension reform. But the bipartisan legislation enhanced tax breaks for higher earners and those with substantial wealth. It provided a refundable tax credit for only those low-income workers with a plan—leaving out over 60 million workers without a plan, who got nothing. Also, "penalty free" withdrawals encourage leakages before retirement, one of the main reasons for persistently low balances. SECURE 2.0 makes it too easy to withdraw retirement savings before retirement. There are no early withdrawal penalties for the first $1,000 of emergency withdrawals, which is problematic because early withdrawals are one of the major causes of low retirement savings. If workers withdraw before retirement, they can't get the Savers Match until they pay back the withdrawn amount or wait for three years. The upshot is that the "penalty free" withdrawal means losing the 50% savers match on their next $1,000 of contributions, which is a huge implicit penalty. This leakage will significantly reduce the Savers Match benefits.

[19] "Faced with recruiting crisis, Alaska mulls reopening of 2 pension plans." Rob Kozlowski February 14, 2024, *Pensions & Investments*.

[20] https://www.congress.gov/bill/118th-congress/senate-bill/3305 Helping Young Americans Save for Retirement Act S3305

[21] Over 19 million workers work in establishments with less than nine employees, according to the BLS. https://www.bls.gov/charts/county-employment-and-wages/employment-by-size.htm

And another 24 million people are estimated to be gig or self-employed workers—15% of 160 million workers. Katz, L. F., & Krueger, A. B. (2019). The Rise and Nature of Alternative Work Arrangements in the United States, 1995–2015. ILR Review, 72(2), 382-416. https://doi.org/10.1177/0019793918820008

[22] Munnell, A., & Webb, A. (2015). The Impact of Leakages from 401 (k) s and IRAs. *Center for Retirement Research at Boston College*, (15-2). Argento, R., Bryant, V. L., & Sabelhaus, J. (2015). Early withdrawals from retirement accounts during the Great Recession. *Contemporary Economic Policy*, *33*(1), 1-16. Butrica, B. A., Zedlewski, S. R., & Issa, P. (2010). Are Early Withdrawals from Retirement Accounts a Problem?. *Issue Brief*, *27*. And Ghilarducci, T., Radpour, S., & Webb, A. (2019). New evidence on the effect of economic shocks on retirement plan withdrawals. *The Journal of Retirement*.

[23] Hill, J. D. (2022). Kin support of the Black middle class: Negotiating need, norms, and class background. *Social Problems*, *69*(1), 3-21. and Richman, K., & Saad-Lessler, J. (2021). Retirement Savings and Resilience: A Comparison of Hispanic/Latinos' and Non-Hispanic/Latinos' Responses to Retirement Insecurity.

[24] The Thrift Savings Plan is a hybrid defined benefit and defined contribution savings program now available only to federal employees and members of the military. The TSP was first established in 1987 and has evolved to incorporate some best practices rooted in efficient portfolio management and behavioral science. TSP members—including most members of Congress and congressional staff—have automatic enrollment, a simple menu of investment options, an easy user interface, very low expense ratios, matching contributions by the government of up to five percent of income, and several other features that, when combined, have proven effective at encouraging remarkably strong participation among eligible workers.

[25] Economic Innovation Group. How Much Does Retirement Plan Coverage Vary by State and Income? An Updated Look. (August 10, 2023) https://eig.org/state-retirement-coverage-2023/

[26] Ghilarducci, T., & James, T. (2018). *Rescuing Retirement: A Plan to Guarantee Retirement Security for All Americans*. Columbia University Press.

[27] Senator Harkin, C. T. (2012). The Retirement Crisis and a Plan to Solve It. *US Senate Committee on Health, Education, Labor and Pensions, Washington, DC*. And https://www.epi.org/publication/principles_for_a_new_retirement_system/

[28] S.5271 Retirement Savings for Americans Act of 2023. https://www.congress.gov/bill/118th-congress/senate-bill/3102/text?s=1&r=2

[29] This estimate assumes that someone contributes five percent of their annual income and receives a five percent match, that the account has a seven percent annual return, and that there are no early withdrawals.

[30] The federal government spent $276 billion in tax incentives to support private retirement savings in 2019. Only $16 billion went to the bottom 40 percent of income earners, while 60% went to the top 20%. Congressional Budget Office. "The Distribution of Major Tax Expenditures in 2019." (Washington: 2021), available at www.cbo.gov/system/files/2021-10/57413-TaxExpenditures.pdf. Two analyses come from Center for American Progress (CAP) and Economic Innovation Group (EIG). https://www.americanprogress.org/article/tax-breaks-for-retirement-savings-do-not-help-the-workers-who-need-them-most/ and https://inclusivewealth.eig.org/federal-retirement-tax-benefits-are-mostly-used-by-the-wealthy-heres-how-to-make-them-work-for-everyone/ These estimates ignore the huge regressive tax breaks at the state level. Ghilarducci, T., & Cid-Martinez, I. (2015). Transforming Federal and State Retirement Tax Deductions to Refundable Tax Credits. *Marq. Benefits & Soc. Welfare L. Rev.*, *17*, 87.

[31] OECD (2023). Pensions at a Glance: Country Profiles – Netherlands. https://www.oecd.org/els/public-pensions/PAG2023-country-profile-Netherlands.pdf

[32] Jensen, S.E.H, Lassila, J, Määttänen, N. Valkonen, T & Westerhout, E. (2020). The Top Three Pension Systems: Denmark, Finland, and the Netherlands. *The Journal of Retirement* https://www.pm-research.com/content/iijretire/8/2/76

[33] Ghilarducci, T., & Schuster, B. (2021). Working Longer Not a Panacea Considering the Number of Low-wage Work Options. *Generations Now*.

[34] OECD (2024). Wage levels (indicator). doi: 10.1787/0a1c27bc-en (Accessed on 23 February 2024) Earnings and wages - Wage levels - OECD Data.

[35] "Why you should never retire." January 25, 2024. *The Economist*. https://www.economist.com/business/2024/01/25/why-you-should-never-retire

[SUMMARY STATEMENT OF TERESA GHILARDUCCI]

Because of insufficient retirement wealth the U.S. elder poverty rate—by international standards has the highest—*the highest*, among rich nations at 23 percent, in contrast, the poverty risk for Dutch elders (the Netherlands is known for its top-ranking pension system) is only 3.1 percent. Ghilarducci uses Federal Reserve and University of Michigan data to show individuals nearing retirement age in the bottom half of the wealth distribution possess $188,300 in Social Security wealth, have no wealth in retirement accounts, and have a median home equity amount of zero. For the next highest 40 percent, the median Social Security stands at $300,500, $200,000 in retirement accounts and $128,500 in home equity. The top 10 percent of households hold $311,800 in Social Security, $764,700 in retirement accounts, and $305,000 in home equity.

Despite various pro-savings policies, home-owning incentives, revisions to the tax code, and initiatives like ERISA, as well as substantial investments in financial advice and retail financial products, the U.S. retirement system lacks three fundamental elements of a well-designed pension system: universal access, portability and consistent contributions, good investment options, and lifetime benefits.

Suggested solutions include protecting and expanding existing Defined Benefit (DB) plans, as some employers are reverting to DB plans after encountering high turnover rates. Senators Kaine and Cassidy's bill mandates ERISA plans to offer access to workers 18 and over instead of 21 and older. Kaine's Auto Reenroll Act of 2023 revitalizes the auto-enroll trigger every 3 years, encouraging more participation.

Auto IRAs are baby steps to more access; but they fail to pool investments and permit leakages. "Individual Retirement Accounts" (IRAs), would more accurately be termed Individual Liquid Accounts (ILAs). While liquidity for emergency savings, homeownership, and funding various life events, is good tapping into retirement savings at young ages leaves inadequate funds for retirement.

A comprehensive and bold retirement system plan can extend wealth-building to all American workers. Initiatives such as Universal Savings Accounts (USA) by Senator Tom Harkin and proposals for a Guaranteed Retirement Account (GRA) adhere to principles found in the world's best pension systems: universal access, portability, steady and adequate contributions, professional asset management, lifetime payouts, fair tax subsidies, and efficient administration.

The Retirement Savings for Americans Act (RSAA) of 2023, sponsored by Senators John Hickenlooper and Thom Tillis, along with Representatives Terri Sewell and Lloyd Smucker, would offer retirement plans to private-sector workers lacking such provisions. Modeled after the successful Federal Thrift Savings Plan (TSP), the RSAA features automatic enrollment, portability, low fees, and favorable returns. The RSAA mitigates the top-heaviness in retirement tax breaks, where the top 20 percent of taxpayers currently receive over 60 percent of the $267 billion spent by the Federal Government. The RSAA proposes a match of up to 5 percent for workers in the bottom half of the earnings distribution saving 5 percent for retirement.

Endorsed by organizations and experts across the political spectrum, the RSAA boasts bipartisan, bicameral sponsorship.

Drawing examples from other nations where funded pension systems operate to provide adequate benefits and universal access, Ghilarducci emphasizes the need for comprehensive reforms to ensure retirement security for all Americans.

The CHAIR. Thank you very much. Our next witness will be Dan Doonan, who is the Executive Director of the National Institute on Retirement Security. He has more than 20 years of experience working on retirement issues. Mr. Doonan, thanks a lot for being with us.

STATEMENT OF DAN DOONAN, EXECUTIVE DIRECTOR, NATIONAL INSTITUTE ON RETIREMENT SECURITY, WASHINGTON, DC

Mr. DOONAN. Thank you. Chairman Sanders, Ranking Member Cassidy, and Members of the Senate Health Committee, I appreciate the opportunity to testify on the state of retirement in the

United States and the role of defined benefit pensions and delivering retirement security.

I am Dan Doonan, Executive Director of NIRS, and we are a nonpartisan, nonprofit think tank in Washington, DC. and we have a broad membership base, financial services companies, plan sponsors, labor unions and nonprofits, including AARP. Congress has made progress to address America's retirement crisis.

The Secure Act and Secure Act 2.0 were steps in the right direction. However, much work remains to ensure that Americans can be self-sufficient in retirement. The key points I would like to make today are, first, Americans do face an alarming retirement savings shortfall. Second, the move away from pensions is a major culprit in the Nation's retirement crisis.

401(k) plans are an important part of the retirement equation. They were just not designed to replace pensions. And third, today's pension designs and management can be beneficial for employers, workers, and the economy more broadly.

Pensions are the most economically efficient way to deliver retirement income, and they offer workforce advantages to employers. Pensions paid out more than $600 billion in 2020, supporting $1.3 trillion in economic activity. And pensions, of course, are user friendly for workers and face little leakage.

In the past, the biggest challenge has been for employers. The costs have been unstable. But today, there are more sophisticated tools and benefit designs that have addressed this challenge. I believe that if companies give pensions a fresh look, they will discover that win-win solutions are possible.

Diving a little deeper into the gravity of the U.S. retirement problem, the data clearly shows most Americans will not have enough money for a financially secure retirement, and they are worried about it.

Our Generation X research found that the bottom half of Gen X earners only had a few thousand dollars saved for retirement, and the median household, not individuals, but household, has only $40,000 in retirement savings.

Also, retirement savings for Gen X are highly concentrated amongst the highest earners. More broadly, the National Retirement Risk Index finds that half of U.S. households will not be able to maintain their standard of living when they retire. Americans understand the scope of this crisis.

79 percent of Americans agree there is a retirement crisis, with 55 percent concerned that they cannot achieve financial security in retirement. Looking ahead, the burden of preparing for retirement increases as we live longer, face large risks without risk pooling, and deal with rising costs.

Research shows that the Nation's individual savings based system is not well suited for workers. It is important to note 401(k)'s were never meant to replace pensions. They were meant to be a supplemental vehicle.

Conventional wisdom suggests that 401(k)'s cost less, but I think what I hear when that is said, it means we are putting less money

into a less efficient system and—as costs rise and hoping for the best.

Post retirement brings the biggest challenges and inefficiencies. Our news research asks how much retirement income could $100,000 nest egg generate annually for someone at age 65? The responses were jarring. Only 8 percent of workers provided an accurate response. Most wildly overestimated the level of income they could count on.

Third, many assume that pensions have similar benefit designs, and nothing could be further from the truth. Two public plans provide an example and are very transparent in their operations, the Wisconsin Retirement System and the South Dakota Retirement System.

My written comments provide a chart showing the remarkable cost stability of these systems throughout volatile times. Fourth, the ground is shifting with respect to the employers offering pensions. We have heard about the interest of UAW to return to pensions, and we have all read the news about IBM moving back to pensions, which actually produces substantial cash savings for IBM as well.

Finally, my written testimony details policy issues that could help facilitate a pension renaissance. These key issues are about enabling companies to employ fiscally cautious funding strategies that reduce cost volatility over time, without a major disincentive to err on the safe side.

In conclusion, thank you for holding this important hearing and the opportunity to testify. I will be happy to respond to questions.

[The prepared statement of Mr. Doonan follows.]

PREPARED STATEMENT OF DAN DOONAN

Introduction

Chairman Sanders, Ranking Member Cassidy, and members of the Senate Health, Education, Labor, and Pensions Committee, I appreciate the opportunity to testify on the state of retirement in the United States and the role of defined benefit pensions in promoting a secure retirement.

I am Dan Doonan, and today I am testifying on behalf of the National Institute on Retirement Security (NIRS) as the organization's executive director. NIRS is a non-partisan, non-profit think tank located here in Washington, D.C. that was established in 2007 to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy. We enjoy a broad membership base that includes financial services companies, retirement plan sponsors and service providers, labor unions, and other nonprofits such as AARP.

In recent years, Congress has made progress working to address the retirement crisis in America. Both the Setting Every Community Up for Retirement Enhancement (SECURE) Act enacted in 2020 and The SECURE 2.0 Act passed in 2022 are steps in the right direction toward getting Americans back on track for a secure retirement. However, much work remains to ensure that working Americans can be self-sufficient in retirement after a lifetime of work.

Today, I will provide insight on the scope of Americans' alarming retirement savings shortfalls, the importance of pensions, the trend of employers returning to pensions, and some potential policy solutions that would facilitate a "pension renaissance."

But first, it is important to note how the pension industry has modernized and improved since the early days. When plans were created in the 1940s and 1950s, liabilities and contribution amounts were calculated with pencil and paper. Pay-go funding was common, and we all know that approach is expensive.

Today, prefunding of pensions is commonplace following the passage of The Employee Retirement Income Security Act of 1974 (ERISA), when personal computers were in their infancy. Today, actuaries use highly sophisticated financial modeling programs to perform stress testing to understand how resilient plans would be under various scenarios. As a result, employers and trustees plan sponsors and trustees are better informed about a plan's fiscal risks. In addition, a valuation report today most likely has future mortality improvements already built into the pension plan financial projections. And today, benefits often are designed to be more risk-averse and increasingly spread risk across a plan's stakeholders. Collectively, these changes are substantial when discussing the role pensions can and do play in not only providing retirement security for workers now and in the future, but also for the important role they play for employers and the economy.

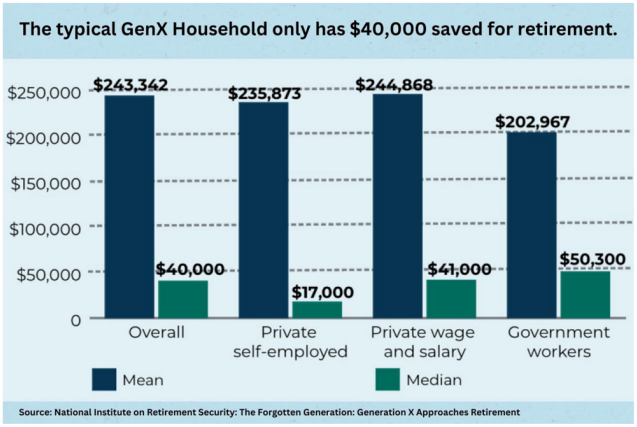
Most Americans Won't Have Enough Money for a Financially Secure Retirement, and They're Worried About It

Today, retirement security is out of reach for many Americans. The data indicate that most Americans, particularly middle-class workers, are falling far short when it comes to saving enough money for a financially secure retirement.

NIRS recently examined the retirement savings of Generation X, a generation that is quickly approaching retirement and the first generation to mostly enter the workforce following the shift from defined benefit (DB) pensions to 401(k)s and other defined contribution (DC) plans in the private sector.

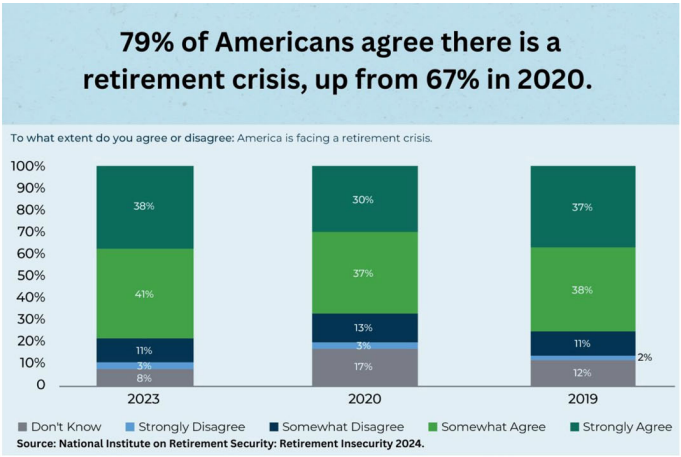
For Gen Xers (those born between 1965 and 1980), the bottom half of earners have only a few thousand dollars saved for retirement. While the typical Gen X household has an average savings of more than $243,000, the median household has only $40,000 in retirement savings. This contrast is common in our research, as retirement savings are highly concentrated among the highest earners.[1]

This means the vast majority of Gen Xers are not even close to having enough savings to retire, which isn't surprising given the terrible retirement hand that has been dealt to the latchkey generation. Most Gen Xers don't have a pension plan, they've lived through multiple economic crises, and wage growth lagged for many years during their careers. And the cost of retirement is growing.



More broadly, the National Retirement Risk Index finds that half of U.S. households will not be able to maintain their standard of living when they retire even if they were to work until age 65 and annuitize all financial assets.[2] Some estimates calculate that the median American household needs at least $470,000 more in their retirement account.[3] When Americans don't have enough money to sustain their standard of living, they are vulnerable to falling into poverty. This puts more pressure on strained public assistance programs, and it creates financial burdens for families that have to support older family members.[4]

NIRS research also finds that Americans understand the scope of the retirement crisis. A new national survey released yesterday finds Americans continue to have a high level of anxiety about retirement. When asked if the nation faces a retirement crisis, 79 percent of Americans agree there indeed is a retirement crisis, up from 67 percent in 2020. More than half of Americans (55 percent) are concerned that they cannot achieve financial security in retirement.[5]



The U.S. Lacks Universal Retirement Plan Coverage While Retirement Costs are Rising

Another problem when it comes to preparing for retirement is that retirement plan coverage is not universal in the U.S. Almost half of private sector employees ages 18 to 64, or 57 million Americans, do not have the option to save for retirement at work. This is important to note because a wide body of research finds that payroll deduction is the key to helping households build retirement savings and establish retirement security.[6] The share of Americans lacking workplace retirement plans has remained stubbornly high for decades, and it's a chronic impediment to financial security for far too many American workers.

Looking ahead, the burden of preparing for retirement is increasing as workers live longer, face large risks without risk pooling, and deal with rising costs. Escalating housing, healthcare, and long-term care costs in retirement are creating retirement obstacles for Americans. Unlike retirement income, where there are public, employer, and individual efforts to save, there are few systemic efforts to save resources for future long-term care costs, which can vary from fairly small amounts to hundreds of thousands of dollars. As such, public programs now pay for 71.4 percent of long-term care costs. This need is projected to increase even more as the Baby Boomers continue retiring.[7] Crucially, retirees often don't know if they will have no or low long-term care costs or if they will be among the unlucky few who have costs that reach six figures, which makes preparing for these costs challenging.

Compounding the challenges facing retirees, the number of Americans age 65 and older who are cost-burdened by housing costs has increased as more seniors are carrying mortgage debt into retirement. Healthcare costs continue to rise for all Americans, but these costs are higher for older Americans, who are more likely to have multiple chronic health conditions. Furthermore, lower-income seniors spend a greater proportion of their income on healthcare costs than their more affluent peers.

Meanwhile, the shift from pensions to 401(k) plans has pushed more retirement risk onto workers. While investment decisions can be made well, often, timing is everything. The difference between

retiring and buying an annuity in 1999 and 2009 could not have been made up for with better asset allocations or investment decisions, as the external factors were simply so different. Unfortunately, we should expect more older workers to face involuntary retirement during bad economic times.

Pensions Are Critical for Rebuilding the American Dream of Retirement

Americans are best positioned to be self-sufficient in retirement when they have the so-called "three-legged retirement stool"– a defined benefit (DB) pension, individual savings in a 401(k)-style defined contribution (DC) plan, and Social Security. Over the past four decades, however, many private sector employers moved away from pensions following a change in the law, shifting workers to 401(k) accounts. It's important to note that 401(k)s were originally intended to supplement pensions and Social Security, and the low savings levels make it painfully clear that 401(k)s just can't do the job designed for a pension.

According to the *Wall Street Journal*:

> *"Many early backers of the 401(k) now say they have regrets about how their creation turned out despite its emergence as the dominant way most Americans save. Some say it wasn't designed to be a primary retirement tool and acknowledge they used forecasts that were too optimistic to sell the plan in its early days. Others say the proliferation of 401(k) plans has exposed workers to big drops in the stock market and high fees from Wall Street money managers while making it easier for companies to shed guaranteed retiree payouts. The great lie is that the 401(k) was capable of replacing the old system of pensions."* [8]

So, if we are serious about rebuilding retirement security for Americans, increasing pension coverage must be part of the retirement equation. And the ground indeed is shifting with respect to employers offering pensions, likely driven by several factors such as employers' desire to provide retirement benefits in the most cost effective manner, employees' desire for lifetime income, and the critical need to recruit and retain workers amid an increasingly tight labor market.

Last year, the UAW's negotiations with The Big Three Automakers called for a restoration of pension benefits. While only increases to 401(k)s were part of the final deal, the UAW has signaled it will continue to advocate for pensions. Also last year, IBM announced it would reopen its pension plan and end its 401(k) matching contributions. Starting in 2024, IBM is now funding a five percent credit to employees in a "Retirement Benefits Account." This new retirement offering is a cash balance plan, a type of pension the company will create within its legacy "frozen" pension plan. The return to pensions is expected to result in substantial cash savings for IBM, could help recruit and retain workers amid a competitive labor market, and offers employees the security of a guaranteed lifetime annuity in retirement.[9]

In the wake of the IBM announcement, there has been speculation that other companies could follow suit, especially as research finds there is a good business case for companies to re-open pension plans. A recent JP Morgan Asset Management study indicates that a well-funded corporate pension plan "offers the most cost-efficient mechanism to finance retirement benefits for employees" and can be "accretive to earnings while also reducing corporate leverage."[10] On the public sector side, the town council in Trumbull, Connecticut, recently voted unanimously to resume offering pensions to its police officers to address troubling workforce shortages after switching to a DC plan ten years ago.[11] In Alaska, policymakers on both sides of the aisle are pursuing a return to pensions for public employees as the

state faces a deeply troubling shortage of employees who deliver essential public services.[12] West Virginia closed its pension plan for teachers in 1991, only to re-open it in 2005. Overall, the few states that switched from a pension to a DC plan found that costs rose, negative cash flow grew, and employee turnover increased.[13]

Importantly, Americans have a highly favorable view of pensions. More than three-fourths of Americans have a favorable view of pensions, while 77 percent agree that the disappearance of pensions makes it harder to achieve the American Dream. Eighty-three percent of Americans say that all workers should have a pension so they can be independent and self-reliant in retirement.[14]

Our Savings-Based Systems Require Too Much of Individuals

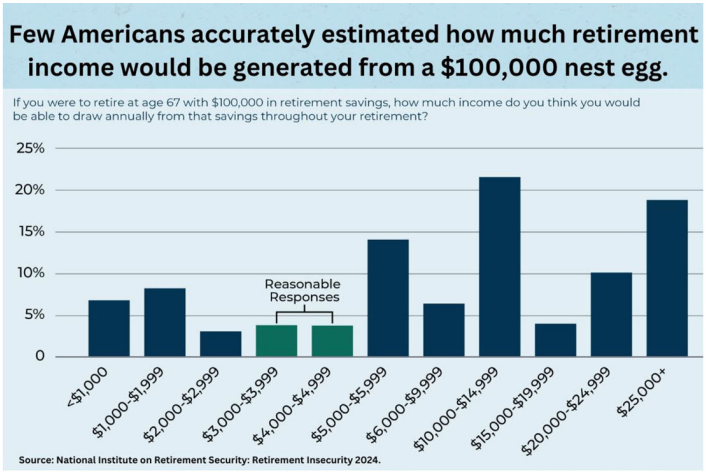
It's important to note that individualized 401(k)s were never intended to replace pensions – they were meant to be a supplemental vehicle. We're expecting 401(k)s to do a job they weren't designed for. Moreover, all the risk is shifted onto employees. An individualized system requires a great deal of financial knowledge and significant effort by employees from the start of their career and throughout their life.

For an individual to plan for their retirement, one must estimate the needed income, convert to a dollar amount, and plan a savings rate to hit that amount. Additionally, post-retirement years can bring the biggest and inefficiencies challenges, as retirees must ensure they spend down their nest egg at the right rate so it doesn't run out.

As detailed in the new NIRS public opinion research report, we asked Americans how much retirement income they believed they could get from $100,000 of savings at retirement. The responses were alarming.

If one applies the four percent rule, a $100,000 nest egg would produce about $4000 of income in the first year of retirement and then increased by inflation each subsequent year. But the research finds that only eight percent of respondents indicated that $100,000 in savings would generate $3000 to $4,999 annually in income throughout their retirement starting at age 67.

Most respondents wildly overestimated the level of income that could be produced from that $100,00 nest egg. Nineteen percent indicated that sum would produce $25,000 or more while 21 percent thought it would generate $10,000 - $14,999 in annual income through retirement. The data suggests that Americans largely are unaware of how much they need to save to produce a desired level of retirement income.

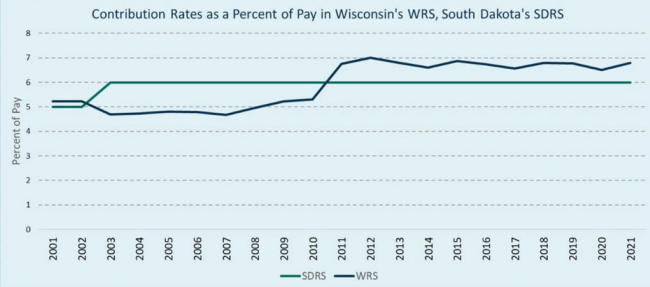


The Range of Pension Plan Benefit Designs Continues to Grow, With More Focus on Risk-Management

Many assume that all pension plans have similar benefit designs. Nothing could be further from the reality that exists today.

In the public sector, two pension plans often are highlighted because they deliver stable costs for employers, while providing reliable benefits for members: the Wisconsin Retirement System (WRS) and the South Dakota Retirement System (SDRS). As noted in the chart below, contributions have been remarkably stable through very volatile years.

Contribution rates a percent of pay in Wisconsin's WRS and South Dakota's SDRS.



Source: National Institute on Retirement Security:

These results were achieved through good management, but also a flexible benefit design that provides higher post-retirement benefit adjustments when the plan is healthy and adjusts when markets cause the plan's funding level to drop.

Given the cost stability throughout the Great Recession, many other plans have begun to adopt similar provisions. And, it would be reasonable for a private employer that is interested in pensions, but leery of financial risk, to study these examples.

When private employers began eliminating cost-of-living adjustments (COLAs), they cut the cost of benefits. But they also eliminated one of the best tools for designing a pension that has more stable costs. A contingent COLA benefit can mean that the guaranteed benefit is 20-33 percent less than what is being planned for, which creates a large risk buffer.

It is also notable that both the WRS and SDRS pension plans have provided post-retirement increases in most years, with the WRS averaging 2.93 percent increases since 1990. And the SDRS has provided increases that averaged 2.33 percent since 2014. So, flexibility does not have to accompany benefit inadequacy.

Pensions Are the Most Cost-Efficient Way to Deliver Retirement Security

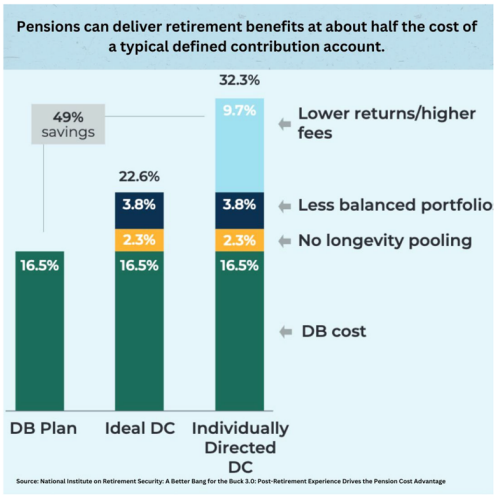
Pensions are critical to retirement security because they are designed to provide *lifetime retirement income* with minimal effort from employees. Pension assets are pooled, and investments are managed by professionals who are required to act in the best interest of the retirement plan participants. At retirement, employees with a pension receive a predictable monthly paycheck for life.

For workers lacking a pension, retirement is more complex and expensive when relying on a 401(k) savings account. Rather than retirement income guarantees, DC plans are designed to accumulate *retirement savings*. Individuals bear the full responsibility for saving, making investment decisions, and determining how to spend down their savings at just the right rate. Research indicates

that all of these tasks are complex for individuals, especially spending down savings. Retirees can draw down funds too quickly and risk running out of money. Or, retirees can hold on to funds too tightly resulting in a lower standard of living in retirement.

Another issue associated with DC plans is modifying investments over time. Retirement experts typically advise younger individuals in 401(k) plans to have a larger portion of their savings invested in stocks, which usually have higher returns but also greater risks. As one gets closer to retirement, experts often suggest moving savings away from stocks into safer, lower return assets like bonds. This shift helps guard against a large drop in retirement savings near and at retirement. But this loss of investment returns makes retirement all the more expensive.

Importantly, a typical pension is substantially more cost-efficient than a typical DC account, providing the same retirement benefit as a 401(k)-style account at about half the cost. Or, said another way, to achieve a target retirement benefit that replaces 54 percent of an individual's final salary, a pension plan requires contributions equal to 16.5 percent of payroll. In contrast, an individually directed DC account requires contributions almost twice as high as the pension plan, at 32.3 percent of payroll.[15]



Our analysis finds there are three primary reasons behind pension plans' substantial cost advantage over DC accounts.

- First, pensions pool longevity risks across a large number of individuals. The pooling of longevity risk enables DB pension plans to fund benefits based on average life expectancy and pay each worker monthly income no matter how long they live. In contrast, DC plan participants must have excess contributions saved in the event they live longer than the

average life expectancy. This is important because saving and spending down savings in an individual account looks very different if a person lives to age 70 versus 100.

- Second, pensions have higher investment returns as compared to individually directed DC plans. Defined benefit pensions have higher net investment returns due to professional management, along with lower fees stemming from economies of scale.

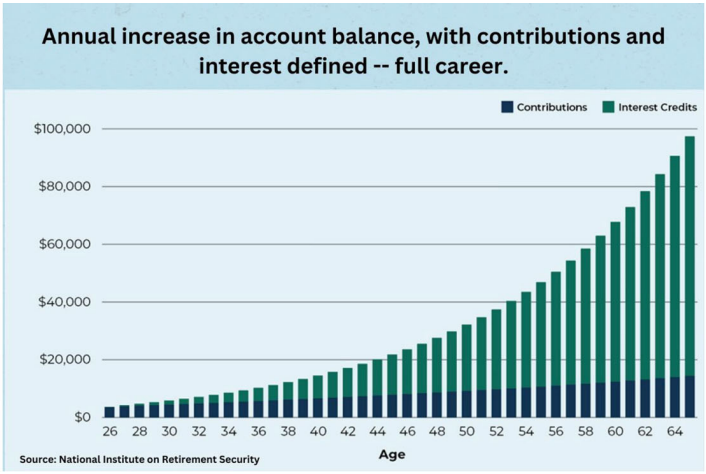
- Third, pensions have optimally balanced investment portfolios. Pensions are "ageless" and therefore can perpetually maintain an optimally balanced investment portfolio rather than the typical individual strategy of down-shifting over time to a lower risk/return asset allocation. This means that over a lifetime, pensions earn higher investment returns as compared to DC accounts.

To be fair, 401(k)-style DC plans have improved significantly since this issue was first examined in 2008, especially when it comes to fees, investment options, and investor behavior. For example, investment fees within employer-provided plans have been cut by about half since 2000. And there is a growing use of auto-enrollment, auto-escalation, and target date funds to help address individual investor missteps on investments and asset allocation. Additionally, annuities continue to garner interest among policymakers as a means to convert DC account balances into a lifetime income stream within employer plans.

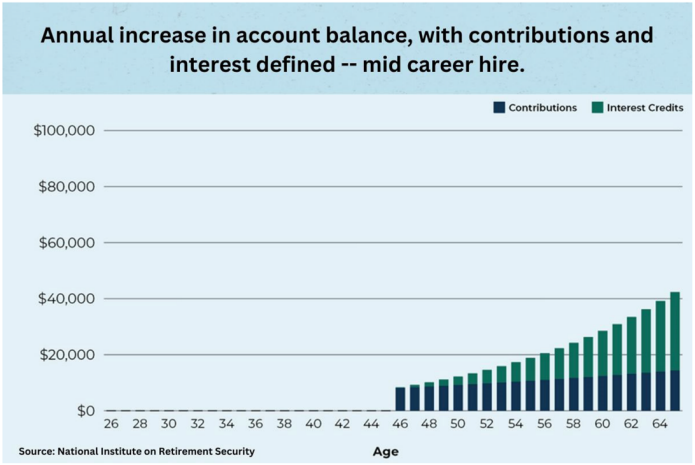
But even with these improvements, 401(k) accounts just can't replicate the efficiencies that are embedded in the very structure of pension plans. When NIRS most recently examined the differences in economic efficiency between these two plan types, we explained how four-fifths of the inefficiency occurs after retirement. Defined contribution plans can be effective vehicles for accumulating savings, but they provide no means for transforming savings into income today, what economists call the "decumulation phase" of saving. Additionally, individual savers typically exit a wholesale, employer-provided plan at retirement and instead face a more expensive retail environment for attempting to turn those savings into income. This post-retirement inefficiency should not go unappreciated when considering the value that pension plans offer to working people.

To complicate matters even more, too often, in a fully voluntary system, workers don't start participating and saving until mid-career. This impacts their account balance growth in later years, as well.

Account balance growth by year, if savings starts at age 25, with contributions and interest broken out.


Annual increase in account balance, with contributions and interest defined -- full career.
Contributions
Interest Credits
$100,000
$80,000
$60,000
$40,000
$20,000
$0
26 28 30 32 34 36 38 40 42 44 46 48 50 52 54 56 58 60 62 64
Age
Source: National Institute on Retirement Security

Account balance growth by year, if savings starts at age 40, with contributions and interest broken out.



As the chart above shows, the total account balance growth is far lower when starting savings at a later age, simply because of the loss of time for compounding growth. A late start to saving has an extremely negative impact on the efficiency of retirement saving, as workers get less of a subsidy from investment growth.

A NIRS report, *The Hybrid Handbook,* notes that "the increase in DC account balances during the last year of the full career in the example is $97,395 (in 2061 dollars). However, by looking at the late start scenario, it is evident that more than $55,000 of that increase is due to contributions made during the first 20 years of work."[16]

Increased use of auto-enrollment will help on this front, but with only half of workers participating in workplace plans, there likely will be poor overall results into the future. And, this ignores the fact that "41.4% cashed out at least part of their 401(k)s when leaving a job — and 85% of those drained their balance entirely," which further erodes their retirement security.[17]

Pensions Also Provide Big Benefits to the U.S. Economy and Employers

Pension plans also strengthen the economy as a whole. The spending of pension benefits by retirees, referred to as "Pensionomics," has a reliable economic impact that supports economic growth and jobs in virtually every community across America, especially in rural areas. Additionally, this spending is countercyclical and continues even when the economy faces a downturn, which provides a source of sustained consumer spending during difficult economic times.

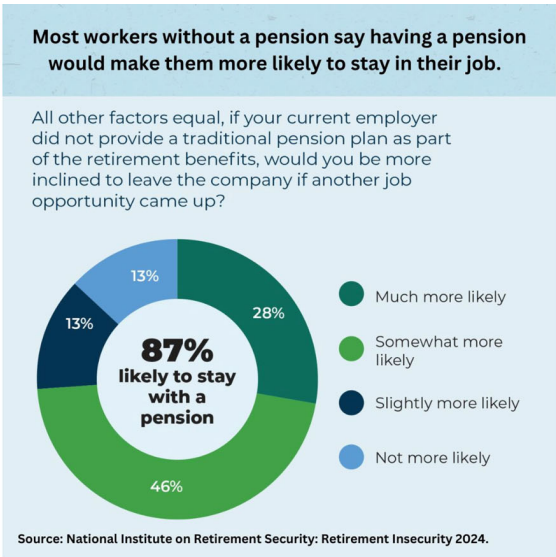
Today, nearly 25 million retired Americans and their beneficiaries in the public and private sectors receive a pension. Retirees spend that pension income on their daily needs – on goods and services like housing, medicine, utilities, transportation, food, clothing, and entertainment. And the numbers are large.

More specifically, retiree spending of public and private sector pension benefits in 2020 generated $1.3 trillion in total economic output, supporting nearly 6.8 million jobs across the nation. Also important is the tax revenue generated from pension spending. This tax revenue comes from two major sources: taxes paid by beneficiaries directly on their pension benefits and taxes from expenditures in the local economy, like sales tax on retail purchases. In 2020, pension spending added nearly $157.7 billion to government coffers at the federal, state, and local levels.[18]

Additionally, pensions provide benefits to employers. In a tight labor market, pensions can be an important tool to help recruit and retain workers. The aforementioned JP Morgan Asset Management report noted that 40 percent of private sector employees who separated from their employer during the Great Resignation cited inadequate benefit packages as a motivating factor in their decision to seek another job. Additionally, 85 percent of younger workers said that receiving a fixed, lifetime, monthly benefit at retirement is a priority.[19]

In fact, the new NIRS opinion research details workers' views on the recruitment and retention impact of pensions. We asked workers to imagine they are evaluating two new job opportunities. Both jobs are similar in all aspects (such as pay, type of work, etc.) except for one. Job A offers employees a traditional pension plan as part of the retirement benefits, and Job B offers a retirement savings plan like a 401(k). More than half (57 percent) said they are more likely to choose the job that offers a pension.

Even more striking is the retention impact of pensions. NIRS asked workers if their current employer offered a pension, would they be more likely to stay at the company longer even if another job opportunity arose. Ninety percent of workers with a pension say that a pension benefit makes them more likely to stay in their job even if another job opportunity were to come up. The results were similar for workers without pensions. The vast majority of workers (87 percent) without a pension say they'd be more likely to stay at the company longer even if another job opportunity came along if their current employer provided a pension.[20]



And as mentioned earlier, pensions are cost efficient and can contribute value to the balance sheet, and surpluses can be preserved to support future benefit costs. Pensions also can help create orderly retirement trends, which helps companies manage their workforce. If companies give pensions a fresh look and consider today's economy and workforce conditions, they may just rediscover pensions as a tool that can suit workers' needs, help attract and retain top talent, and improve the corporate bottom line.

Policy Solutions That Could Facilitate a Pension Renaissance

Below are key issues that could be addressed to help employers offer or manage a pension plan.

Discount Rate

The Pension Protection Act (PPA) of 2006 ushered in a new era of pension funding. The law required pensions to be funded using a discount rate that was tied to short-term market conditions that proved to be highly volatile. In response, there have been numerous changes that followed which provided relief and adjustments to the methodology. Relief was certainly reasonable, as the moving target under PPA proved impractical.

In general, it makes sense for Congress to prefer a discount rate that leans towards precaution, especially as it considers PBGC's financial health. However, discount rate volatility frustrates the effort to remain at or near full funding and makes pensions less attractive to employers. For instance, Moody's Seasoned Aaa Corporate bond yields drifted from eight percent to nearly two percent, then

rebounded to 4.87 percent more recently. Utilizing a longer-term average (25 years) of interest rates has been a significant improvement.

Funding Practices

There is a tradeoff between assuring that tax-advantaged pension contributions are used for intended purposes and encouraging conservative funding practices that keep plans stable throughout the business cycle.

One of the simplest ways to keep pension costs stable is to simply contribute more than the expected long-term costs, particularly during favorable environments. Thus, when markets shift, the plan has a cushion and costs do not need to rise significantly. However, given the variables that sponsors face, employers often worry that a rise in interest rates or markets could leave capital stranded in an overfunded plan. This situation may also look very different in companies with growing or shrinking payrolls.

Today, Section 420 of the Internal Revenue Code transfers allow some overfunded pension assets to be used for health care costs. But, as mentioned above, most long-term care costs are paid by public programs. So, it might be worthwhile to consider allowing excess tax-advantaged pension assets to be similarly transferred to programs for employees' long-term care. Striking the optimal balance is not easy, but flexibility should be a priority as this committee thinks about excise tax policies.

Risk Sharing Plans

Congress should continue keeping an open mind about pension plan designs that have various forms of risk-sharing or risk-management provisions.

As mentioned above, there are examples in the public sector where DB plans provided adequate benefits, plans remained well-funded, and employers enjoyed stable costs, even during challenging economic circumstances. Risk sharing provisions played a role in those efforts.

It is clear that pensions improve retention for employers, which is a significant benefit. But more examples of plans that weather the business cycle in a healthy manner may be the best way to counter the conventional wisdom among corporate executives.

Such plan designs should also offer financial benefits to the Pension Benefit Guaranty Corporation's (PBGC) fiscal health.

PBGC Premiums

Employer decisions to derisk continue to be driven by PBGC per capita premiums. Given the structure of premiums, it is often the less expensive benefits that are targeted for buyouts. The more this happens, the more risk the PBGC will be insuring per capita.

These decisions are logical from the employer's point of view, but counterproductive on a systemic level. If the single-employer program can remain viable with lower premiums, it would reduce the incentive for employers to shed low-value benefits.

Conclusion

While Congress has taken steps to improve Americans' retirement prospects, much work remains to ensure Americans can be self-sufficient in their elder years. The vast majority of middle-class workers are not on track, with the National Retirement Risk Index finding that half of U.S. households will not be able to maintain their standard of living when they retire even if they were to work up until age 65 and annuitize all financial assets.

For Generation X, a generation that is quickly approaching retirement, the bottom half of earners have only a few thousand dollars saved for retirement. This means the vast majority of Gen Xers are not even close to having enough savings to retire. And when Americans don't have adequate retirement income, they are more likely to fall into poverty or turn to public assistance programs or families to make ends meet.

The move away from pensions is a major culprit in the nation's retirement crisis. While 401(k) plans are an important part of the retirement equation, they just weren't designed to replace pensions.

So, if we are serious about rebuilding retirement security for Americans, increasing pension coverage must be part of the solution. Pensions not only provide reliable lifetime income for employees, they are economically efficient, they provide workforce benefits to employers, and they provide substantial economic impacts to communities across the nation, especially rural areas.

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[SUMMARY STATEMENT OF DAN DOONAN]

Congress has made progress to address America's retirement crisis. The SECURE Act and SECURE 2.0 were steps in the right direction. However, much work remains to ensure that Americans can be self-sufficient in retirement.

Research finds that Americans face an alarming retirement savings shortfall. Generation X is fast approaching retirement and will be the first generation to retire largely without a pension. The bottom half of GenX earners have only a few thousand dollars saved for retirement, and the median household has only $40,000 in retirement savings. Retirement savings for GenX are highly concentrated among the highest earners.

Americans are deeply worried about retirement. Seventy-nine percent of Americans agree there is a retirement crisis, and 55 percent are concerned they cannot achieve financial security in retirement. Looking ahead, the burden of preparing for retirement is increasing as Americans live longer, face large risks without risk pooling, and deal with rising costs.

The move away from pensions is a major culprit in the Nation's retirement crisis. While 401(k) plans are an important part of the retirement equation, they just were not designed to replace pensions.

Today's pension designs and management can be beneficial for employers, workers, and the economy. Pensions are the most economically efficient way to deliver retirement income, and they offer workforce advantages to employers. Pensions paid out more than $600 billion in benefits in 2020, supporting $1.3 trillion in economic activity. Also, pensions are user-friendly for workers.

In the past, the biggest challenge for employers has been unstable costs. But today, there are sophisticated tools and benefit designs that have addressed this challenge. If companies give pensions a fresh look, they will discover that win-win solutions are possible.

The ground is shifting with respect to employers offering pensions. Last year, the UAW's negotiations with The Big Three Automakers called for a restoration of pension benefits. While only increases to 401(k)'s were part of the final deal, the UAW has signaled it will continue to advocate for pensions. Also, IBM recently announced it would reopen its pension plan and end its 401(k) matching contributions, which produces substantial cash savings for IBM.

There are policies that could be enacted to help facilitate a "pension renaissance." These key issues are about enabling companies to employ fiscally cautious funding strategies that reduce cost volatility, without major disincentives to err on the safe side.

The CHAIR. Thank you very much, Mr. Doonan. Senator Cassidy, you want to introduce your witness?

Senator CASSIDY. Yes, please. My pleasure to introduce Rachel Greszler, a Senior Research Fellow at the Heritage Foundation's Row Institute, whose work focuses on retirement labor policies that promote economic growth, individual freedom, and—well-being.

Before joining Heritage, Mr. Greszler was a Senior Economist for the United States Congressional Joint Economic Committee.

She holds a B.A. in Economics from the University of Mary Washington, as well as a master's degree in Public Policy and Economics from Georgetown. Welcome, Ms. Greszler. We appreciate you being here and look forward to your testimony.

STATEMENT OF RACHEL GRESZLER, SENIOR RESEARCH FELLOW, THE HERITAGE FOUNDATION, WASHINGTON, DC

Ms. GRESZLER. Thank you for the opportunity to be here this morning. In my testimony, I would like to look at the current state of American's retirement security and also discuss the failure of certain defined benefit pensions.

Older Americans' financial well-being is strong by historic standards. The share of older Americans with no retirement savings fell to 12 percent in 2022. Even after excessive inflation has eaten away at the value of American savings, retirees' real incomes are up over 30 percent over the past 35 years.

Importantly, the lowest earners have the highest replacement rates in retirement. Households in the bottom 20 percent average 123 percent of their pre-retirement incomes, whereas households at the top average 75 percent.

Older Americans report greater financial well-being than any other age group, and over the past 10 years, the percentage of people over 65 who say that they are just getting by or having a hard time getting by fell by half. As retirement savings have shifted from defined benefit to defined contribution plans, assets have surged.

At $41.5 trillion, Americans' inflation adjusted retirement assets have increased 330 percent over the last 35 years. Defined benefit and defined contribution plans can provide secure retirement, but when not managed properly, defined benefit plans can end up like Ponzi schemes.

That is what has happened with Social Security and multi-employer or union pensions. Past and current Congresses have failed to properly manage Social Security and failed to require sound funding rules for union pensions.

Now, neither can come close to providing retirees what they have promised. Social security will be insolvent in 9 years and will implement 23 percent across the board benefit cuts. That is a $5,300 per year cut for the average retiree.

Now, a program that was supposed to prevent older—younger generations from having to bear the burden of older generations, has instead amassed a $22.4 trillion unfunded obligation.

That amounts to a $172,000 for every household in America. Simply maintaining current benefits would require the average household to pay at least $3,000 more per year in taxes. That money would be far better off in a personal account.

My analysis shows that if a younger worker today were allowed to put their Social Security taxes into a personal account, they would have three times as much in retirement after purchasing an annuity.

Policymakers must reform Social Security before it becomes an even worse deal for younger workers. By shifting toward a universal benefit and making other common sense changes, policymakers can improve the program, increase economic growth, and enable greater personal savings.

Private union pension plans are an even worse disaster than Social Security. Multiemployer pension funding has $823 billion in unfunded obligations as of 2021 and $0.41 on the dollar in promised benefits. This underfunding is systemic. 96 percent of participants are in a plan that is less than 60 percent funded.

This happened because unions took advantage of preferential rules that allowed them to increase benefits without requiring higher contributions to fund those benefits. Yet, instead of fixing

the broken multiemployer system, Congress passed the worst possible type of bailout, one that picks winners and losers, does absolutely nothing to fix the root problems, and which encourages more recklessness.

While roughly 15 percent of union plans are now privy to taxpayer bailouts, about 10 million workers are in plans that won't receive bailouts and it will still become insolvent. To prevent union workers and retirees from receiving less than half of their promised benefits, and to prevent taxpayers from having to pay another $700 billion in bailouts, Congress must shore up the PBGC and apply the same funding rules to union pensions as it does to nonunion pensions.

Social Security and union pensions are anything but secure. The last thing that Americans need is for lawmakers to try to put more of their retirement savings into accounts that they neither own nor control, and which are managed by groups of people who have repeatedly put their own personal incentives above workers' and retirees' well-being.

To help improve the financial security of all Americans, including younger workers who face the greatest financial struggles today, policymakers should enact universal savings accounts so that it is simpler and easier for Americans to save for all types of expected and unexpected life events. Thank you.

[The prepared statement of Ms. Greszler follows.]

PREPARED STATEMENT OF RACHEL GRESZLER

The Heritage Foundation

CONGRESSIONAL TESTIMONY

My name is Rachel Greszler. I am a senior research fellow at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my testimony today, I would like to make three main points:

First, older Americans; financial well-being is strong by historic standards, and older generations are significantly better off financially than younger generations. The shift from defined benefit pension plans to defined contribution benefit plans has been accompanied by increases in workers' retirement savings participation and in retirees' incomes. Current trends do not indicate either that younger Americans are unprepared for retirement or that it makes sense for them, as a whole, to increase their savings and forgo current consumption in exchange for higher future consumption. Policymakers should make it simpler and easier for Americans to save for all types of expected and unexpected life events throughout their lifetimes.

Second, Social Security is in crisis as the program will be insolvent in just nine years, and every single retiree will be subject to 23 percent benefit cuts, averaging $5,300 per retiree. Social Security has veered far beyond its original vision and consequently provides a raw deal for younger generations. Maintaining the program or increasing benefits will require enormous tax increases that will reduce economic growth and leave households with significantly lower incomes. Every year that policymakers delay action means trillions of dollars more in either benefit cuts or tax increases. Policymakers should act immediately to preserve Social Security for those who need it most and to improve the program for current workers and future generations.

Third, defined benefit multiemployer and state and local pension funds are in disastrous shape. Taxpayers have already been forced to bail out select private multiemployer or union pension plans, and Congress did absolutely nothing to address the problems remaining for the overwhelming majority of union pension plans that are on track to provide roughly half of what they promised to provide for workers and retirees. Without congressional action, retirees and taxpayers are at risk of more than $700 billion in additional pension losses or taxpayer costs. Comparisons should never be made between defined benefit plans that would be bankrupt without taxpayer funds and defined contribution plans that have not received taxpayer bailouts.

Retirement Savings, Income, and Well-Being Are Near Historic Highs

Contrary to the narrative accompanying this hearing and frequent media headlines, Americans do not face a retirement crisis—at least not one attributable to the expansion of defined contribution plans and the decline in defined benefit plans. Retirees' incomes, households' total retirement savings, Americans' participation in retirement savings plans, and retirees' reported financial well-being are all high by historic standards.

Retirement Income. According to the Federal Reserve, the real pre-tax income of workers ages 65 and older—including Social Security, private, and government retirement savings—has increased 30 percent after inflation since 1988.[1]

A goal for retirement is to maintain a standard of living similar to the standard enjoyed during one's working years. For a number of reasons, income needs in retirement tend to be lower than during working years (for example, individuals have fewer work-related expenses, eat out less, and are more likely to have paid off a mortgage), and financial planners therefore commonly recommend a target replacement rate of 70 percent of pre-retirement income.

A 2017 study looked at the incomes of individuals over 12 years (1999 to 2010), following them from their years before and then into retirement. Importantly, this study used IRS data.[2] The authors found that most individuals had the same or higher after-tax, or "spendable," income after claiming Social Security benefits.[3] Somewhat surprisingly, the authors found that individuals with the lowest pre-retirement incomes had the highest post-retirement income replacement rates, with the lowest quintile of workers' post-retirement after-tax income equaling 123 percent of their pre-retirement after-tax income compared to a ratio of 75 percent among the top 5 percent of earners.

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[1] This dataset includes annual data from 1988 through 2022. U.S. Bureau of Labor Statistics, "Income Before Taxes: Social Security, Private & Government Retirement by Age: Age 65 or over [CXURETIRINCLB0407M]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CXURETIRINCLB0407M (accessed February 24, 2024).

[2] See section below on survey vs. administrative income data.

[3] Peter J. Brady, Steven Bass, Jessica Holland and Kevin Pierce, "Using Panel Tax Data to Examine the Transition to Retirement," March 6, 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2928375&download=yes (accessed February 24, 2024).

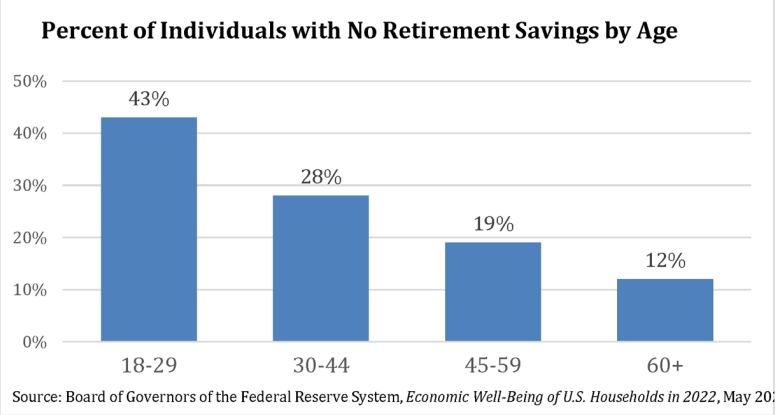
Net Income Before and After Claiming Social Security			
	1 year before claiming	3 years after claiming	Ratio post-retirement to pre-retirement income
bottom 20 percent	$20,943	$25,719	123%
second quintile	$34,537	$33,312	96%
middle quintile	$47,764	$44,457	93%
fourth quintile	$61,726	$54,132	88%
80 to 95th percentile	$93,568	$77,157	82%
top 5 percent	$169,623	$126,881	75%
Net income includes labor income, social security benefits, and retirement income minus work-related payroll and federal income taxes			
Source: Peter J. Brady, Steven Bass, Jessica Holland, and Kevin Pierce, "Using Panel Tax Data to Examine the Transition to Retirement," 2017.			

Retirement Savings Wealth. Current retirement savings are also historically high. As of the second quarter of 2023, household and nonprofit organizations held $41.5 trillion in retirement assets. This is a 331 percent increase in the inflation-adjusted value of retirement assets since 1988 (when that dataset begins).[4]

Retirement Savings Participation. The biggest factor affecting individuals' probability of having retirement savings is their age. According to Federal Reserve survey data, 43 percent of individuals ages 18–29 report having no retirement savings compared to 28 percent among 30-year-olds to 44-year-olds, 19 percent among 45-year-olds to 59-year-olds, and only 12 percent among individuals ages 60 and older.[5]

[4] Data compare the second quarter of 1988 to the second quarter of 2023. Board of Governors of the Federal Reserve System (US), "Households and Nonprofit Organizations; Retirement Assets, Level [BOGZ1FL153050015Q]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/BOGZ1FL153050015Q (accessed February 24, 2024).

[5] Board of Governors of the Federal Reserve System, *Economic Well-Being of U.S. Households in 2022*, May 2023, https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf (accessed February 24, 2024).



Source: Board of Governors of the Federal Reserve System, *Economic Well-Being of U.S. Households in 2022*, May 20

Across all non-retired individuals in 2022, more than half—54 percent—reported having a defined contribution retirement account, 47 percent reported having savings not in a retirement account, 20 percent reported having a defined benefit pension, and 28 percent reported having no retirement savings.[6] Each of these statistics represents an improvement from 2013 (the first year of the survey), in which 44 percent of respondents reported having a defined contribution retirement account, 23 percent reported having retirement savings in a non-retirement account, 18 percent reported having a defined benefit pension, and 31 percent reported having no retirement savings.[7]

The 2017 study referenced above, which used IRS tax data, looked at older individuals and indicates that nearly 90 percent of workers entering into retirement had retirement savings. The study found that among individuals newly claiming Social Security benefits, 81 percent (either through themselves or a spouse) had income from employer-sponsored retirement plans, annuities, or individual retirement accounts (IRAs), and another 8 percent filled out forms indicating retirement account or IRA ownership.[8]

Poverty and Financial Well-Being. Official poverty rates among older Americans (ages 65 and higher)—both historically and compared to the rest of the population—do not indicate a retirement crisis. Poverty rates among older Americans reached near-record lows of 8.9 percent in 2019 and 2020 before jumping up to a nearly 20-year high of 10.3 percent in 2021 and 10.2 percent in 2022.[9] This recent jump is likely attributable in part to the steep increase in inflation and sharp decline in the stock market through 2022.

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[6] Ibid.

[7] Ibid.

[8] Brady et al., "Using Panel Tax Data to Examine the Transition to Retirement."

[9] U.S. Department of Commerce, U.S. Census Bureau, "Historical Poverty Tables: People and Families—1959 to 2022," page last revised September 12, 2023, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html (accessed February 24, 2024).

Prior to the early 1990s, older Americans experienced higher rates of poverty than working age Americans (ages 18 to 64), but since 1993, older Americans have experienced poverty rates equal to or lower than the poverty rates experienced by working-age Americans in every year except one. Moreover, the poverty rate among older Americans has averaged half of the poverty rate among children since 1993.

The government's official poverty measure is deeply flawed, however.[10] Among other problems, it fails to include the overwhelming majority of welfare benefits that aim to reduce poverty.

A self-assessed metric of general financial well-being comes from the Federal Reserve's Survey of Household Economics and Decisionmaking, which asks the question: "How well are you managing financially?" Older Americans report significant improvement in their financial well-being over the past 10 years. The percentage of respondents ages 65 and older who say they are "finding it hard to get by" or "just getting by" fell by half from 34.7 percent in 2013 to 17.6 percent in 2022.[11] Meanwhile, the percentage of respondents saying they are "doing okay," or "living comfortably" increased by 18 percentage points from 64.5 percent in 2013 to 82.5 percent in 2022.[12]

"Overall, which one of the following best describes how well you are managing financially?"				
	Finding it hard to get by	Just getting by	Doing okay	Living comfortably
2013	11.2%	23.5%	38.2%	26.3%
2014	12.8%	25.0%	37.5%	23.9%
2015	10.6%	24.0%	40.8%	24.5%
2016	9.4%	22.8%	39.6%	28.2%
2017	7.2%	19.2%	39.6%	33.9%
2018	7.4%	19.5%	40.1%	33.0%
2019	6.3%	17.6%	39.5%	36.5%
2020	6.3%	16.4%	39.6%	37.6%
2021	5.4%	15.3%	38.2%	41.1%
2022	4.2%	13.4%	38.2%	44.3%
Source: Federal Reserve Board, Survey of Household Economics and Decisionmaking, 2013-2022.				

[10] Rea S. Hederman, Jr., "A Poor Way to Measure Poverty," Heritage Foundation *Commentary*, August 31, 2006, https://www.heritage.org/poverty-and-inequality/commentary/poor-way-measure-poverty.

[11] Board of Governors of the Federal Reserve System, "Survey of Household Economics and Decisionmaking, https://www.federalreserve.gov/consumerscommunities/shed_data.htm (accessed February 24, 2024). Thank you to Andrew Biggs of the American Enterprise Institute for providing me with already-compiled historical and age-based data.

[12] Ibid.

Comparing responses across age groups, financial well-being improves across every single age group, with the oldest Americans reporting the greatest financial well-being and the least financial struggles. Considering that addressing shortfalls in retirement income almost certainly requires imposing increased burdens on younger generations through higher savings, higher taxes, or increased debt, forced redistribution of money from periods in people's lives when they are less secure to when they are more secure, or from generations with lower financial well-being to those with higher financial well-being, is neither helpful nor fair.

"Overall, which one of the following best describes how well you are managing financially?"				
	Finding it hard to get by	Just getting by	Doing okay	Living comfortably
18-24	8.5%	23.0%	44.1%	24.4%
25-34	9.9%	21.0%	41.2%	27.9%
35-44	9.5%	20.7%	37.2%	32.5%
45-54	7.7%	21.6%	39.5%	31.2%
55-64	7.1%	19.2%	38.8%	34.9%
65-74	4.4%	13.8%	39.7%	42.2%
75+	3.8%	12.7%	35.3%	48.3%
Source: Federal Reserve Board, Survey of Household Economics and Decisionmaking, 2022.				

Differences in Retirement Savings and Income by Race and Ethnicity. The Federal Reserve economic well-being reports note that there are differences across races in the retirement savings of non-retired individuals, with black and Hispanic individuals being less likely to have retirement savings than white and Asian individuals. Part of this disparity is due to the fact that black and Hispanic individuals are younger, on average, than white or Asian individuals.

In a 2022 study, Andrew Biggs of the American Enterprise Institute examined retirement preparation by race and ethnicity.[13] He found that black and Hispanic workers have lower average earnings and are less likely than white workers to have defined contribution or defined benefit retirement accounts. However, differences in financial well-being during retirement are not as large as the income and retirement account data would indicate because Social Security replaces a larger share of lower-income workers' earnings.

Taking all retirement income into account, Biggs's analysis estimates retirement income replacement rates for 70-year-olds, including all sources of retirement income. For the 1936–1945 birth cohort, median retirement income replacement rates are 111 percent for white individuals, 102 percent for black individuals, and 98 percent for Hispanic individuals. Biggs notes that financial planners commonly recommend a target 70 percent replacement rate. He estimates that among the

[13] Andrew G. Biggs, "Retirement Preparation: Differences by Race and Ethnicity," Retirement Income Institute *Original Research* No. 007-2022, April, 2022, https://www.protectedincome.org/wp-content/uploads/2022/05/RP-07-Biggs_r1.pdf (accessed February 24, 2024).

1936 to 1945 birth cohort, 26 percent of white individuals, 29 percent of black individuals, and 34 percent of Hispanic individuals fall below a 75 percent retirement income replacement rate.

Biggs concludes that "despite significantly lower retirement incomes, most Black and Hispanic households do not appear to be saving inadequately for retirement, given their level of lifetime earnings and the progressivity of the Social Security benefit structure."[14] Biggs also notes that most households of all races are achieving higher retirement replacement rates than financial planners recommend and that trying to force higher retirement savings during working years could leave individuals worse off during their working years than in their retirement.

As noted below in the section on Social Security, Black individuals and individuals with low incomes have significantly shorter life expectancies and therefore often receive a proportionately worse deal from defined benefit pensions and Social Security.

Women's Retirement Income and Survey vs. Administrative Income Data. The source of data on retirement savings is extremely important to the accuracy of the data. Survey-based data that ask Americans to report their total income are not as accurate as administrative data, such as IRS tax data. In part, that is because the way survey-based questions are asked can lead respondents to include significant sources of income. For example, when asked about their monthly retirement income, individuals with defined benefit pensions and Social Security benefit checks will automatically include those income amounts, but individuals with 401(k) and IRA accounts who withdraw money on an annual or as-needed basis may not report any monthly income from those sources. Moreover, because inaccurately reporting income on tax returns can lead to financial penalties and even jail time while inaccurately reporting data on a survey has no consequences, individuals are more likely to report their income accurately when filing taxes than when answering a survey.

When relying exclusively on survey-based data, it appears that the gains women have made in labor force participation, education, and earnings over the past 75 years have not translated into a significant increase in their retirement incomes. However, those survey data do not accurately capture income that comes from defined contribution retirement accounts.[15] Using a ground-breaking methodology of linking survey and administrative data, economists Adam Bee and Joshua Mitchell found that women's median retirement incomes were 45 percent higher than survey data would indicate.[16] Moreover, while survey data showed little gain in women's retirement incomes over the past 25 years, the linked administrative data revealed a 58 percent increase in women's retirement incomes.

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[14] Ibid.

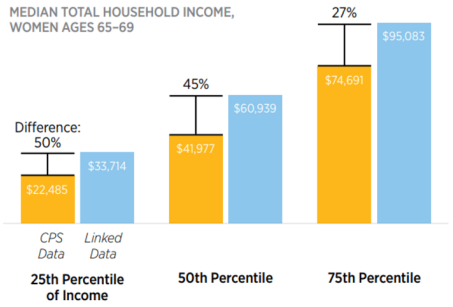
[15] Rachel Greszler, "Survey Data Wrong: Understate Economic Gains of Older Women," The Heritage Foundation *Backgrounder* No. 3226, June 29, 2017, https://www.heritage.org/sites/default/files/2017-06/BG3226.pdf.

[16] C. Adam Bee and Joshua Mitchell, "The Hidden Resources of Women Working Longer: Evidence from Linked Survey-Administrative Data," National Bureau of Economic Research *Working Paper* No. 22970, December 2016, https://www.nber.org/system/files/working_papers/w22970/w22970.pdf (accessed February 24, 2024).

CHART 2

Linked Administrative Data Depict Higher Incomes for Older Women than CPS Data

SOURCE: C. Adam Bee and Joshua Mitchell, "The Hidden Resources of Women Working Longer: Evidence From Linked Survey-Administrative Data," National Bureau of Economic Research *Working Paper* No. 22970, December 2016, www.nber.org/papers/w22970 (accessed March 28, 2017).



Benefits and Drawbacks of Americans' Various Retirement Savings Vehicles

Americans' retirement savings comes in multiple forms, including employer-sponsored defined contribution 401(k)s and defined benefit pensions, Social Security, personal retirement savings like IRAs or private annuities, and wealth in the form of assets like a home or a personal investment account. The portion of retirement income that comes from these different sources varies significantly across individuals and families based on their income levels and life circumstances. In general, lower-income earners tend to receive a higher portion of their retirement income from Social Security both because Social Security replaces a higher portion of lower-earners' income and because lower-income earners tend to have less income from other savings sources.

A benefit of Social Security and defined benefit pensions or privately purchased annuities is that they aim to provide a guaranteed monthly income for life (putting the investment risk on a company or the government and thus taxpayers), which protects against the risk of outliving one's savings. The downside of pensions or annuities is that individuals typically have no control over the investment of their assets, and pensions and annuities provide limited or no ability to pass savings on to family members if an individual dies relatively early.

One benefit of defined contribution plans is that workers can control how their money is invested: They may choose specific investments or a single target retirement-date fund. They also typically have access to financial advice. Two other benefits include personal ownership so that savings can be passed on to heirs and constant knowledge of how much money is in one's account with the ability to project how much that will provide in retirement. The primary consequence of defined contribution plans is that they do not guarantee a specific amount of income in retirement (individuals bear the investment risk), and individuals could outlive their savings.

What History Says About Who Is Best Equipped to Control Workers' Retirements

The notion that employers or the government are better equipped to control individual workers' retirement plans than are workers themselves is a fundamental component of defined benefit plans. Inherent conflicts of interest in these plans when not legally bound by sound financial practices and significantly improved access to comprehensive investment services in personally-owned accounts suggest that individuals are best equipped to own and control their retirement savings.

The incentive for individual savers to set aside what they will need in retirement is straightforward: If they do not save enough, it is their own financial future that is on the line. The officials and politicians responsible for managing union-run and public pension plans, however, have an incentive to put their own shortsighted interests above the long-term interests of pension beneficiaries. Since plan managers are often long gone before the promises they make come due, they can gain votes and job security by making unfunded pension promises, playing politics with pension investments, and leaving future plan managers, politicians, and taxpayers to deal with the consequences.

When defined benefit pensions first began in the late 19th century, the government had an interest in encouraging employment-based defined benefit plans as a way to reduce poverty and thus the cost of anti-poverty government programs. Today, the federal government has its own defined benefit pension system through Social Security with $22.4 trillion in unfunded promises.

Moreover, when defined benefit pensions were created, it made some sense for employers to manage workers' savings. This was back when telephone lines had just been installed on the floor of the New York Stock Exchange.[17] Obtaining investment information was not simple, and investment transactions were not easy. The average saver therefore lacked the resources and information necessary to maximize his or her retirement savings, so it made sense for employers to use their competitive advantage, through pooled resources, to set up defined benefit retirement savings plans for their employees.

That is not the case today. Most workers have their own smartphones, complete with any number of financial and investment apps that provide a wealth of information and the ability to purchase stocks and bonds from almost anywhere in the world with the tap of a finger. This has transformed the ability of everyday Americans to manage their own retirement savings.

Even setting aside the potential conflicts of interest and political manipulation of defined benefit pension plans, employers and governments rarely manage other people's money more prudently than those people can manage it themselves. The multitrillion-dollar shortfall in defined benefit pension systems across the United States is evidence of this.

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[17] Public Broadcasting Service, "The Crash of 1929 | Timeline: A Selected Wall Street Chronology," *American Experience*, http://www.pbs.org/wgbh/americanexperience/features/timeline/crash/ (accessed February 24, 2024).

Policymakers Can Make Saving Easier and More Accessible Throughout Workers' Lives

The easiest and most economical way to save for retirement is through an employer-sponsored account. As more Americans shift between jobs and pursue independent work, policymakers could increase access to retirement savings by enabling association-style retirement savings plans that would allow workers to save in the same retirement account throughout their lifetimes. This would be particularly helpful to independent workers who often face lower limits on retirement contributions through IRAs. Private investment companies could offer these accounts, which would have the same tax treatment and contribution limits as employer-provided 401(k) accounts.

While retirement savings is important, Americans need savings for all types of planned and unplanned events that occur throughout their lifetimes. Those events could include planned events like college, buying a home, or having a baby and paying for childcare. They could also include unplanned events like a major car repair, a broken hot water heater, or an unexpected medical expense. The current, disjointed savings accounts structure in the U.S. makes it harder for Americans to save. And the penalties applied on early withdrawals often prevent lower-income workers from saving, out of fear that their money will be locked up or that they will have to pay a penalty if they need to it out early. Policymakers should enact Universal Savings Accounts, which would allow workers to save in one simple savings account that they could withdraw from without penalty for any expected or unexpected event throughout their lifetimes. Universal savings accounts have been successful at increasing savings, particularly among lower-income earners, in the U.K, South Africa, and Canada.[18]

Social Security, Union Pensions, and Public-Sector Pensions Are in Crisis

While American's retirement incomes are faring well and increases in defined contribution 401(k) and other private retirement savings provide significant retirement security, there is a crisis among government-run and union-run defined benefit pensions.

Single-employer pensions must abide by strict funding rules and owners of those companies have the incentive to adequately fund their pension plans because they will suffer the consequences if their pensions, and therefore their companies fail. Consequently, single-employer pensions are generally well-funded and provide a secure vehicle for retirement income. Multiemployer or union pensions and government pensions face lax or no funding rules and perverse economic interests. Union leaders and politicians can benefit from delivering higher pension benefits without requiring higher contributions to fund those benefits, and they suffer no personal consequences for making broken promises; instead, the liabilities fall on taxpayers, workers, and retirees.

A result of the perverse incentives of defined benefit public-sector and union pensions is that virtually every single one is broken: Social Security can provide only about 75 percent of its scheduled benefits, multiemployer pensions set aside enough to pay only 40 percent of promised benefits, and state and local government pensions are only about 35 to 40 percent funded.

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[18]Adam Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, https://www.heritage.org/sites/default/files/2018-12/BG3370_0.pdf.

Social Security Is Not Secure

Social Security is—or at least was originally intended—to function much as a defined benefit pension program functions.[19] It was established in the wake of the Great Depression to help protect against poverty in retirement and against the risk of outliving one's savings. Social Security's designers also created the program to protect younger generations from bearing the financial burden of providing for the welfare of older generations.[20]

Failure of past and current lawmakers to align Social Security's benefits with its payroll taxes has caused Social Security to fail on each of these accounts.

Social Security will be insolvent in nine years, and benefits will be cut across the board by 23 percent for every single retiree. That will be an average benefit cut of $5,300 per year for retirees. Workers' "contributions" have not been set aside for their retirement, but instead have been spent on increased benefits (as well as being lent out to finance other federal government spending). For the past 13 years, every dollar that workers have paid in Social Security taxes has gone immediately to pay benefits for current retirees.

Social Security's shortfalls are enormous. The program has accumulated $22.4 trillion in unfunded liabilities, which comes to $172,000 per household. That is the cost of maintaining the program in its current form over the next 75 years.

Maintaining Social Security's current benefit structure would require enormous tax increases. According to the Social Security trustees, if policymakers acted now, they could prevent insolvency by immediately hiking Social Security taxes by 3.4 percentage points from 12.4 percent to 15.8 percent.[21] That would be an extra $2,500 in taxes every year for the typical household.

The Congressional Budget Office estimates that Social Security's shortfalls are even larger and would require an immediate 4.9 percentage-point tax hike from 12.4 percent to 17.3 percent to

[19] Social Security's founders planned for the earliest recipients to receive windfall benefits that exceeded the value of any contributions they made, and that those windfall benefits would be replenished at a later date and subsequent recipients would receive benefits proportional to their payroll taxes.

[20] President Franklin Roosevelt's Council on Economic Security, which provided the initial recommendation for the establishment of Social Security, wrote, "It is only through a compulsory, contributory system of old-age annuities that the burden upon future generations of the support of the aged can be lightened." Council on Economic Security, "CES Report—Letter of Transmittal" submitted to President Franklin Delano Roosevelt by committee members Frances Perkins, Secretary of Labor; Henry Morgenthau, Jr., Secretary of the Treasury; Homer Cummings, Attorney General; Henry A. Wallace, Secretary of Agriculture; and Harry L. Hopkins, Federal Emergency Relief Administrator, January 15, 1935, https://www.ssa.gov/history/reports/ces2.html (accessed February 24, 2024).

[21] Rachel Greszler, "Social Security Forecast Significant Deterioration, 23% Benefit Cuts in Just 10 Years," The Daily Signal, March 31, 2023, https://www.dailysignal.com/2023/03/31/social-security-trustees-forecast-significant-deterioration-23-benefit-cuts-in-just-10-years/.

preserve current benefits. That would be an extra $3,700 in taxes every year for the typical household.[22]

As a "Retirement Program," Social Security Is Not a Good Deal

Many Americans and policymakers have come to view Social Security as a retirement savings program, but if that is the program's role, Social Security provides comparatively abysmal returns and can result in meager benefits.

Social Security strips Americans of the opportunity to earn a positive return. An analysis I conducted with my Heritage Foundation colleagues found that median-income earners could expect to receive nearly three times as much monthly retirement income as Social Security will provide if they could instead put their Social Security taxes into personal retirement accounts.[23] Even a very low-income earner could expect to receive 40 percent more retirement income from personal savings than from Social Security.

Social Security is an especially raw deal for individuals with shorter life spans. Whereas people who live the longest collect the most Social Security benefits, some individuals pay into the system for decades and get almost nothing back in return. Those who lose out are disproportionately low-income and black. Men in the lowest-income quartile have life expectancies of 10 years less than men in the top quartile, while women in the bottom quartile have life expectancies of five years less than women in the top quartile.[24] Life expectancy at birth is 5.5 years less for black Americans than for whites, [25] and nearly one-in-four black men in the U.S. will die between ages 45 and 65, likely having paid tens, if not hundreds, of thousands of dollars in taxes to Social Security while receiving little or nothing in return.[26]

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[22] The CBO arguably uses more realistic assumptions on inputs such as fertility rates (which have plummeted since 2008) and interest rates (which surged over the past year). Rachel Greszler, "Benefit Cuts of 23%—and 4 Other Things to Know About the Government's New Social Security Projections," The Daily Signal, December 21, 2022, https://www.dailysignal.com/2022/12/21/benefit-cuts-of-23-and-4-other-things-to-know-about-the-governments-new-social-security-projections/.

[23] Rachel Greszler and Julia Howe, "3 Examples of How Social Security Robs Americans of Greater Income Before, During Retirement," Heritage Foundation *Commentary*, August 24, 2018, https://www.heritage.org/social-security/commentary/3-examples-how-social-security-robs-americans-greater-income-during.

[24] Life expectancy in this study was measured as remaining expected years at age 40. Raj Chetty et al., "The Association Between Income and Life Expectancy in the United States, 2001–2014," *Journal of the American Medical Association*, Vol. 315, No. 16 (April 26, 2016), pp.1750–1766, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4866586/ (accessed February 24, 2024).

[25] Table A, "Expectation of life, by age, Hispanic origin and race, and sex: United States, 2021," in "United States Life Tables, 2021," U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System, *National Vital Statistics Reports*, Vol. 72, No. 12 (November 7, 2023) p. 3, https://www.cdc.gov/nchs/data/nvsr/nvsr72/nvsr72-12.pdf (accessed February 24, 2024).

[26] Among all black men born in the United States, 23.6 percent are estimated to die between the ages of 45 and 65, compared to 16.8 percent of white men. Ibid, p. 10, Table B, "Number of Survivors out of 100,000 Born Alive, by Age, Hispanic Origin and Race, and Sex: United States, 2021."

Alternatively, if Social Security is viewed as a social insurance program, it also functions poorly because social insurance is supposed to be needs-based, but Social Security provides the largest benefits to the highest earners.

Time is Running Out: Lawmakers Must Reform Social Security

The longer politicians wait to address Social Security's inevitable insolvency, the higher will be the costs of reform. Social Security's unfunded liabilities have quadrupled over the past 13 years from $5.4 trillion in 2010 to $22.4 trillion in 2023. That means that either drastically higher tax increases or benefit cuts are necessary now than would be necessary if Congress had acted sooner. To prevent even greater costs of reform, policymakers should immediately reform Social Security to preserve and improve the program.

The Heritage Foundation has a reform proposal that would make Social Security solvent in the long run, increase benefits for lower-income earners, provide an optional wealth-building component, and allow for a roughly 20 percent reduction in Social Security's payroll tax. Those reforms include gradually shifting to a universal benefit that would lift more people out of poverty, modernizing the program's eligibility age, using a more accurate inflation index, eliminating Social Security's retirement earnings test, and allowing people to put part of their Social Security taxes into a personal account that they own and can pass on to their families.[27]

This is very different from other Social Security reform proposals: Senator Sanders' Social Security Expansion Act, for example, would impose $33.8 trillion in new taxes over the next 75 years.[28] The Penn Wharton Budget model estimates that a bigger Social Security program[29] would lead to a significantly smaller economy and smaller household incomes, while a smaller and better targeted Social Security program would lead to a larger economy and higher household incomes.[30]

Multiemployer Pensions Are Destitute

Multiemployer pensions are union-managed pension plans (with employer representation) that provide pensions to workers representing multiple employers within a particular industry. Because unions made the case that multiemployer plans would provide their own level of insurance with remaining employers covering any potential shortfalls of employers that went out of business, multiemployer plans were granted special treatment including far less stringent funding requirements

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[27] Rachel Greszler, "Social Security Policy for the Next Administration and 117th Congress," Heritage Foundation *Backgrounder* No. 3559, November 19, 2020, https://www.heritage.org/sites/default/files/2020-11/BG3559.pdf.

[28] Rachel Greszler, "Social Security Expansion Act: $33.8 Trillion Tax Would Destroy Jobs, Slash Incomes, and Increase Workers' Dependence on the State," Heritage Foundation *Backgrounder* No. 3758, March 31, 2023, https://www.heritage.org/social-security/report/social-security-expansion-act-338-trillion-tax-would-destroy-jobs-slash.

[29] Penn Wharton Budget Model, "The Sanders Plan for Social Security," University of Pennsylvania, March 9, 2020, https://budgetmodel.wharton.upenn.edu/estimates/2020/3/9/sanders-social-security (accessed February 24, 2024).

[30] Penn Wharton Budget Model, "PWBM Budget Contest: A Flat Benefit for Social Security," University of Pennsylvania, January 26, 2021, https://budgetmodel.wharton.upenn.edu/issues/2021/1/26/budget-contest-flat-benefit-for-social-security (accessed February 24, 2024).

under the Employee Retirement Income Security Act (ERISA) of 1974 and drastically lower premiums under the Pension Benefit Guarantee Corporation (PBGC). Moreover, subsequent 21st century pension reform laws effectively exempted the worst-funded plans from funding rules.

Defined benefit pensions can provide secure retirement income only if those in charge of the pensions manage them properly, including by requiring sufficient contribution levels to make good on promised benefits. That was not the case as union pension plans consistently promised more than the contributions they set aside could provide, and when shortfalls became evident, the plans failed to take corrective action.[31]

Mismanaged Private Union Pensions. The result of lax funding rules and reckless mismanagement of union pension funds is a deeply broken multiemployer pension system for approximately 11 million unionized workers and retirees.[32] As of 2020, the multiemployer pension system as a whole had an estimated $823 billion in unfunded liabilities and was on track to pay retirees only 41 cents for every dollar in promised pension benefits.[33] The failure of multiemployer pension plans is systemic with 77 percent of all multiemployer pension participants in plans that were less than 50 percent funded in 2020 and 96 percent of all participants in plans that were less than 60 percent funded.[34] A mere 0.5 percent—one out of every 200 workers—was in a plan with 90 percent or higher funding.

Taxpayer Bailout of Select Private Union Pension Plans. In 2021, under the guise of COVID-19 relief and through the American Rescue Plan, Congress passed a partisan and unprecedented taxpayer bailout of select private-sector union pension plans. Because an $823 billion bailout of all 1,400 multiemployer plans was not feasible, lawmakers chose to bail out just 15 percent of plans that were on track to run out of money the soonest. After the law was passed and bailouts began to be distributed, the Biden Administration's PBGC changed the stipulations of taxpayer bailouts—in a way that the PBGC had previously said it did not have the authority to do—to provide an additional $4.5 billion of taxpayer money to the failed plans.[35]

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[31] Rachel Greszler, "Not Your Grandfather's Pension: Why Defined Benefit Pensions Are Failing," Heritage Foundation *Backgrounder* No. 3190, May 4, 2017, https://www.heritage.org/sites/default/files/2017-05/BG3190.pdf.

[32] Table M-5, "PBGC-Insured Plan Participants (1980–2022)" Pension Benefit Guaranty Corporation, Multiemployer Program, Covered Plan Information Tables, https://www.pbgc.gov/sites/default/files/documents/2021-pension-data-tables.pdf (accessed February 24, 2024).

[33] Table M-9, "Aggregate Funding of PBGC-Insured Plans (1980–2020)," Pension Benefit Guaranty Corporation, Multiemployer Program, Covered Plan Information Tables, https://www.pbgc.gov/sites/default/files/documents/2021-pension-data-tables.pdf (accessed February 24, 2024).

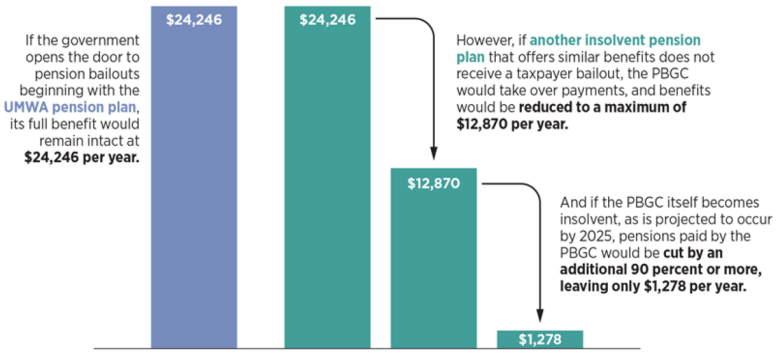
[34] Table M-13, "Plans, Participants, and Funding of PBGC-Insured Plans by Funding Ratio (2020)," Pension Benefit Guaranty Corporation, Multiemployer Program, Covered Plan Information Tables, https://www.pbgc.gov/sites/default/files/documents/2021-pension-data-tables.pdf (accessed February 24, 2024).

[35] Rachel Greszler, "Biden's Abuse of Power Causes CBO to Raise Cost Estimate of Private Pension Bailouts by $4.5 Billion," The Daily Signal, October 12, 2022, https://www.dailysignal.com/2022/10/12/bidens-abuse-of-power-causes-cbo-to-raise-cost-estimate-of-private-pension-bailout-by-4-5-billion.

While the following graphic from a 2017 report of mine was hypothetical at the time, it provides a general picture of what is now happening. Beneficiaries in plans that received bailouts will get 100 percent of their promised benefits; beneficiaries in the majority of plans that did not get bailouts will receive large benefit cuts when their plans become insolvent; and when the PBGC becomes insolvent, beneficiaries of failed plans will receive only a small fraction of what they earned and were told they would receive.

CHART 2

Pension Bailouts Would Unfairly Preserve Select Workers' Benefits While Others Face Massive Pension Cuts



SOURCES: Author's calculations based on the UMWA's pension benefits for a 62-year-old worker who retires in 2016 with 30 years of work history. Data on UMWA's pension eligibility are from UMWA Health and Retirement Funds, Pension Eligibility Requirements, http://www.umwafunds.org/Pension-Survivor-Health/Pages/Eligibility-Requirements.aspx (accessed March 9, 2016). Data on pension benefit cuts are based on PBGC's guaranteed level and U.S. Government Accountability Office, "Private Pensions: Multiemployer Plans and PBGC Face Urgent Challenges," testimony before the Subcommittee on Health, Employment, Labor and Pensions, Committee on Education and the Workforce, House of Representatives, March 5, 2013, http://www.gao.gov/assets/660/652687.pdf (accessed March 10, 2016).

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Congress's Failure to Prevent Further Deterioration of Destitute Private Union Pensions. Instead of enacting reforms to improve the calamitous state of nearly 1,200 plans that did not receive bailouts, the American Rescue Plan kicked the can down the road while incentivizing even greater underfunding. In 2018, financial economist and professor Joshua Rauh testified that 83 percent of multiemployer pension plans were digging themselves deeper into debt each year, and that percentage has likely only grown over time and with the incentive of future bailouts.[36]

[36] Testimony of Joshua D. Rauh, Ph.D., Senior Fellow and Director of Research, Hoover Institution, and Ormond Family Professor of Finance, Stanford University, Stanford, CA, in hearing, How the Multiemployer Pension System Affects Stockholders, Joint Select Committee on Solvency of Multiemployer Pension Plans, U.S. Congress,

With 96 percent of workers in plans that are less than 60 percent funded, nearly every multiemployer pension plan that did not receive a bailout is on track to become insolvent. Moreover, the Congressional Budget Office has said that even the plans receiving taxpayer bailouts are still likely to become insolvent shortly after their bailout funds run out in 2051.[37]

Bailed-Out Defined Benefit Pensions Cannot be Compared to Non-Bailed-Out Defined Contribution Plans. Without the current taxpayer bailout of select multiemployer pensions, more than one million workers in those plans would have received mere pennies on the dollar in promised benefits. And without substantially larger future bailouts—covering at least another $733 billion in unfunded pension benefits—nearly 10 million other workers and retirees will be left with pennies on the dollar in promised benefits.

It is economic malpractice to compare multiemployer pensions that have received taxpayer bailouts to 401(k)s that have not received similar bailouts. If Congress had injected the equivalent of the $90 billion multiemployer pension bailout into 401(k) plans, it would have added $1.086 trillion to existing 401(k) assets. A full taxpayer bailout of the multiemployer pension system's $823 billion in unfunded promises would be equivalent to adding $9.896 trillion to existing 401(k) accounts.

Why Congress Needs to Protect Taxpayers and Minimize Losses for Multiemployer Pension Beneficiaries. Even including the taxpayer bailout of select private union pension plans, close to 10 million workers and retirees remain in plans that can pay roughly 50 cents on the dollar in promised benefits, and what is payable is declining each year. Congress must act to fix the rules so that neither unions nor employers can promise more in pension benefits than they set aside to pay. The enormity of current underfunding makes it impossible to make up the shortfalls and prevent some benefit losses, but there are ways that policymakers can minimize losses, particularly for the most vulnerable.

Reforming multiemployer pension requires seeking to restore basic principles of fairness and equity:

- It is not fair for employers and unions to make promises they cannot keep.
- It is not fair for Congress to force taxpayers to bear the burden of employers' and unions' broken promises.
- It is not fair for the government to force pension plans to purchase PBGC insurance and then neglect to ensure that the PBGC can provide the insurance it sells.
- It is not fair for the government to allow pension plans to keep making promises they cannot keep.

115th Congress, 2nd Session, July 25, 2018, https://www.congress.gov/115/chrg/CHRG-115jhrg39994/CHRG-115jhrg39994.pdf (accessed February 24, 2024).

[37] Letter from Phillip L. Swagel, Director, Congressional Budget Office, to the Honorable Mike Enzi, Chairman, Committee on the Budget, U.S. Senate, "Re: Potential Effects of H.R. 397, the Rehabilitation for Multiemployer Pensions Act of 2019," September 6, 2019, https://www.cbo.gov/system/files/2019-09/Enzi_letter_hr397.pdf (accessed February 24, 2024).

- It is inequitable for the government to create separate rules and requirements for single-employer pension plans and multiemployer pension plans; union workers deserve pensions that are just as safe and secure as non-union workers' pensions.

Guided by these basic principles, I have proposed 12 reforms that would restore the PBGC's solvency, create a more secure multiemployer pension system similar to dependable single-employer pensions, and minimize pension losses. A more detailed explanation of these proposed reforms can be found in a report of mine titled, "Congress's Multiemployer Pension Committee Should Act Now: 12 Reforms to Protect Pensioners and Taxpayers."[38]

12 Reforms to Protect Pensioners and Taxpayers

Reforming PBGC

1) Increase the base PBGC premium at least threefold.

2) Implement a variable-rate premium, applicable to all new unfunded liabilities.

3) Enact a minimum retirement age.

4) Mandate that the PBGC take over plans when they fail, as it does for single-employer plans.

5) Impose a stakeholder fee.

Creating a More Secure Multiemployer System

6) Require multiemployer plans to use reasonable discount-rate assumptions that strengthen plan solvency.

7) Prohibit plans from shortchanging workers by re-enacting an excise tax on multiemployer plans' shortfalls in annual required contributions (as exists for single-employer plans).

8) Freeze dangerously insolvent plans.

9) Prohibit collective bargaining from setting contribution rates.

10) Require employers to recognize unfunded liabilities on their balance sheets.

Minimizing Pension Losses

11) Enhance Multiemployer Pension Reform Act (MPRA) provisions to minimize benefit cuts across workers.

12) Allow workers a buy-out option.

In addition to fixing the multiemployer pension system for plans that do not receive taxpayer bailouts through the American Rescue Plan, it has unfortunately become necessary for Congress to pass additional legislation to protect the accountability and integrity of existing bailouts. Moreover, the PBGC has failed to protect the integrity of taxpayers' money when distributing bailouts. The Central State Teamsters pension fund received $35.8 billion of taxpayer money in December of 2022. A recent inspector general report found that the PBGC failed to verify whether individuals

[38] Rachel Greszler, "Congress's Multiemployer Pension Committee Should Act Now: 12 Reforms to Protect Pensioners and Taxpayers," Heritage Foundation *Backgrounder* No. 3368, November 20, 2018, https://www.heritage.org/sites/default/files/2018-11/BG3368_0.pdf.

listed as beneficiaries in plans' applications were still living. Consequently, the PBGC sent $127 million to the Central State Teamsters pension plan on behalf of at least 3,479 dead pensioners included on the Teamsters' bailout request. Although the PBGC has the authority to recoup these funds, it has indicated that it does not plan to do so.

The gross injustice of taxpayer bailouts for reckless pension plans is bad enough. Worse is the fact that Congress now has to spend time and energy trying to pass a law to prevent the government entity responsible for distributing those bailouts from recklessly enabling fraudulent receipt of taxpayer funds. Senator Cassidy's and Representative Foxx's Ghost Handouts and Overpayments Stop Today (GHOST) Act would require the PBGC to cross-check all past and future bailout applications with the full Death Master File to prevent taxpayers' money from going to union pension funds on behalf of dead individuals.[39] The bill would also require the PBGC to recoup past payments on behalf of dead people.

State and Local Pensions Have Promised Nearly $7 Trillion in Unfunded Liabilities

State and local pension funds are outside the jurisdiction of Congress, so I will only briefly summarize their failures, which must be corrected by state and local lawmakers.

According to the American Legislative Exchange Council, state and local pension plans have promised an estimated $6.96 billion in unfunded pension liabilities.[40] That is the equivalent of $21,000 per person. Some states are in vastly worse shape than others, with Alaska having the highest unfunded pension liabilities at just over $46,000 per capita, while Tennessee is in the best shape with unfunded pension liabilities of about $7,700 per capita.

Taxpayers will be on the hook for most of these unfunded liabilities because state and local employees generally have a legal right to the pension benefits stipulated in their plans. In some states, like Illinois, policymakers cannot even prospectively alter pension plans after a worker has been hired: For example, they cannot increase worker contribution rates in the future, nor can they raise future retirement ages.

States that have shifted to defined contribution plans have significantly reduced their unfunded pension liabilities, simultaneously protecting taxpayers and providing workers and retirees with personal ownership, portability, and potentially higher rates of return.[41]

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[39] S. 3682, Ghost Handouts and Overpayments Stop Today Act (GHOST Act), 118th Congress, 2nd Session, introduced January 30, 2024, https://www.congress.gov/118/bills/s3682/BILLS-118s3682is.pdf (accessed February 24, 2024).

[40] Thomas Savidge and Jonathan Williams, "Unaccountable and Unaffordable: Unfunded Public Pension Liabilities Exceed $6.96 Trillion," 7th Edition, American Legislative Exchange Council, 2022, https://alec.org/wp-content/uploads/2023/09/UAUA-7th-Edition.pdf (accessed February 24, 2024).

[41] Although individual investing is likely to receive the same returns as pension fund investments receive, underfunded pension plans deliver lower returns. For example, a retirement contribution of $10,000 would deliver $600 of returns in one year with a 6 percent rate of return, but a pension fund that is only 50 percent funded—having only $5,000 of the stipulated $10,000 in the account—would deliver only $300 in returns.

Summary

Older Americans are significantly more secure financially than younger generations are. Both participation in retirement savings plans and retirement savings amounts are rising. Younger generations will bear far greater financial burdens than past generations due to the unsustainable federal debt. Policymakers should not further increase the redistribution of incomes from younger to older generations.

The growth in defined contribution retirement plans has improved Americans' overall retirement security while providing the added benefit of personal ownership and portability across jobs. While defined contribution plans do not guarantee a particular monthly amount or a lifetime of benefits, they do guarantee that participants can control their savings, can continuously know the value of their savings, and can pass their accounts on to family members.

Defined benefit pension plans—while declining—can offer a secure, lifetime retirement income if they are adequately funded. Single-employer pension plans generally provide this lifetime security. Social Security, union pension plans, and state and local pension plans are not secure as they have promised drastically more in benefits than they have set aside to pay. If left unaddressed, the insolvency of these plans will present a retirement crisis for tens of millions of Americans.

Policymakers should act now to minimize pension losses and taxpayer bailouts and must ensure that no pension plan—whether managed by an employer, a union, or a government—is legally allowed to make pension promises without setting aside enough money to make good on those promises. Congress should also reform Social Security immediately both to preserve the program for those who are most in need and to improve it for current workers and future generations.

Other policies, such as enacting Universal Savings Accounts, could help all Americans save in one simple and portable account that could be used for expected and unexpected events across all ages and stages of life.

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[SUMMARY STATEMENT OF RACHEL GRESZLER]

My name is Rachel Greszler. I am a senior research fellow at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my testimony today, I would like to make three main points:

First, older Americans; financial well-being is strong by historic standards, and older generations are significantly better off financially than younger generations. The shift from defined benefit pension plans to defined contribution benefit plans has been accompanied by increases in workers' retirement savings participation and in retirees' incomes. Current trends do not indicate either that younger Americans are unprepared for retirement or that it makes sense for them, as a whole, to increase their savings and forgo current consumption in exchange for higher future consumption. Policymakers should make it simpler and easier for Americans to save for all types of expected and unexpected life events throughout their lifetimes.

Second, Social Security is in crisis as the program will be insolvent in just 9 years, and every single retiree will be subject to 23 percent benefit cuts, averaging $5,300 per retiree. Social Security has veered far beyond its original vision and consequently provides a raw deal for younger generations. Maintaining the program or increasing benefits will require enormous tax increases that will reduce economic growth and leave households with significantly lower incomes. Every year that policymakers delay action means trillions of dollars more in either benefit cuts or tax increases. Policymakers should act immediately to preserve Social Security for those who need it most and to improve the program for current workers and future generations.

Third, defined benefit multiemployer and state and local pension funds are in disastrous shape. Taxpayers have already been forced to bail out select private multiemployer or union pension plans, and Congress did absolutely nothing to address the problems remaining for the overwhelming majority of union pension plans that are on track to provide roughly half of what they promised to provide for workers and retirees. Without congressional action, retirees and taxpayers are at risk of more than $700 billion in additional pension losses or taxpayer costs. Comparisons should never be made between defined benefit plans that would be bankrupt without taxpayer funds and defined contribution plans that have not received taxpayer bailouts.

The CHAIR. Thank you very much.

Senator CASSIDY. First, Ms. Greszler, you almost nailed your 5 minutes. Let me just compliment you. Now I have the pleasure to introduce Mr. Eric Stevenson, the President of Retirement Solutions at Nationwide.

Bringing more than 17 years of experience, having joined Nationwide in 2006, he holds his bachelor of Business and Finance from the University of Oklahoma and master's of Business Administration degree from Northwestern University.

He is responsible for overseeing Nationwide's retirement plans operation, and for delivering workplace solutions for plan sponsors and participants. Mr. Stevenson, welcome back to the U.S. Senate and thank you for being here.

STATEMENT OF ERIC STEVENSON, PRESIDENT, NATIONWIDE RETIREMENT SOLUTIONS, NATIONWIDE MUTUAL INSURANCE COMPANY, COLUMBUS, OH

Mr. STEVENSON. Well, good morning. And, Chairman Sanders, Ranking Member Cassidy, and Members of the Committee, thank you for convening today's hearing to discuss the Nation's retirement system and how we can better meet the needs of America's workers and retirees. As was mentioned, my name is Eric Stevenson.

I am President of Nationwide Retirement Solutions and Nationwide Mutual Insurance Company, a fortune 100 company based in Columbus, Ohio. We provide a full range of insurance and financial services products.

Nationwide administers 26,000 retirement plans, protecting nearly $200 billion in participant assets and helping to secure financial futures for over 2.5 million participants, with a top provider of Governmental 457 retirement plans, with 7,600 plans serving 1.84 million workers. We also help—we also focus on helping small business employers—employees where the average plan size is 40 employees or less for nearly 25,000 401(k) plans in that space.

When Nationwide began the retirement solutions business back in 1973, it was a very different landscape than we see today. Employers offering pensions took on the risk and the burden of managing that asset on behalf of their employees, most of whom would work for that employer for their entire career before retiring with their benefits.

By 1975, there were two defined contribution plans for every one defined benefit plan in the market. The burden of managing retirement assets began to shift onto the shoulders of the retirement saver, and away from the employer, the plan sponsor.

While neither of these solutions on their own is perfect, traditional DBs kept employees tied with their employer through vesting requirements and service based benefit calculations. DC plans expected average employees to have the knowledge and the confidence to manage their own investment choices with little support.

But both systems had significant upsides. Traditional DBs offer the security of a predictable and reliable income stream throughout retirement, often including some survivor benefits too. DC were portable and could be moved with the worker from job to job as they search for higher pay and new opportunities.

Now in 2024, we have the ability to take the best of both systems and move past their less desirable features. The successful passage of Secure Act of 2019 and Secure Act of 2022 created opportunities to innovate and improve the plans and offerings that didn't previously exist.

Today's DC plans come with a host of education, support, and financial planning tools. There are tax incentives to encourage small businesses to offer plans to employees, and to make employer contributions to their savings. Student loan matching helps young savers start early, auto enroll features get more and more workers saving for retirement.

Most importantly, plans can now easily integrate protected retirement income into employer sponsored plans. Workers with access to these products can select to invest in them, knowing what their guaranteed income will be upon retirement.

Nationwide has dedicated significant resources to build out a comprehensive suite of products in our platform to specifically meet these needs. Encouraging plan sponsors to offer at least one protected retirement income solution in their plans will go a long way in making sure that people have guaranteed income when they retire.

2024 represents 4.4 million Americans are going to turn 65, the largest number in our history. That is 12,000 people are turning 65 a day.

With that kind of trend, I am especially energized to be here today with all of you seeking the same goal of a secure retirement for America's workers, and I look forward to your questions as we look for ways to solve this crisis.

[The prepared statement of Mr. Stevenson follows.]

PREPARED STATEMENT OF ERIC STEVENSON

Good morning. I would like to thank Chairman Sanders, Ranking Member Cassidy, and all Members of the Senate Health, Education, Labor, and Pensions Committee for holding this hearing on American retirement security and for the invitation to testify.

My name is Eric Stevenson. As president of Nationwide's retirement plans business, I manage the team responsible for Nationwide's retirement plans operation. We protect nearly $200B in participant assets for over 2.7 million participants. I am passionate about fostering a culture that embraces collaboration to bring value to Nationwide's customers that meets and exceeds the unique retirement readiness needs of plan sponsors and participants. I have nearly 18 years of experience in the industry, starting at Nationwide in 2007 as Vice President of Marketing, then leading Sales and Distribution for Nationwide's retirement plans business and now serving as the business president since July 2019. I earned my Bachelor of Business Administration in Finance from the University of Oklahoma and my Master of Business Administration degree from Northwestern University Kellogg Graduate School of Management. I am also dedicated to public service, serving in a 7-year term confirmed by the Oklahoma Senate for the OU Board of Regents.

Nationwide is a mutual insurer and a Fortune 100 company based in Columbus, Ohio, and is one of the largest and strongest diversified insurance and financial services organizations in the United States. Nationwide is rated A+ by Standard & Poor's. An industry leader in driving customer-focused innovation, Nationwide provides a full range of insurance and financial services products including auto, business, homeowners, farm, and life insurance; public and private sector retirement plans, annuities and mutual funds; excess and surplus, specialty and surety; pet, motorcycle and boat insurance.

In 1973, Nationwide Retirement Solutions, Inc. was founded to focus on the needs of governmental employees, and we have been a major innovator in this market ever since. As one of the first companies to focus on public sector 457 plan workers, Nationwide has over 50 years of experience with this unique workforce. Today, Nationwide is the largest retirement plan provider serving the public sector with over 7,500 government sector retirement plans, ranging from small county and city plans to mega-size state plans. In addition to the public sector, Nationwide also administers over 15,000 retirement plans in the private sector defined contribution and not-for-profit marketplace, many of which representing small businesses with 100 employees or less.

Protecting nearly $200 billion in participant assets, Nationwide is the 9th largest provider of retirement plans in the U.S. by number of plans administered (about 26,000) and 12th by number of participants, with about 2.58 million. We are the top provider of governmental retirement plans (457 plans) by number of plans and focus on meeting the needs of smaller plans. We manage 6,826 plans with less than $10 million in assets and 147 plans with more than $100 million in assets .

Nationwide greatly appreciates the efforts of the Committee to continually improve our Nation's retirement system in a bipartisan manner. We commend the Chairman and Ranking Member for their leadership in this regard.

Reaching a Peak: More Workers Than Ever Turning 65

While retirement security is always a relevant topic, it is particularly important today as more American workers will turn 65 in 2024 than at any point in history. This is a momentous milestone for the Boomer generation and especially for those who will celebrate reaching the traditional retirement age this year, which is roughly 12,000 people every day.

After focusing for so long on saving for retirement, they are now facing uncertainty about generating steady retirement income and drawing down their savings.

A recent Nationwide Retirement Institute® survey polled 1,000 people between the ages of 60–65, split almost evenly between those who are still working and those already retired. The results revealed that many people who have yet to retire have expectations for their futures that differ from the realities experienced by many current retirees. The survey found one-third of current retirees in this age range are considering returning to work, with half (50 percent) citing the fear of running out of money or currently running out of money as their top reason for doing so.

For decades, we have educated Americans on the importance of saving for retirement. That is still an absolute need, but the opportunity for the future is to help them plan for decumulation and income they won't outlive. Our survey found clear correlation between guaranteed retirement income and confidence in retirement.

We found that 60–65-year-olds with a pension are more confident about their financial futures. Current workers who have pensions are more likely to say they're on track to retire when planned, compared to those who don't have pensions at work (78 percent versus 59 percent). When these workers do retire, that pension income results in a greater sense of financial comfort (74 percent versus 63 percent of retirees without pensions) and fewer concerns about outliving their money (64 percent versus 74 percent).

In a separate survey we conducted in 2023 of older workers participating in a 401(k) plan at work, 73 percent indicated that they wish their plan offered a pension-like income option.

Unfortunately, fewer Americans have access to pensions these days. That's why it's so critical for the financial services industry and policymakers to work together to create more opportunities for American workers to convert their savings into streams of income they can't outlive.

The SECURE Act of 2019 and SECURE 2.0 Act of 2023 were huge steps forward in this effort, creating opportunities for employers to offer in-plan protected retirement solutions. We've launched an entire suite of these products and are seeing strong traction in adoption among plan sponsors and participants.

As we think about the next iteration of retirement legislation, finding more opportunities to help retirement savers address the decumulation challenge should be a top priority.

Retirement Security Starts Early

At Nationwide, we aim to support Americans throughout their entire financial wellness journey, culminating in a secure and dignified retirement. We find it helpful to think about this journey in three key phases:

- Beginning Planning
- Saving for Retirement
- Living in Retirement

The Committee's ongoing work to improve our retirement system has benefited all three phases of American workers' journeys to financial wellness. The recent successes of both the SECURE Act of 2019 and the SECURE 2.0 Act of 2023 have increased access, encouraged higher savings rates, and increased innovative in-plan guarantee options for retirement savers.

Phase 1: Beginning Planning

The Beginning Planning stage of the financial wellness journey requires that workers have both an opportunity to save for retirement and the financial means to fund that savings opportunity. While anyone with income may open an Individual Retirement Account (IRA), the benefits of saving in an employer-sponsored plan are significant, including better pricing on products, lower fees, and higher contribution limits. The previous few years, including the pandemic, have shown just how important it is to have both short-term and long-term savings and what role employers can play in providing access to those benefits. Much of the work done in both SECURE and SECURE 2.0 provided opportunities to help advance coverage for employees, especially those that work for employers with 100 or fewer employees. There was also work done to make saving easier and more accessible to retirement savers, like student loan payment matching and enhancements to emergency savings.

Access is Critical

Many of the changes brought about by SECURE 2.0 are not immediately obvious but provide significant impacts. The work by Senators Hickenlooper and Collins, for example, to simplify trustee and filing requirements for Pooled Employer Plans (PEPs) and Groups of Plans remove significant bureaucratic hurdles for small employers wanting to provide retirement benefits to their employees. Senator Hassan also was a leader in this area, making PEPs accessible to charities and public educational institutions and more widely available to small businesses. And Senator Collins reformed and improved the rules for SIMPLE plans, increasing contributions for all employees and permitting more flexibility in moving from a SIMPLE plan to a 401(k) plan. When working with small businesses, it is important to understand that often the business owner is the manager, human resources, and benefits team all rolled into one. Removing red tape and making processes easier, faster, and less expensive goes a long way toward addressing the gap in coverage for employees of those small businesses.

Another area of access that has been significantly improved is long-time, part-time workers and other workers that change locations frequently, like military spouses. Among many provisions, Senator Murray's work in SECURE 2.0 to bring the long-term part-time worker requirement down from 3 years to 2 years will positively impact more seasonal and part-time employees by providing access to employer plans sooner. Senators Hassan and Collins also made progress in this area for military spouses by providing a tax credit to small employers that hire, make eligible, and provide immediate vesting to military spouses. These are two important groups that previously had limited, if any, access to employer sponsored plans.

As each of these provisions of SECURE 2.0 is implemented, we will see more and more employers adopting retirement plans for their employees.

Gaps remain in the system, however, and Nationwide supports efforts to close those gaps. Requiring employer-sponsored plans to allow 18–21-year-old employees to participate in the plan is another way to ensure access and encourage early saving. Ranking Member Cassidy and Senator Kaine's *Helping Young Americans Save for Retirement Act* would do just that. Nationwide supports this effort and applauds the sponsors for their attention to creating more access and more early savings.

Research and practical experience have shown access to a workplace retirement plan is a key component to a successful retirement. Nationwide supports the efforts of Members of this Committee and those of your House counterparts—like Ways and Means Ranking Member Neal—to enable access to workplace retirement savings options for all American workers. We look forward to continuing to work on a bipartisan basis to find solutions to the coverage gap and to help every working American build toward a secure retirement.

Competing Priorities: Emergency Savings and Student Loan Debt

As a recordkeeper for our plan sponsors, we often get feedback on the reasons that employees provide about why they choose not to participate in the employer's plan. One of the most common reasons we heard was a fear of not having access to those funds in the event of an emergency. Working with Senators Lankford and Bennet, we supported the $1,000 withdrawal provision in SECURE 2.0 because we believe that it will remove that fear and encourage more middle-and lower-income workers to begin saving earlier. We also worked closely with Senators Young, Booker, and Murray on the pension linked savings account in SECURE 2.0 because we believe that employers and employees should have options when it comes to emergency savings.

Student loan debt is another frequently cited hurdle to workers saving for retirement. However, the passage of SECURE 2.0 now allows for employers to make matching contributions into a retirement account when employees make qualifying payments to that debt, alleviating some of that burden for early savers.

It's no secret that many Americans are struggling with student loan debt. And while you could assume it's only younger people who are concerned, older generations are also feeling burdened with these payments. A 2023 survey by the Nationwide Retirement Institute® found that even seasoned employees experienced significant financial pressures due to the resumption of student loan payments on October 1, 2023. Over 1 in 10 (12 percent) employees ages 45+ currently have student loan debt and most of these individuals (61 percent) agree the reinstatement of student loan payments has negatively impacted their financial stability and long-term planning. Another two-thirds (66 percent) agree repayments will significantly affect their ability to save for retirement.

Our 2023 survey revealed that employees ages 45+ with student loan debt have or are considering taking several steps to manage repayments—with some being more detrimental to their long-term financial strategy than others:

- 29 percent are planning to adjust their retirement plan contributions in order to keep up with their student loan payments.
- 18 percent have already adjusted their retirement plan contributions.
- 49 percent are reconsidering the feasibility of their retirement goals in light of their student loan debt.

Due to the impact of student loan repayments on their long-term strategy, 85 percent of employees ages 45+ with student loan debt would be interested if their employer offered a match to their loan repayments for retirement savings. Offering a student loan match will be an immediate winner for employers with employees seeing it as such a valuable tool for them as they address their financial needs of today and tomorrow.

Although the retirement industry can't solve the broader societal challenges created by student loan debt, we do believe that the existing retirement system can be utilized to alleviate some of the immediate pressure and long-term financial impact on workers. In recent years, we have increasingly seen employers take a greater interest in providing for the overall financial health of their employees. At Nationwide, we believe that both the student loan employer match provision and emergency savings provisions will become popular employer-provided benefits, as they help employers both respond to workers' concerns over current financial burdens and help ensure a better retirement savings outcome for their workers.

Phase 2: Saving for Retirement

The Saving for Retirement phase of the financial wellness journey emphasizes taking advantage of tax-deferred savings opportunities to the extent possible for an individual and ensuring that any amounts saved are invested efficiently, such as through the avoidance of excessive fees. Every dollar saved must be maximized to give workers the best chance at reaching their retirement savings goals. Here, it is not only important that individuals save as much as possible, but also that plan sponsors and financial professionals provide appropriate products and solutions that put those savings to work for the benefit of the saver. Creating and cultivating beneficial behaviors early is a crucial part of this process.

Success of Auto-enroll and Need for Auto-Re-enroll

As Chairman Sanders noted in the announcement of this hearing, we know that "workers are 15 times more likely to save for retirement if they do so via payroll deduction and 20 times more likely to save if access to a workplace retirement plan is automatic." The success of auto-enroll programs has been exceptional and at Nationwide we see the benefits of this on a regular basis, both as a recordkeeper and as a plan sponsor.

Automation and defaults work. The more we can integrate these features into standard plan design, the more we can help Americans save. At Nationwide we administer plans in the smaller-mid market 401(k) where the SECURE 2.0 provision around auto-enroll for new plans will have a huge impact. We also administer plans in the government/public sector where state legislative action is generally required to permit auto-enroll and auto-escalate features. One of our large state plans successfully lobbied to gain auto-enroll for their state employees in 2019, and they have seen tremendous results:

- Participants are automatically enrolled at the plan minimum of $15/pay.
- The average deferral is $42/month, well above the minimum.
- The opt-out rate is holding steady at 6 percent, meaning 94 percent participation.
- 14,000 new participants have been added to the plan since the launch of auto-enroll.
- These new participants have saved roughly $11M for their retirement.

In the private sector, we have seen significantly increased outcomes for retirement savers enrolled through auto-enroll programs. In 2007, Nationwide implemented auto-enroll and auto-escalate features in the Nationwide Retirement Savings Plan (401(k)) for our associates. We have seen enormous success. Prior to auto-enrollment and auto-escalation, the participation rate across all associates was at 74 percent, and following the first year of auto-enrollment the participation rate jumped 20 per-

cent to 94 percent. With further design refinements over time, including changes to auto-escalation amounts, now just over 98 percent of all Nationwide associates participate in the plan at an average deferral rate of 9.27 percent of income. For comparison, peer companies with similar plan features average 92 percent participation at a deferral rate of 5.2 percent of income. This is a success story not just for Nationwide, but for every individual associate that is saving for their future and taking advantage of the employer match. These features have established default optimal behavior, helping even those associates who would otherwise procrastinate or put off planning to save substantially for their retirement over time with no effort required on their part.

The reason to support auto-enrollment and auto-re-enrollment is that saving earlier in one's career can significantly impact the total savings accumulated by retirement age. In 2018, Nationwide conducted a study looking at the impact of beginning retirement saving earlier in one's career. On average, employees start saving for retirement at age 31.5. If those employees consistently save until they reach Social Security's normal retirement age, they'd have about 35 years of asset accumulation and potential investment earnings at retirement. However, if they started saving for retirement 8 years sooner, they could have significantly more available for retirement income. If you take a specific example where an employee is paid twice a month and contributes $50 per pay to an account that earns 6 percent annualized return on investment and the employee starts at age 23, they'd have $88,572 more than if they started at age 31. At $100 per pay, the difference would be $177,143.60.

The importance of getting into a retirement savings habit early on in one's career cannot be overstated. For many Americans, their retirement plan is the single largest asset and investment vehicle they have.

We strongly support Ranking Member Cassidy and Senator Kaine's Auto Re-enroll Act of 2023. Ensuring that employers can automatically re-enroll eligible employees into the retirement plan, at least once every 3 years, will enhance the retirement savings for those employees. As positions and wages change, employees are more likely to remain in the plan and take advantage of benefits like employer matches, student loan matches, and other benefits that increase retirement savings.

In-Plan Protected Retirement Options

The shift from Defined Benefit (DB) to Defined Contribution (DC) as the primary retirement savings vehicle has placed a lot more responsibility on the American worker, while taking away this idea that a pension—income in retirement—is provided. Nationwide is optimistic that the provisions enacted as part of SECURE and SECURE 2.0 to make in-plan guarantees more available within defined contribution plans is the first and critical step to offer American workers protected retirement solutions to provide a "pension-like" income stream in their DC plans.

The ability for retirement savers to save into and rely on in-plan protected retirement products is a high priority. We've heard from savers, employers, and other providers that more attention needs to be paid to the plan for living from one's savings before employees reach retirement age. In response to that need, Nationwide has worked to offer an expansive suite of in-plan protected income options. These are products that fit within an employer plan and provide access to a variety of guaranteed income options once the saver has reached retirement.

Over the past 3 years, Nationwide has demonstrated significant growth by partnering with other firms to expand the reach of these protected retirement options so that they are available on Nationwide's platforms as well as other plan providers. As of January 2024, Nationwide has helped nearly 7,000 employer-sponsored plans to add a guaranteed income solution inside their retirement plan for their participants. While this progress is notable, it's not enough. Nationwide is supporting the industry coming together to provide and adopt these solutions for all employer sponsored retirement plans. We believe that the option should be available to all employees to have a portion of their hard-earned retirement savings guaranteed to cover essential living expenses in retirement.

We encourage the Members of this Committee to support the Lifetime Income for Employees Act (LIFE Act) which expands the ability for annuitized products to be offered as qualified default investment alternatives (QDIAs) within employer plans.

Collective Investment Trusts in 403(b) Plans

Collective investment trusts ("CITs") are an investment option that often have lower costs than mutual funds. Although CITs may be used in 401(k) and certain other retirement plans, U.S. Securities laws currently prevents 403(b)(7) custodial

accounts, which are often used by nonprofit, healthcare, and higher education employers, from investing in CITs.

The nonprofit and higher education worlds employ over 12.5 million people saving for their retirement, and those savers should have the same access to proven and low-cost vehicles within their institutional plans that their private-sector taxable counterparts enjoy. Nationwide therefore supports *Retirement Fairness for Charities and Educational Institutions Act of 2023* that would permit 403(b)(7) custodial accounts to invest in CITs (in addition to the stock of regulated investment companies, which is permitted under current law). We are pleased to partner with our friends at National Association of Government Defined Contribution Administrators (NAGDCA) in supporting this important provision and encourage the Senate to take up this bill.

Caregiver Assistance Through Tax Credits and Additional Catchups

Throughout many people's working lives there are times when one may need to step away from employment to act as a primary caregiver to a family member, young or old. It is vital for the health of the caregiver's retirement savings that time away from work be recognized. The *Credit for Caring Act*, introduced by Senators Collins, Hassan, and their cosponsors would provide caregivers with a tax credit that offsets some of the cost of providing care.

Another example of caring for caregivers is the *Expanding Access to Retirement Savings for Caregivers Act*, introduced by Representatives Tenney and Pappas. This bill provides catchup contributions to caregivers before age 50, providing 1 year of additional catchup contributions for each year the caregiver was out of employment due to their role.

Nationwide supports these innovative and important considerations for workers that must take time away to provide care for a family member.

Electronic Delivery, Safer and More Engaging

As account interaction and communications have moved into the digital age, more and more plan participants are electing to receive plan documents electronically. Recent innovations in electronic delivery of these documents have given us the opportunity to provide critical financial planning tools and education for participants. At Nationwide, and across the industry, we have seen significantly higher engagement and better financial savings behaviors from plan participants who utilize electronic delivery and visit their accounts online. Through these methods of communication, they are able to make use of the tools and education available to them, providing them with the information that they both want and need in a timely manner.

Electronic delivery also allows us to better communicate to unique populations, such as non-English speakers, people with visual impairments, or individuals that move frequently and have regular physical address changes. Each of these things, which with paper delivery create significant hurdles, is not an issue when utilizing the tools available with electronic delivery.

As mentioned earlier, more people than ever are turning 65 each day in 2024. With age can come limiting factors particularly with eyesight. Receiving electronic statements and accessing account information online has benefits, not only due to information and account balances being current, but that font size can be increased or zoomed in on to make materials easier to read. The benefits of engaging with electronic delivery are clear, and at Nationwide we support efforts to make electronic delivery the default for retirement savers.

Portability

The reality of the workplace and employees in 2024 is that most individuals no longer remain with an employer for the entirety, or even majority, of their working life. The importance of portability of retirement benefits is one that cannot be overstated. While many in the Boomer generation, those reaching retirement or in early retirement now, remained with a single employer for most of their career, the generations following them have not continued that trend.

The Defined Contribution system is built in such a way that changes in employers, careers, and even time away from the workforce do not pose significant challenges. The ease with which employees can rollover vested retirement savings into an IRA or a new employer's plan is a necessary and vital feature of the system. Changes in SECURE and SECURE 2.0 also made finding lost plans easier and raised thresholds for cash-outs, helping retirement savers to keep more of their

money in long-term savings when they move from one employer to another. Research tells us that the average worker will change jobs 5 to 7 times throughout their career, with the majority of those changes occurring when they are younger and when their savings may be smaller. Finding ways to keep individuals connected to their savings is one crucial way to help them accumulate and grow those savings further.

Savers Credit

The tax deferral of retirement savings has and continues to be a significant incentive for workers saving for retirement. However, lower income workers have not always felt the immediate benefits of that deferral. The Savers Credit was designed to offer that incentive to retirement savers, but for those that did not have tax liability the credit did not actually help. It is vital that all participants reap the benefits of saving for retirement, so something needed to change.

As part of SECURE 2.0, the Savers Credit will soon be refundable in the form of a match directly into the saver's retirement account. Nationwide applauds Chairman Wyden and his cosponsors for including this important provision in the new law. Retirement savers that meet particular income thresholds, both as single individuals or married couples, will see direct deposits from the Federal Government into their retirement account, whether that is an employer-sponsored plan or an IRA.

Phase 3: Living in Retirement

The goal of the third and final phase of the financial wellness journey, Living in Retirement, is for savers to experience a financially secure retirement for the remainder of their lives. Although the planning, preparation, and saving that occurred during the first two phases are critical to achieving a financially secure retirement, it is equally important that savers be equipped to make wise decisions and have the appropriate products and tools available in their retirement years to make their savings last.

Income In Retirement

As mentioned in the section above (In-Plan Protected Retirement Options), Nationwide is working hard to build and distribute a variety of options to retirement plan participants so that they can plan and save with confidence. Knowing that one is saving into a product that will ultimately produce a predictable, reliable stream of income in retirement takes a significant burden off of many workers as they deal with the financial needs of today and tomorrow.

Not all workers currently have access to a protected retirement solution in their employer plan. Some employers do not yet offer this type of feature, some workers have a career that doesn't come with employer-sponsored benefits, but they can save in an IRA or similar type of account. These future-retirees can still access protected retirement products in the form of a qualified or nonqualified annuity which can be structured to meet a variety of income needs in retirement.

Social Security

Social Security is a vital part of planning for and living well in retirement. While every working American can log-in to view their *my Social Security* account, few do with regularity. To address this potential short-fall in planning, Ranking Member Cassidy, Senators Kaine, Collins, and Coons have introduced a bill updating Social Security Administration (SSA) standards. First, SSA would be tasked with updating the language used to describe different benefits elections schedules; changing "early eligibility age", "full retirement age", and "delayed retirement age" to "minimum benefit age", "standard benefit age", and "maximum benefit age." We agree that this distinction will better communicate the choice being made by recipients of Social Security benefits during retirement. The bill also requires that paper statements be mailed to workers at various intervals, providing the opportunity to view estimated benefits, make corrections to wage history, and keep Social Security in mind as they plan for their future retirement.

Most recordkeepers, like Nationwide, provide employer-sponsored plans with the ability to include outside benefits, like Social Security or other pension benefits in an online dashboard for planning purposes. Having a full picture of one's retirement savings and benefits is a critical piece of planning for a successful retirement.

Conclusion

Once more, thank you Chairman Sanders, Ranking Member Cassidy, and all Members of this Committee for holding this important hearing and for extending an invitation to Nationwide to testify. Although the journey to retirement security is one that lasts nearly a lifetime, many opportunities exist today to improve our current retirement system and make that journey less arduous for savers.

We commend each of you for your ongoing, bipartisan work to improve every phase of Americans' financial wellness journey, culminating in a secure and dignified retirement. We look forward to continuing to work with you and supporting your efforts to make achieving a financially secure retirement an attainable goal for all Americans.

[SUMMARY STATEMENT OF ERIC STEVENSON]

Reaching a Peak

More American workers will turn 65 in 2024 than at any point in history. As these individuals reach the traditional retirement age, too many find themselves financially under-prepared. A recent survey by nationwide Retirement Institute® found that as many as one-third of retirees between the ages of 60–65 are considering returning to work, with half (50 percent) citing the fear of running out of money or currently running out of money as their top reason for doing so.

What We Have Done

The successful passage of the SECURE Act of 2019 and SECURE 2.0 Act of 2023 opened many doors and removed many obstacles for retirement savers and for employers wanting to offer plans to their employees, particularly small business employers.

Increasing access to workplace retirement plans comes in many forms, from reforming operations of pooled employer plans (PEPs), multiple employer plans (MEPs), and groups of plans, to increasing tax credits for employers offering plans. All these seemingly small changes have the ability to make a big impact by making offering plans easier for employers of all sizes.

Addressing competing financial priorities for workers by offering access to various emergency savings options and providing employers the ability to match student loan payments has expanded individual employees' ability to fit retirement saving into their financial lives. We know that there are different priorities at different stages of life, so adjusting the retirement savings landscape to make room for those important issues has been very impactful.

The success of auto features in the retirement space cannot be overstated. The inclusion of auto-enroll in the private sector has proven to be one of the most singularly significant improvements for individual retirement savings outcomes. Nationwide continues to work with plan sponsors to add auto-enroll and auto-escalate features to existing plans, and we applaud the requirement for all new plans to include auto-enrollment from 2024 on.

Nationwide is proud to be a leader in the in-plan protected retirement space. We believe that all employers should offer an in-plan protected retirement solution, giving their employees all the opportunity to save for retirement with a guaranteed income stream.

What We Can Do

There are still more bipartisan opportunities to fine tune the defined contribution system, and Nationwide looks forward to working with this Committee to enact those bills into law. Improvements to the administration of Social Security, continued focus on broader access to employer-sponsored plans, tax credits for caregivers, and auto-re-enrollment are a strong lead to what can be done next.

Thank you for your tireless efforts to improve the lives of America's workers as they save for and live in retirement.

The CHAIR. Thank you very much. We will begin with the questioning. At hearings like this, experts throttle on numbers, and I

look at the world a little bit differently than some of our conservative economists in terms of what is happening to working families.

But at the end of the day, you have got millions and millions of people who have worked their whole lives that are entering retirement and they are scared to death. And I think Ms. Schambers, your testimony was extremely moving, because I think you are not just speaking about your own life, not even about the UAW and union members, you are talking about millions and millions of people.

Talk a little bit, not only for your own experience, from your friends, your family, what it is like to have worked, in your case, 17 years for one of the major corporations in America and as I understand it right now, you have no retirement program, no pension program. On a on an emotional basis, on a personal basis, what is that like?

Ms. SCHAMBERS. Yes, we have a 401(k) and we got a raise in our 401k. And it is great. It is a good steppingstone, and it is a good foot forward. But when I retire, my 401(k) is based off, and the rest of America now that is in my generation, is based off of what the stock market is doing.

I have seen several times in my lifetime where the stock markets went down, and we have lost a lot of money in our 401(k). I am not at retirement age, but when I look at my 401(k) and the amount of money that was bleeding out of it with the—COVID, it makes me very uneasy.

It kind of feels like—especially working at Ford, I had a goalpost when I first hired in, and then it was, well, you are a temporary employee full time until further notice. So, then now——

The CHAIR. Explain to Members what being a "temporary"—you were a temporary employee for 6 years, right?

Ms. SCHAMBERS. Yep.

The CHAIR. It is a long term. What does it mean?

Ms. SCHAMBERS. I was considered full time, so I worked 40, 50, 60 hours a week, but I was locked in at $14 an hour until 2013. And I was expected to do everything a full time employee did, but I didn't get any of the benefits. And I actually, when I hired in, I questioned what parts of the contract I fell under, and they said, it depends on what we are talking about.

There was never any full like, here is your book. This is your rules and regulations. It is like, we are not going to cover you under that.

The CHAIR. Okay. Thank you. Thank you very much. Ms. Ghilarducci, we are in one sense the wealthiest country in the history of the world, right, yes? A lot of billionaires out there doing very, very well. How does, in your judgment, the American retirement plan, the status of older Americans compare to people around other wealthy nations?

Ms. GHILARDUCCI. Yes——

The CHAIR. Microphone.

Ms. GHILARDUCCI. My data really looks at that question. So, I compare what people were like when they were approaching retire-

ment 30 years ago, and then take the same snapshot of the generation that looks like them right now.

As I said in my written testimony today, 50 percent will not be able to meet their retirement standards and most of them won't be able to meet poverty standard. Compare that to other countries with all different kinds of systems, the Scandinavians, the Germans, the French, even the Italians, just look at our peers and we fall way behind.

I was looking at the elderly poverty rates. Kazakhstan does better than us. So, there is a couple of designs——

The CHAIR. I heard from some of the economists here today that they are doing just great. Things are getting better.

Ms. GHILARDUCCI. Yes, so that was my little lesson on averages versus medians. Because the rich have done so well, they have brought up those averages that people who talk about average retirement wealth can point to. It has gone up.

But that is because the top 10 percent got the benefit of retirement tax cuts. They got the benefit of the run up in the market. They didn't take money out to buy their houses.

The CHAIR. Okay. Last question—thank you very much, sorry. Mr. Doonan, right now billionaire pays Social Security taxes on $168,000. That is about it. Massive amounts of untaxed money there despite massive income and wealth inequality. Does that make sense to you?

Mr. DOONAN. Thank you——

The CHAIR. Microphone.

Mr. DOONAN. Thank you for the question. I would note that one of the reasons Social Security's financing fell off track is we used to capture 90 percent of total income, and that was sort of expected to continue. But with rising inequality, I think we are down to about 82 or 81.

When these projections were done in the early 80's, I feel like they did a pretty nice job. We had 40 years of level costs. But there are some areas where the projections just didn't come true.

The CHAIR. Senator Cassidy.

Senator CASSIDY. I will defer to Senator Tuberville.

Senator TUBERVILLE. Thank you. Mr. Chairman, thank you for having this. This is interesting. And we all know that as Mr. Stevenson said, a lot of us are retiring. I retired a few years ago and then my wife told me, get me a damn job, so here I am today.

I for 40 years paid max in Social Security, max, and, probably paid close to $1 million in Social Security. And I think I get about $3,000 a month, maybe. And by the way, Social Security, for those of you don't know, this group up here in 1983 voted to tax Social Security and then a few years later, tax it again. It is all a scam.

This is all a scam. I mean, we got people that is getting ready to retire that is going to try to live off $2,000 to $3,000. Impossible. It is impossible. Because what happens, it comes up here, we spend it. We are $35 trillion in debt.

We don't have any money. We are dead broke, and then taxpayers have $2 trillion in credit card debt. We are in huge trouble.

In this body, we had better start figuring that out, because we are going to have a run on this city here soon, and there is going to be about 150 million people coming up here and saying, where is our damn money that we paid in.

I could have put my Social Security money, 40 years—in the market. It would probably be worth $8 to 10 million today. But the Federal Government wasted it. So, I will get off my high horse there, but it is good we have this because we get, I get a pension check from education.

I was part of a union. It is not going to help people. People going to work—continue to work longer and longer. Am I right, Ms. Greszler? Can you say something about Social Security, and it being taxed, for some reason? We are taxing people for the second time on Social Security that they put into an account.

Ms. GRESZLER. Yes. And I would like to point out when Social Security was first founded, those who established it, it was started out as a 2 percent tax and they said, this will never take more than 6 percent of your income. Today it takes 12.4 percent. And depending on whether you go with CBO or Social Security trustees, it needs to take between 15.8 and 17.5 percent.

We are talking about thousands of dollars more per year. It also was actually only originally recommended that the tax be up to $66,000, the equivalent in today's dollars of earnings. But over time, it has expanded massively, and the money has been spent every year. So, whereas everybody thinks this money has been set aside for me, no.

For the past 13 years, every dollar that has gone out of workers' paychecks has gone immediately to pay promised benefits. And that is what happens when you have a system that enables those in charge of it to spend the money in the immediate term and leave the buck to the next generation that is coming along.

Because Social Security has grown so much, it has actually to the detriment of lower income workers in particular, who have to pay such a large share of their tax, their paycheck to Social Security. They have little left to save for retirement. And then lower income, and African American workers, have the lowest life expectancies, so they are the most likely to get nothing back in return.

One out of four African American men will die between the ages of 45 and 64, after having paid into this system for decades tens if not hundreds of thousands of dollars and they might get nothing back.

Senator TUBERVILLE. What is the solution?

Ms. GRESZLER. I think we ultimately have to shift toward a universal benefits system. That is what true social insurance is. It does not make sense that we are paying the biggest benefits to the highest income earners.

Gradually, over time, I think we need to bend down the benefits for the middle and upper income earners, actually increase them for the lower income earners. Look at things like indexation life retirement age to life expectancy, more accurate inflation index.

I think that workers need an option to have their money in something that actually earns a positive rate of return, and that can't just immediately be spent by Congress.

Senator TUBERVILLE. I have a 28 and 29 year old, two boys. Got a job working hard, paying Social Security. They ask me all the time, dad, will I ever see any of that money? Will they see it?

Ms. GRESZLER. I think they will see some of it. That is the exact same thing I hear whenever I ask a group of younger workers, and none of them raises their hand. So, I think that there will be something there, but it is not going to be what has been promised.

Senator TUBERVILLE. Mr. Steven, you got anything to add to that?

Mr. DOONAN. Thank you, Senator. What I would add is, when we talk about Social Security, we talk about pensions, the two things that they both have in common is that guaranteed income.

What you are going to get, generally speaking, at the end of it. And what I referenced in terms of protected retirement, we have developed now solutions that get at both of those in a very efficient way and they also address the issue around market volatility because we have step ups and likens.

It is a very efficient way to deliver that to millions of Americans that we have been talking—and that is all because of what you all did around Secure Act 1.0 and 2.0. They have put us in a position to do that.

That is why I am really encouraging us to have every funded 401(k) plan, 457 plan, 403B plan at least one of those solutions, so that the American workers can choose if they want to know what they are going to get in retirement, we can deliver that for them.

Senator TUBERVILLE. Young people of all ages ask me, why can't we put our money in our own 401(k) instead of putting it in Social Security? Is there an answer to that?

Mr. DOONAN. I think—what I love is that they are asking the right question. Savings in any way is a good thing, and I think there is a place for Social Security, there is a place for pensions, and there is certainly a place for what we are doing with 401(k) plans.

The CHAIR. Senator Hassan.

Senator HASSAN. Thank you very much, Mr. Chairman, and thanks to you and the Ranking Member, for having this hearing. And thanks to all of our witnesses for being here today.

Mr. Stevenson, I want to start with a question for you. We can increase Americans' retirement savings by supporting small businesses that offer retirement plans to their employees.

That is why my colleague on this Committee, Senator Budd, and I are working to develop a bipartisan bill to improve the existing retirement plans startup tax credit. This bill would ensure that the smallest businesses receive tax cuts that fully cover the cost of starting a retirement plan.

Mr. Stevenson, how can expanding retirement related tax incentives for small businesses help increase access to retirement secu-

rity for their workers? And how can Congress continue to support small businesses in their efforts to provide retirement plans?

Mr. STEVENSON. Yes. The credits for small businesses are really important. Everything that we can do to encourage a small business to start a 401(k) plan is hugely successful.

What I would add is, as a former small business owner myself, one of the things when you start a small business that you are struggling with is just there is so many things that you are wrestling with and sometimes getting to that part—you are just trying to make sure you can make payroll.

Making it easy, making it just really automatic for people to set up those 401(k) plans is super important as well.

Senator HASSAN. Thank you. Another question for you, Mr. Stevenson. Since 2019, Congress has twice passed into law bipartisan legislation to increase access to retirement savings options, particularly for military spouses, part time workers, and student loan borrowers.

However, 57 million Americans still do not have access to a workplace retirement plan. Mr. Stevenson, how can Congress continue to build on this bipartisan momentum to increase access to retirement options?

Mr. STEVENSON. Yes. Again, Secure Act 1.0 and 2.0, it is just huge in terms of momentum and what they have done to create more access.

I think we are on the right track. What we need to do now and hold us accountable in terms of on this side of the table, is we have got to make sure that people are taking advantage of those benefits that you have already provided. That they are utilizing those—there is a lot out there.

2.0 just passed and we are working on that, but that is the—I think you have just—you are on the right track. We have done so much, and we have just got to keep pushing on that path.

Senator HASSAN. Well, and it will be helpful for us to understand as 2.0 is getting implemented, what challenges we are seeing and what other changes we can make to just make it easier and easier for Americans to save earlier and earlier in their careers.

Ms. Schambers, I want to turn to you, and I want to thank you very much for your testimony. It is really meaningful. It is really important. I also wanted to talk specifically about the impact that working—that motherhood has on working women and on their capacity to save for retirement.

According to a recent Department of Labor report, mothers lose an average of nearly $240,000 in income over their lifetime as a result of the time that they spend caring for their kids. This lost income in turn reduces a mother's retirement savings by nearly $60,000.

We obviously have to do more to help moms and help caregivers so that they can retire with dignity. As I understand it, Ms. Schambers, you have two children. Is that right? How has your experience been trying to both care for your kids and save for retirement?

Ms. SCHAMBERS. Thank you for the question because it is really important with having children to be able to say, I know when I can leave my career and I know that I can still provide.

When the cost of living goes up, so does babysitting. So does daycare. So does everything else in this world. And until this recent strike, our wages were way behind, right. And on top of that, when school is out or daycares out, you have to take time off work in order to stay home with your children.

Any of the 401(k) that I am putting into, whether I am off for a day or 6 weeks with my children, I am not putting into my 401(k) daily. On top of that, it is maxed at 40 hours. So, if I work 60 hours, I am only putting—I am only allowed to, or the company only matches up to 40 hours of what I work. If I don't work that 40 hours, I am already behind.

Senator HASSAN. Got it. Yes, yes. Thank you very much. And again, thank you very much for your testimony. Thanks, Mr. Chair.

The CHAIR. Thank you.

Senator Cassidy.

Senator CASSIDY. Yes. Thank you. Hey, thank you all for being here. I think we share a concern. How do we improve retirement not for Elon Musk, but for kind of the folks who are at the low end.

Mr. Ghilarducci, you and—sir, can I ask your indulgence? He just showed up. Can we restart and let me defer to him? Oh, Okay. Never mind. So, but really, the two of you, Ms. Greszler and Ms. Ghilarducci, are saying different things.

You made the point that it is the lowest portion that is just having the hardest time. But you mentioned, Ms. Greszler that your statistic, I wrote it down, 50 percent of those just getting by has decreased by one half percent, and that income is 123 percent of pre-retirement income.

Can you respond, and then I will ask you to respond.

Ms. GRESZLER. Yes, I would love to because we have heard some widely different statistics here. The difference is looking at survey based data which just asks individuals what their income is versus administrative data, such as IRS tax records, what people have actually reported on their taxes.

Economists will tell you that the IRS data is the most accurate for multiple reasons. First of all, you are less accurate to lie on your taxes, but also the way that the survey data is asked, things like, defined contribution plan that you might not take a regular amount out every month will not show up.

There has been studies done that showed the median female in retirement looks like she has 45 percent less income than she actually does based on that survey data when you compare it to the actual IRS tax records.

You will see in page three of my testimony here, there is a study that is using those IRS panel data and 123 percent replacement at the median, 93 percent replacement. So, most people on their tax records appear to have significant income in retirement security.

Senator CASSIDY. Ms. Ghilarducci, can you briefly respond to that?

Ms. GHILARDUCCI. That study is old. The CPS has been corrected for that. I use a much more comprehensive study from the University of Michigan that looks at what happens when people live their lives after they have filed all their taxes, went through their life course, and right on the verge of retirement, how much they have.

That has been double checked with IRS data, with administrative records. And I stand by my written testimony, the bottom half have barely anything. The middle, $200,000. The top have almost $1 million.

Senator CASSIDY. Ms. Greszler, any last words, real quickly?

Ms. GRESZLER. I mean, the data are available on the internet. You can look them up—better research——

Senator CASSIDY. Yes. Let me go, Mr. Doonan, great talking to your group yesterday. Thank you for your hospitality. Now, you mentioned the defined benefit, and now some employers are going back to it.

You mentioned IBM, but I think of IBM as having relatively stable employment. But when I look here it says that the average number of jobs someone holds in a 6-year period from 18 to 24 is 5.7, an average of 4.5 from 25 to 34, and 2.9 from 35 to 44.

It does seem like our current job market people move a lot, and the defined contribution allows you to take that with you, as opposed to what I have to vest for 5 years before I qualify, which is what we do in the Federal Government. If you are not here for 5 years, you don't vest. So, that does seem to be a major advantage of a defined contribution as opposed to a defined benefit.

Mr. DOONAN. Thank you. And I think younger workers have always been more prone to move around and switch jobs, and sort of find that——

Senator CASSIDY. But this shows even, but if you will, kind of in the 30's workers are moving around—2.9 times.

Mr. DOONAN. Yes, yes. And I also think there is a bit of a chicken and egg thing, right. Private employers moved away from incentivizing careers, and we see less people having longer careers. In contrast, the public sector has maintained that stable workforce incentivizing careers.

It is not uncommon to walk into a school and see a teacher who is—put in 20 years in that school. So I think to the extent that there actually are changes because I think there has always been turnover the incentives have changed dramatically.

Senator CASSIDY. In your mind that if we had a defined benefit, people would be more likely to stay with their job?

Mr. DOONAN. Yes.

Senator CASSIDY. Now, I will say that whenever I read of a large number of like Meta is laying off a bunch of people, is often not the worker's choice, it is the employers choice, just to point that out. Mr. Stevenson, I think Ms. Schambers is kind of pointing out to the anxiety of an investor who is dependent upon her retirement about the kind of, the stock market moving up and down.

It is one thing if you have a cushion, but it is another—in your experience, and it is another of kind of, oh my gosh, I am 10 years away. You mentioned, the terms you used, step up and lock in.

Now, I am guessing that just from what I am hearing from, is that would be a way to deal with the anxiety of that small investor. Can you elaborate?

Mr. DOONAN. Yes. Absolutely. That is—you have got it exactly right. And again, it is really taking the best of what the pension world had to offer and bringing that into defined contribution plans.

Yes, we have developed, and the number of my peers have developed solutions that address that issue 100 percent. And what I love about these is we still know that 60 percent of Americans don't have an advisor, right.

That probably goes without saying. So, but what we are describing is making these available inside of 457 plans or 401(k) plans, you get them at an institutional level, and you get the oversight that comes from a major corporation or small corporation or an expert manager——

Senator CASSIDY. You got to wrap up because he is tapping the thing, but I think you have made your point. And, Mr. Chair, can I ask unanimous consent to enter into the record statements from the following groups, the American Benefits Council, the ERISA Industry Committee, the American Council of Life Insurers, the Insurer Retirement Institute, IRA, and the American Retirement Association.

The CHAIR. Without objection.

[The following information can be found on page 156 in Additional Material:]

The CHAIR. Senator Casey.

Senator CASEY. Thank you, Mr. Chairman. Thanks for the hearing. Wanted to thank in particular our witnesses for your testimony and the expertise you bring to the hearing.

I don't think there is anyone in this room that doesn't understand the scope of this problem, and especially after the testimony, of how important it is to have enough savings for all of life's needs, no matter where a person lives, no matter what their circumstances.

That, of course, includes retirement. We know that secure retirement—reliable pensions have been phased out by major corporations over time that, in my judgment, are increasingly cutting costs on the backs of workers.

This has contributed to some devastating data with regard to retirement savings and the gaps therein. Professor Ghilarducci, I wanted to start with you about your—the findings that you cite in your testimony about, and I want to make sure I have this right, half of Americans nearing retirement, ages 51 to 64, have no wealth in retirement accounts. Is that true?

Ms. GHILARDUCCI. That is true.

Senator CASEY. Also, that same group, meaning ages 51 to 64, have no home equity. Half don't.

Ms. GHILARDUCCI. That is true too. And that is because our debt creating institutions have overwhelmed our wealth creating institutions for most American workers. Student loans, HELOCs, no down payments for your house, credit card debt, babysitting money.

The ability to take money out of your retirement account. That is the account of first resort. It should be the account of no resort until you retire. So, our wealth institutions have not worked for most Americans.

Senator CASEY. I wanted to talk to you about a bill that I have introduced to confront part of the problem. It is called the 401 Kids Savings Account Act to help at least begin to reverse these trends.

This bill automatically creates savings accounts at birth for all children, all children in the country, with Federal support for low and moderate income families, and then starting when that child reaches the age of 18, funds can be used for higher education, can be used to start a small business, or first home or retirement.

Starting to save at birth also means families can put the market to work for them, leading to compound savings and greater assets later in life. To illustrate this in one particular example, the Aspen Institute found that starting savings at birth rather than at age 32, when a typical family start saving for retirement, results in an additional $473,000 for retirement.

That is what our 401 Kids plan can achieve. I wanted to ask you about that and also ask Mr. Stevenson or others about the importance of building savings starting at birth.

Ms. GHILARDUCCI. Yes. I can quote Einstein who said the power of compound interest was one of the most powerful forces on Earth. And it works the other way. Debt, if you compound debt and you have debt when you start off, it can compound the other way. So, it is a really good plan. We should start with wealth and accumulate it.

Senator CASEY. Mr. Stevenson.

Mr. STEVENSON. Senator, what I would add is, we encourage savings at any rate, at any level. What I would add is if we auto enrolled everyone at age 21 when they graduated from college, we wouldn't have a crisis either. We would make huge progress. Just getting people started at 21 versus 31, captures a vast majority of the number that you quoted.

Senator CASEY. Mr. Doonan, and I am getting close to running out of time. But, Mr. Doonan, what is your sense of this in terms of the importance of starting savings at birth?

Mr. DOONAN. I think when you look at a retirement system it is too common to start at age 40. You have the short timeframe. You don't have the opportunity for investment returns to support the cost of retirement.

Starting earlier obviously makes the math work much better. I think it could help with some equity issues possibly help—relieve some financial pressure stress, that sort of thing too. Thank you.

Senator CASEY. Thanks very much. Thank you, Mr. Chairman.

The CHAIR. Thank you.

Senator Braun.

Senator BRAUN. I want to ask Ms. Ghilarducci and Greszler this question. Does it ever make sense to borrow money, to consume, to spend? Start over with Miss——

Ms. GHILARDUCCI. Yes, sure. There is good debt.

Senator BRAUN. Not to—I am saying to spend it. To consume it as opposed to invest in it. There is a big difference there. So, go back to that question, does it ever make sense to borrow money to spend it in the present for something that is other than an investment?

Ms. GHILARDUCCI. Rarely.

Senator BRAUN. Rarely. What about you?

Ms. GRESZLER. Only if it is going to produce—return over time. Essentially like an——

Senator BRAUN. That is an investment—yes, you just flipped it to an investment, so. I would like to propose this piece of information. When we came out of WWII, we had the highest debt in the history of our Country.

But that was the greatest generation. They grew up in the depression. They fought WWII. We somehow ended up paying off all that debt, building the interstate highway system. Begs the question, how much of what ails us today when we even display it through our own Federal Government, that we are a society that wants to live in the present to where you are not investing for the future.

Here I will point out in the institution that wants to be the backstop for some of this stuff we are talking about, it would be wonderful if we could do it. It was 5 years ago when I got here, we were borrowing $1 trillion a year. Now it is $1 trillion every 6 months.

Not to mention, somebody, I think you did earlier, Social Security goes broke in 9 years. Medicare in about four or five and we don't fix even that. So, aren't we kind of missing the main issue that maybe as a country, as a society, we have lost sight of actually what builds for a good future?

My point would be that you need to become savers and investors inherently, rather than consumers and spenders, which we become as a society, and through Government. Ms. Ghilarducci, comment on that, and then Ms. Greszler.

Ms. GHILARDUCCI. No, I think you got a right. I mean, the Government and businesses are really good investors—you can—the Government and businesses——

Senator BRAUN. The Government is a good investor?

Ms. GHILARDUCCI. Absolutely. You just told me the highway bill.

Senator BRAUN. That is a tangible project.

Ms. GHILARDUCCI. Yes.

Senator BRAUN. You got an asset, and I agree there, infrastructure.

Ms. GHILARDUCCI. Human capital, big investor in education. That has a rate of return. So, I am with you.

Senator BRAUN. But have we gone too far on a variety of subjects to be credible as a place that could come in and try to fix the same thing we are talking about that we are abusing here?

Ms. GHILARDUCCI. I don't buy in on the abuse, but we are together on the borrowing you do as a Government should be an investment. Absolutely.

Senator BRAUN. Okay.

Ms. GRESZLER. I would disagree that the Government is a good investor. I don't think it is. And it would be wonderful to talk about having children be able to start retiring day one, but we have the exact opposite.

As you pointed out, debt is the reverse of compound interest. So, we have children being born in—already, they are immediately burdened with $100,000 or more in debt that they are going to have to pay off in the future.

The best thing that policymakers can do to create a brighter future for every generation is to not burden them with that debt.

Senator BRAUN. Agree 100 percent. And I think, it is kind of sanctimonious to be talking about it from here, when we would be the greatest example that is kind of abused, the whole equation of not trying to borrow money to live in the present.

It is always a bad business plan. Ms. Greszler, we have got a situation back in Indiana, there is actually an act called the Susan Muffley Act, which was an example of back when Government did step in, it picked winners and losers.

Again, this had to do with an automotive industry to where certain folks got bailed out, some didn't. It begs the question, too, of when we do step in, can we be in the business of picking winners and losers?

Even if we do want to do that, are we financially in a position to pick any winner or loser in our current shape?

Ms. GRESZLER. Yes, I think this is a perfect example of how, when we do have these systems that are broken and the Government steps in and bails out some and not others, that is absolutely unfair.

The situation with the Delphi workers, those who were unionized, got bailed out. They got $1 billion as a package of what was at least $17 billion bailout for the UAW and the big three, without which older workers' pensions would not be there today.

Now we have a situation unionized, you got $1 billion. Same company, non-unionized, they have gotten nothing. 90 percent of the workforce is not unionized.

Senator BRAUN. Well, thank you. My time is up. I will part with this statement, never borrow money to consume it. Get good at investing. Your future will be better off. And I wouldn't count on this place fixing it until we get our own house in order.

The CHAIR. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair. And thanks to the witnesses. We do things all the time that benefit some people and not others.

I mean, the notion that doing good for some people is not a good thing to do because you didn't do a good for everybody—every program that we work on usually has some target audience, and then it may not benefit other people, and then we figure out other programs to benefit them.

The notion that we helped people preserve pensions, but it was a bad idea because we didn't help everybody preserve a pension. The American Rescue Plan, we acted as part of that, and it passed by one vote in the Senate, one vote, and protected the pensions of 2 million workers.

That followed up an earlier vote that we did to protect the pension of United Mine Workers and that number was smaller but that is a good thing. By protecting those pensions, we actually protect others' pensions as well because it is less likely that those 2 million, the failure of those pension plans would drive down the funding levels of the PBGC, and so others who had pensions that weren't necessarily protected are going to end up more protected as well.

Mr. Chair, I know you probably felt the same way. There can be a lot of frustrating days around here, but there have been three times when I have been here where something has happened by one vote. Saving the Affordable Care Act happened by one vote. The American Rescue Plan, 2 million workers' pensions happened by one vote.

The Inflation Reduction Act, cutting prescription drug costs and advancing a clean energy economy, happened by one vote. There are some days where you wonder why you are here. On the days where something happens by one vote, you think, wow, I am really glad that I decided to seek office and be in this place, because sometimes it is just about one person standing up.

A couple of items I want to emphasize, and these are some items I am working on with Senator Cassidy. First is auto enrollment—auto re-enrollment. We have a bill, the Auto Re-enrollment bill, that would periodically sweep people in and have them enroll in their company's plans and give them the ability to opt out. It is similar to what we do with health insurance.

We are always kind of every year jogging you about health insurance and kind of making you think, do you have the right plan, or do you want to switch? If we could do that more often on the retirement options that our employees have with employers, I think it would be a great thing.

I think it is a bipartisan proposal that I would like us to do. The second one I want to focus on is young workers. This statistic kind of surprised me. 2.7 million Americans between the ages of 18 and 20 work full time hours, 2.7 million Americans, but 40 percent of workplace retirement plans set a minimum age threshold of 21 to be able to participate in retirement plans.

We ought to change that to 18. We ought to have workplace retirement plans pick up 18, 19, and 20 year olds that are working and include them in retirement as well. The Helping Young Americans Save for Retirement Act is something that Senator Cassidy and I are also working on.

I think, again, it is noncontroversial and bipartisan. And then the last thing I will just say, and I am one of these people that is trying to do four hearings today, so I am going to defer some time back, employee stock ownership.

If you want to talk about retirement security, the 10 million Americans that work at ESOPs end up with some powerful retirement security. And ESOPs predominated in some unusual industries. For some reason, the construction and kind of contracting industry has been—but increasingly, you see it in retail. Increasingly you see it in some hospitality industries.

If we can continue to promote ESOPs through our tax code or through other strategies, I think that is an element in retirement security that can be really, really helpful for American workers. And with that, Mr. Chair, I yield back.

The CHAIR. Thank you.

Senator Budd.

Senator BUDD. Thank you, Chairman. Congress has provided explicit instructions to the Department of Labor on numerous occasions about how to encourage Americans to save for their retirement.

However, the DOL's current fiduciary rule, proposal directly contradicts these directives. If implemented, it will further restrict access, increase costs to consumers, limit personalized financial advice, and only allow consideration of very basic investment products.

This approach toward retirement investors, it is incompatible with the current system where individual retirement savers are able to make decisions for themselves. Mr. Stevenson, do you believe the DOL's proposal is counterproductive to the great bipartisan work in the Secure Act and Secure Act 2.0?

Mr. STEVENSON. It is a great question. And one of the things that we have sort of talked around today is financial literacy, right, more education, more training. In general, we know that financial literacy doesn't work.

We have all done tons of programs. And so, that's why auto enroll, auto escalate, all those things are just so powerful. As it relates to the DOL piece, it is such a broad, sweeping piece of legislation or proposal.

It will take our eye off the ball for a long time and our ability to implement all that you have done around Security 1.0 and 2.0. It will stop a lot of the things that we are working on that are so positive, that are so bipartisan, and it is a major distraction, and it is a major expense that—those expenses will flow to places that we won't like.

Senator BUDD. It sounds like a bad idea. Mr. Stevenson, would you agree with the sentiment that in a time when folks are living longer, inflation is rampant, and there is a need to start saving more and saving earlier for retirement, that this rule would leave people worse off?

Mr. STEVENSON. It certainly has the potential. There is some challenging parts to it. And again, I would just stick to the point around there is so much power that you we have created in Secure

Act 2.0, and expanding access, expanding—making it easier for small business to do those things that we want them to do.

Young savers, student loan matching, if we implement those things, we are going to make a huge, huge dent in the challenges we have all talked about today, and that rule will really put that at risk for a few years.

Senator BUDD. Let's talk for a minute, Mr. Stevenson, about issues that will help my constituents and folks across the country with retirement instead of hurting them, as this rule is likely to do.

Secure 2.0, it had several incentives to help small businesses cover startup costs associated with an employment retirement plans. While these bipartisan measures were important, a simple miscalculation means that the tax credit doesn't work for the smallest of businesses out there.

I am working with Senator Hassan to introduce the Senate companion to the bipartisan Rise Act. And what this bill does, it addresses that miscalculation to help offset the smallest businesses and allows them to offer retirement plans to their employees.

Do you have a positive outlook on whether tax credits like these will actually help boost retirement savings for people?

Mr. STEVENSON. They absolutely will.

Senator BUDD. Can you explain that a little bit?

Mr. STEVENSON. Well, it is just so many Americans work in small companies and everything that we can do to remove the barrier from a business owner to launching their own 401(k) plan and making that available to all their employees is going to be helpful.

There is just—we have proven that time and time again, especially with the other features around auto enroll, auto escalate, that is the pattern, right. Make it easy for the business to set it up and then make it easy for the employee to participate.

Senator BUDD. That is very helpful. Thank you Chairman, I yield.

The CHAIR. Thank you, Senator Budd. All right, I think that is about it. I think on behalf of the whole Committee, I want to thank all of the panelists. I think we can—may have strong disagreements about solutions, but we can all agree this is a serious problem. Needs discussion, and I think we have begun that today.

Let me thank everybody for being here. That is the end of our hearing today. For any Senators who wish to ask additional questions, questions for the record will be due in 10 business days, March 13th, 5.00 p.m.

Finally, I ask unanimous consent to enter the record ten statements from stakeholders outlining their pension and retirement priorities. So ordered.

[The following information can be found on page 99 in Additional Material:]

The CHAIR. The Committee stands adjourned. Thank you all very much.

ADDITIONAL MATERIAL

AARP

AARP appreciates the opportunity to comment for the record on the Senate Committee on Health, Education, Labor, and Pensions hearing to discuss the retirement savings crisis in America. At AARP, we work very hard to expand workplace retirement coverage and empower Americans to save and give them the tools they need to ensure they have a more secure retirement. According to the Federal Reserve's 2022 *Economic Well-Being of Households Survey*, only 31 percent of non-retirees thought their retirement saving was on track, down from 40 percent in 2021.[1] We applaud the Committee for holding this hearing to explore solutions to ensure that future generations will be able to retire with dignity.

While there are many ways to address the retirement challenges that America faces, as this hearing will explore, AARP will focus on three areas where we hope to work with Congress and the Administration to improve retirement outcomes in this country: expanding access to retirement savings plans, ensuring protections and support for those with defined benefit plans, and closing retirement advice loopholes that allow conflicted advice to eat away at retirement savings.

(A) A Lack of Access to Retirement Savings Plans has Exacerbated the Retirement Crisis in America

Contributing to this crisis has been a significant shift in how Americans save for retirement. The share of workers with defined benefit plans has significantly declined. Defined contribution plans now hold the largest portion of retirement assets.[2] This trend away from defined benefit plans has shifted the onus of saving for retirement away from employers onto employees, who are now responsible for saving and investment decisions. Many workers do not even have an option to save for retirement through their employers. In fact, nearly half of American workers ages 18 to 64 in the private sector work for businesses that do not offer any type of retirement plan.[3]

The smaller the employer, the less likely its workers are to have access to a retirement plan. About 78 percent of those who work in firms with fewer than 10 employees and about 65 percent who work in companies with 10 to 24 employees lack a plan. However, even among very large employers with more than 1,000 workers, over one-third of employees do not have access to an employer-sponsored retirement plan.[4]

While about three out of four workers with less than a high school degree do not have an employer-provided retirement plan—a much higher percentage than workers with some college (50 percent) or a bachelor's degree or higher (32 percent), the lack of coverage affects employees at all earnings levels. About 81 percent (46 million workers out of 57 million total) with annual earnings of $50,000 or less do not have access to an employer-provided retirement plan. In addition, almost 11 million more employees earning $50,000 or more do not have access to a workplace plan.[5]

Access to a plan differs substantially by race, ethnicity, and gender. About 64 percent of Hispanic workers, 53 percent of Black workers, and 45 percent of Asian American workers lack access to an employer-provided retirement plan. Together, these employees account for about 46 percent (26 million) of the 57 million without such a plan. In addition, 46 percent of all men and 49 percent of all women do not have access to an employer-provided plan.[6]

Congress is currently considering several pieces of legislation that would expand coverage, including the *Retirement Savings for Americans Act of 2023*, which would provide those employees without an employer-sponsored retirement savings plan with access to an account managed through the Federal Government, and the *Auto-*

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[1] Board of Governors of the Federal Reserve System, "Economic Well-Being of U.S. Households in 2022," May 2023, *https://www.Federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf*.

[2] CRS, "A Visual Depiction of the Shift from Defined Benefit (DB) to Defined Contribution (DC) Pension Plans in the Private Sector, December 27, 2021, *https://crsreports.Congress.gov/product/pdf/IF/IF12007*.

[3] David John, Gary Koenig, and Marissa Malta, "Payroll Deduction Retirement Programs Build Economic Security," July 2022, *https://www.aarp.org/content/dam/aarp/ppi/2022/07/payroll-deduction-retirement-programs-build-economic-security.doi.10.26419-2Fppi.00164.001.pdf*.

[4] Ibid.

[5] Ibid.

[6] Ibid.

matic IRA Act of 2024, which would expand retirement plan coverage to millions of workers who do not currently have employer-sponsored retirement plans. [7]

Efforts to expand retirement savings coverage have been very successful at the state level. AARP's advocacy has been key in helping 19 states pass legislation to make it easier for workers to save money for retirement out of their regular paychecks who otherwise wouldn't have access to a retirement plan at their workplace. In total, these state programs are now utilized by 820,000 workers, 207,000 employers, and have $1.2 billion in assets under management. [8]

(B) Ensuring Support for Retirees With Defined Benefit Plans

After years of advocacy, AARP applauded Congress for strengthening protections for underfunded multiemployer pension plans when Congress passed the American Rescue Plan Act, which included the Butch Lewis Emergency Pension Plan Relief Act. AARP had long heard from its members who were the participants and beneficiaries of pensions at risk of significant benefit reductions due in part to changes in the economy and fewer contributing employers. Retirees, who rely on these benefits for their retirement income, faced dramatic and often devastating cuts due to no fault of their own.

The Butch Lewis Emergency Pension Plan Relief Act enabled the Pension Benefit Guaranty Corporation to support the workers and retirees in 100 to 200 severely underfunded multiemployer plans that cover millions of retirees and family members. The legislation will put many of these at-risk multiemployer pension plans on more sound financial footing for decades to come, sparing cuts to participants and beneficiaries, and ensuring the defined benefit plans they relied on throughout their working years will be there to support them throughout their retirement years.

We urge Congress to continue supporting retirees in multiemployer plans through the implementation of the Special Funding Assistance program and protecting all current defined benefit plan participants through the Pension Benefit Guaranty Corporation. It is vital we protect the benefits that workers have spent a lifetime working toward and earning so that promised benefits will be there in retirement.

(C) Close Retirement Advice Loopholes That Allow Conflicted Advice to Eat Away at Retirement Savings

One of the most important parts of coverage is ensuring that workers' retirement savings are maximized and not eaten away by inappropriate fees and commissions charged by some bad actors. When Americans seek out financial advice for their retirement savings, they expect the advice they get will be in their best interest, not in the best interest of their financial advisor. In fact, people are generally quite surprised to learn that not all financial professionals are required to put their clients' financial best interests before their own.

This is why the recently proposed Retirement Security Rule from the Labor Department is so important. This proposal would require financial professionals providing advice to retirement savers to put their clients' best interests before their own. Families need to be able to trust the advice they get from financial advisors.

Regulatory loopholes allow some financial advisers to recommend their clients invest their retirement savings in products simply because the adviser will get higher fees and commissions for doing so. This conflicted advice eats into retirement savings, and lessens peoples' ability to retire securely, ultimately resulting in further costs to state and Federal budgets.

According to a December 2023 poll conducted by AARP, 89 percent of adults 50+ say that they expect professional financial advice to be in their best interest, and a similarly large share (87 percent) say that they use professional financial advice to make important financial decisions. Further, 90 percent agree that financial professionals should be *required* to give advice in the best interest of the retirement savings account holder. In fact, two-thirds (66 percent) of adults ages 50-plus say that they would be less likely to vote for their Member of Congress if they were to

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[7] S. 3102, the Retirement Savings for Americans Act of 2023, *https://www.Congress.gov/bill/118th-congress/senate-bill/3102*; H.R. 7293, the Automatic IRA Act of 2024, *https://www.Congress.gov/bill/118th-congress/house-bill/7293*.

[8] Andy Markowitz and Jacqueline Salmon, "How Auto IRAs Are Helping More Workers Save for Retirement," January 8, 2024, *https://www.aarp.org/retirement/planning-for-retirement/info-2023/states-with-automatic-ira-savings-programs.html*.

overturn a rule requiring financial professionals to provide advice in the best interest of their clients. [9]

This Proposal Is Critical to Closing Existing Regulatory Gaps and Providing Retirement Savers the Protections They Deserve

When the Employee Retirement Income Security Act (ERISA) was enacted in 1974, individual retirement accounts had just been introduced, and 401(k) plans were not yet a reality. At that time, the primary method of ensuring retirement security was through Defined Benefit plans, commonly known as traditional pensions. These pensions offered a guaranteed income for retirees that was designed to last throughout their retirement. They were advantageous because they pooled assets and were managed by a fiduciary, leading to cost efficiencies and pooled risk.

With the shift from pensions to individual accounts that has occurred over the past 50 years, the onus of retirement planning has largely fallen on individuals. They must navigate complex financial products and depend on professional advice, which unfortunately isn't always provided with their best interests at heart. This has frequently left individuals with the ultimate responsibility for assessing economic and market risks, sifting through complex financial products, and determining contribution levels, all over a decades-long time horizon.

Currently, the advice retirement savers receive from their financial professionals about their retirement investments may not align with their best interests. This situation can lead to excessive fees, investments in underperforming or illiquid assets, and unnecessary risks. [10] According to some estimates, this conflicted advice can cost retirement savers up to 20 percent of their retirement savings over a lifetime. [11] Such circumstances are untenable, potentially delaying retirement or diminishing living standards post-retirement.

The Department of Labor Proposal Will Address Existing Regulatory Loopholes and Provide Retirement Savers with Essential Protections

The proposed Department of Labor rule proposal addresses the many regulatory loopholes that result in retirement savers receiving conflicted advice that affects their long-term financial security and ability to retire with dignity. When implemented, the rule will help to ensure workers have access to high-quality advice and aims to eliminate conflicted advice, both of which are essential in the current retirement landscape. The proposed rule would create uniform fiduciary standards to safeguard retirees and their hard-earned assets. It proposes a "best interests" standard for investment advice, broadening the scope of what constitutes an investment recommendation. This change is crucial in empowering workers to effectively manage the increased responsibility and risk associated with saving for retirement.

This proposal is a balanced approach, reflecting significant changes in our retirement system since 1975. It would address loopholes in existing regulations that allow financial professionals to take advantage of their clients and recommend they invest in ill-suited, high-fee products by focusing on the expectations of retirees—that their financial advisers will put their clients' best interests before their own. It aligns with standards set by other regulators, notably the Securities and Exchange Commission's (SEC) Regulation Best Interest (Reg BI) and puts forth the necessary consumer protections for retirement savers.

First, the proposal will do what Congress expected, and provide a uniform standard for those falling within the definition of investment advice fiduciary. In adopting

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[9] AARP Research, "Unbiased Financial Advice About Retirement Is Important to Older Adults," January 2, 2024, https://www.aarp.org/pri/topics/work-finances-retirement/financial-security-retirement/fiduciary-duty-retirement/.

[10] Retirement Security Rule: Definition of an Investment Advice Fiduciary, RIN 1210–AC02 (Oct. 24, 2024) ("Fiduciary Release") ("Overall, evidence demonstrates that the combination of inexpert customers and conflicted advisers results in investment underperformance and negative outcomes for investors. According to a 2015 report by the Council of Economic Advisers, approximately $1.7 trillion of IRA assets were invested in products with a payment structure that generates conflicts of interests. A substantial body of research has shown that IRA holders receiving conflicted investment advice can expect their investments to underperform by approximately 50 to 100 basis points per year."), *https://www.dol.gov/sites/dolgov/files/ebsa/temporary-postings/retirement-security-rule-definition-of-an-investment-advice-fiduciary.pdf*.

[11] The White House, "FACT SHEET: President Biden to Announce New Actions to Protect Retirement Security by Cracking Down on Junk Fees in Retirement Investment Advice," October 31, 2023, *https://www.whitehouse.gov/briefing-room/statements-releases/2023/10/31/fact-sheet-president-biden-to-announce-new-actions-to-protect-retirement-security-by-cracking-down-on-junk-fees-in-retirement-investment-advice/*.

ERISA, Congress sought to implement "uniform fiduciary standards" designed to "prevent transactions which dissipate or endanger" retirement assets.[12] Those providing investment advice for compensation would be subject to the best interests standard when retirees expect and trust that this is the case. The uniform standard would apply to advice providers who hold themselves out as fiduciaries, exercise discretionary control over retirement assets, or are in the business of making such recommendations on a regular and particularized basis.

Second, it closes a glaring loophole that allows some advisors to offer very bad advice to their clients, as long as they only do it once. The current, outdated regulation creates a "one time" exception, which is not in the statute Congress passed. So an advisor can give advice to convert the *entire balance of your retirement savings* and not have to do that in a retiree's best interest, simply because it was one single recommendation rather than a series of recommendations. No senior would expect that making such a substantive and critical decision would somehow be exempted from basic consumer protections.

Third, the proposal would fill gaps in the existing regulatory regime by better aligning the Labor Department's approach with what other regulators have already done. The proposal is very similar to the SEC's Reg BI, which governs the standards applicable to broker-dealers when dealing with retail clients. The proposal will apply the best interests standard to recommendations concerning plan distributions, decisions not to engage in transactions, and investment strategies.

Fourth, the definition of "recommendation" will explicitly include rollovers, even when not accompanied by a specific recommendation concerning the investment of the assets.[13] Those deciding on whether to pull assets from a retirement plan and put them in an IRA will know that the recommendation must be in their best interests.

Fifth, the effect of fine-print disclaimers will be limited. Under the proposal, disclaimers will not automatically control an investment advice fiduciary's status, at least where inconsistent with "the person's oral communications, marketing materials, applicable state or Federal law, or other interactions with the retirement investor." Where such an inconsistency arises, the disclaimer will be "insufficient to defeat the retirement investor's legitimate expectations."

Finally, the proposal also makes clear that platform providers have the same duty, at least where they make specific recommendations about the securities to be offered. As the Labor Department knows, small employers often are sold such platforms with representations that the platform will satisfy the employer's fiduciary obligations.

Criticisms of the Proposed Rule are Based on Questionable Research and Claims

Those opposing this important and commonsense rule have made baseless claims and do not support a requirement to put their clients' best interests before their own financial interests. We would like to dispel any misconceptions about the proposal.

Some have argued that this rule is not necessary, as the SEC's Reg BI has already addressed all conflicts of interest in financial advising. This is not true. Under Reg BI, implemented in 2019, broker-dealers registered with the SEC are subject to a "best interests" requirement.[14] Reg BI, however, has limited application. First, it only applies to retail investors and therefore does not extend to all recommendations made to retirement plans. For another, the standard applies only to "investment securities." As a result, the standard does not generally include such investments as real estate, certificates of deposit, certain insurance products, or commodities. Even more complex, the same investment may or may not be a security de-

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[12] Statement by Hon. Harrison A. Williams, Jr., Chairman, Senate Committee on Labor and Public Welfare, introducing the Conference Report on H.R. 2, 120 Congressional Record S. 15737 (August 22,1974) ("the legislation imposes strict fiduciary obligations on those who have discretion or responsibility respecting the management, handling, or disposition of pension or welfare plan assets. The objectives of these provisions are to make applicable the law of trusts; to prohibit exculpatory clauses that have often been used in this field; to establish uniform fiduciary standards to prevent transactions which dissipate or endanger plan assets; and to provide affective remedies for breaches of trust.").

[13] Fiduciary Release, *supra* note 4 ("The Department continues to believe that advice provided in connection with a rollover decision, even if not accompanied by a specific recommendation on how to invest assets, should be treated as fiduciary investment advice.").

[14] Securities and Exchange Commission, "Regulation Best Interest: The Broker-Dealer Standard of Conduct, Exchange Act Release No 86031," June 5, 2019 (effective Sept. 10, 2019), *https://www.sec.gov/files/rules/final/2019/34-86031.pdf*.

pending upon the circumstances, such as gold coins or interests in limited liability companies.

Annuities further illustrate the complexity. Variable annuities are subject to the Federal securities laws; fixed annuities are not. The status of fixed index annuities, according to the SEC, "may or may not" be a security.[15] Broker-dealers providing recommendations on an array of annuities could find themselves subject to Reg BI for some of them but not others. And in the case of fixed index annuities, even the advice provider may not be sure whether the best interests standard applies.

Some have argued that the National Association of Insurance Commissioners (NAIC) Model Rule is sufficient regulation for the insurance industry—despite its gaping limitations. The NAIC Model Rule—which states adopt voluntarily, and which has not been adopted by all states—would impose some obligations on those selling fixed annuities. However, while the NAIC uses the words "best interests", it does not reflect a "best interests" standard. For example, it does not apply to all annuities or other insurance products, and it excludes cash and non-cash compensation in determining material conflicts (which is the very source of many conflicts).[16] It is clear this Model Rule does not provide consumers with sufficient protections and falls far short of the protections generally included in plans covered by ERISA.

Recommendations to rollover plan assets into an IRA likewise may or may not be subject to a best interests standard under the current regulation's 5-part test. This is true even though the "decision to roll over assets from a plan to an IRA is often the single most important financial decision a plan participant makes, involving a lifetime of retirement savings" and the fact that these recommendations "carry with them an inherent conflict of interest."[17] And while rollovers are more common among retirees exiting from defined contribution plans, those entitled to defined benefit pensions may also be in a position to rollover assets when receiving a lump-sum pay out.

Conflicted advice in rollovers can significantly eat into retirement savings. According to a study from the Pew Charitable Trusts, "in 2018 alone, investors rolled $516.7 billion from employer retirement plans into traditional IRAs. An analysis of fee differentials suggests that over a hypothetical retirement period of 25 years, those retail investors could see an aggregate reduction in savings of about $45.5 billion—just from that single year of rollovers." Failure to ensure best interest advice for rollovers is a glaring gap that can harm the long-term financial security of retirement savers.[18]

Another important gap left by the current 5-part test that must be addressed is the lack of protections for plan sponsors. The requirement that a relationship with an investor be regular or ongoing for it to be subject to a fiduciary standard has resulted in this standard not applying to advice provided to small businesses. These plan sponsors are also not protected under Reg BI, because advice to them is considered "plan-level", which falls under "institutional advice" and is therefore exempt. The NAIC Model Rule also excludes from its suitability requirements the purchase of annuity-based retirement plans by small business owners. It is unclear why those

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[15] *See* Annuities, *Investor.gov*, SEC, last visited Nov. 27, 2023, *https://www.investor.gov/introduction-investing/investing-basics/glossary/annuities* ("Variable annuities are securities regulated by the SEC. An indexed annuity may or may not be a security; however, most indexed annuities are not registered with the SEC. Fixed annuities are not securities and are not regulated by the SEC.").

[16] *See* National Association of Insurance Commissioners, "Suitability in Annuity Transactions Model Regulation," Spring 2020, *https://content.naic.org/sites/default/files/inline-files/MDL-275.pdf*, ("Section 6. Duties of Insurers and Producers . . .(A)(1)(d) "The requirements under this subsection do not create a fiduciary obligation or relationship and only create a regulatory obligation as established in this regulation." And Section 5(I)(2) ""Material conflict of interest" does not include cash compensation or non-cash compensation."").

[17] Fiduciary Release, *supra* note 4 ("Financial institutions face an innate conflict of interest, in that a financial institution that provides a recommendation or advice concerning a rollover to a retirement investor may expect to earn transaction-based compensation such as commissions and/or receive an ongoing advisory fee that it likely would not receive if the assets were to remain in an ERISA-covered plan. Further, under the 1975 rule, if an investment advice provider makes a one-time recommendation that the worker move the entire balance of their retirement plan into an IRA and invest it in a particular annuity, then the advice provider has no fiduciary obligation under ERISA to honor the worker's best interest unless this recommendation is part of an 'ongoing" advice relationship. The resulting compensation represents a significant revenue source for investment advice providers.").

[18] Pew Charitable Trusts, "Small Differences in Mutual Fund Fees Can Cut Billions From Americans' Retirement Savings," June 30, 2022, *https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/06/small-differences-in-mutual-fund-fees-can-cut-billions-from-americans-retirement-savings*.

small businesses managing retirement plans on behalf of their employees should not receive the same protections as individual investors.

Some have argued that in its passage of SECURE 2.0, Congress intended to expand access to annuities, indicating that the industry should not be regulated further. This is flawed logic—the fact that greater access to annuities was provided in SECURE 2.0 does not indicate that Congress intended for consumers to receive substandard protections. In fact, it underscores the need for greater protections and ensuring these products and the people recommending investments in them are held to a higher best interests standards.

Finally, some have argued that lower-and middle-income savers will lose access to financial advice, despite no hard evidence. Indeed, similar arguments were made before the SEC implemented its own best interest standard, and no access problems have arisen. Some have pointed to limited industry "research" provided by Deloitte. But Deloitte itself states: "The findings presented are based on the analysis of information and data provided to Deloitte. Deloitte has analyzed, aggregated and summarized the information provided, but was not asked to and did not independently verify, validate or audit the information provided during the course of the engagement." [19] Indeed, the methodology for this "analysis" is not provided, nor was the underlying data made available to independent parties so that the conclusions found could be analyzed and tested—in spite of repeated requests by the Department of Labor. [20] In fact, the findings of this report are based on interviews with just 21 of hundreds of firms, with no information provided as to how these firms were chosen, whether they are representative of the market, or what questions were asked. [21] In short, it lacks academic rigor and transparency.

A more recent study from the National Association of Insurance and Financial Advisors (NAIFA) similarly lacks rigor or transparency. It does however, shed light on the degree to which the members selected for participation in the survey provide conflicted advice to their clients. In the survey, 23.58 percent of participants agreed and 43.47 percent strongly agreed that they would have to stop or reduce sales of fixed annuities or non-securities investment products if the rule were implemented. [22] This underscores the importance of implementing this rule and ensuring that consumers have the protections they deserve.

Further, as noted, this proposed rule aligns with Reg BI, which was implemented in 2019. There has been no evidence that Reg BI has reduced lower-and middle-income workers' access to investment recommendations. When looking abroad to the United Kingdom, we see that the application of similar standards has actually *increased* access to financial advice, rather than decreased access. The UK's Financial Conduct Authority (FCA) found that "[in 2021] approximately 8 percent (4.1m) of all UK adults have received financial advice, an increase from 6 percent (3.1m) in 2017." [23] Rather than the new proposed rule having a negative effect on retirement savers, the rule will instead improve their investing outcomes.

Under existing requirements, it is the lower-and middle-income retirement savers who suffer the most from conflicted advice, as wealthier investors tend to work with advisers who are already fiduciaries and put their clients' best interests before their own. As one of today's witnesses, Kamila Elliott, put it when she testified before the Department of Labor on the proposed rule: "*The wealthy receive financial advice that is best for them. Why shouldn't those with moderate incomes be treated the same*?" [24] There is no reason that lower-and middle-income retirement savers do not merit the same consumer protections as wealthier investors.

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[19] Deloitte (commissioned by SIFMA), "The DOL Fiduciary Rule: A study on how financial institutions have responded and the resulting impacts on retirement investors," August 19, 2017, *https://www.sifma.org/wp-content/uploads/2017/08/Deloitte-White-Paper-on-the-DOL-Fiduciary-Rule-August-2017.pdf*.

[20] Consumer Federation of America, "Comment Letter Re: RIN 1210-AB82, Request for Information Regarding the Fiduciary Rule and Prohibited Transaction Exemptions," October 24, 2017, *https://consumerfed.org/wp-content/uploads/2017/10/cfa-dol-fiduciary-response-to-industry-rule-opponents.pdf*.

[21] Ibid.

[22] NAIFA, "Impact of the Proposed DOL Fiduciary-Only Rule on NAIFA Members," December 2023, *https://2635471.fs1.hubspotusercontent-na1.net/hubfs/2635471/NAIFA%20Members%20Respond%20to%20the%20Proposed%20US%20DOL%20Rule.pdf*.

[23] FCA, "FCA publishes evaluation of its work on the financial advice market," November 29, 2021, https://www.fca.org.uk/news/press-releases/fca-publishes-evaluation-financial-advice-market.

[24] Kamila Elliott, "CFP BOARD 2022 CHAIR KAMILA ELLIOTT, CFP® TESTIFIES AT DOL HEARING ON RETIREMENT SECURITY RULE," December 18, 2023, *https://www.cfp.net/news/2023/12/kamila-elliott-testimony*.

While there may be a transition period during which advisers work through the requirements of this proposal, currently, 1 in 3 financial advisors (97,000 advisors) in the United States are Certified Financial Planner (CFP) Board certified. As part of the CFP certification, these financial planners make a commitment to act as a fiduciary when providing financial advice and to put their clients' best interests first. Many financial professionals are already operating under a fiduciary standard and put their clients' best interests before their own and will not have to make operational changes as a result of this rule.

Stronger consumer protections ultimately will result in better financial advice as those advisers who would rather put their own interests before their customers will either raise their standards or lose access to those clients. All retirement savers deserve to have their financial advisers make investment recommendations to them under a best interests standard—anything less is not serving retirement savers and will harm their ability to retire securely and with dignity.

The Department of Labor Retirement Security Rule Should be Implemented Without Delay

This is a common-sense rule—and most people are surprised to learn it isn't already a requirement for financial professionals. AARP polling shows that 9 in 10 adults over the age of 50 support the requirement that financial professionals act in their best interest.[25] Retirement savers rely on financial professionals to make important investment decisions and need to be able to trust these advisers are acting in their best interest.

When people go to a financial advisor with questions about their life savings, they need to be able to trust they are getting good advice. The United States spends hundreds of billions on tax benefits to encourage retirement savings, and those dollars should not be wasted when families get conflicted advice from a professional. Where advice providers are not required to observe a best interest standard, retirement security is undermined, and retirees suffer the consequences. Monetary losses can be staggering, and retirement may be delayed or postponed. The quality-of-life post-retirement can be significantly reduced. We urge Members of Congress to support this proposal, oppose any efforts to defund it, and to ensure the Department of Labor implements this Rule swiftly.

(D) Conclusion

Thank you for considering AARP's perspective, and the perspective of millions of older Americans who have saved for retirement throughout their working lives, on ways to address the current retirement crisis. We must and can do better for current and future retirees to expand their access to retirement plans and protect their retirement savings. We look forward to working with Congress on constructive solutions to improve coverage and help Americans retire with financial security and dignity.

[25] AARP Research, *supra* note 2.

BETTER MARKETS

February 27th, 2024

The Honorable Bernie Sanders
Chairman
Committee on Health, Education, Labor, & Pensions
U.S. Senate
Washington, DC

The Honorable Bill Cassidy
Ranking Member
Committee on Health, Education, Labor, & Pensions
U.S. Senate
Washington, DC

Re: Statement for the record for the hearing entitled "Taking a Serious Look at the Retirement Crisis in America: What Can We Do to Expand Defined Benefit Pension Plans for Workers?"

Dear Chairman and Ranking Member,

Please find attached the comment letter that Better Markets submitted in support of the Department of Labor's ("DOL's") best interest rule. We respectfully request that it be offered into the record at the upcoming hearing titled *Taking a Serious Look at the Retirement Crisis in America: What Can We Do to Expand Defined Benefit Pension Plans for Workers?,* currently scheduled for February 28th, 2024.

The letter is an appropriate addition to the record, as it relates directly to the topic of the hearing: ensuring that all Americans have the ability to save for a decent and dignified retirement. The DOL's proposed rule is a critically important part of any overall strategy intended to promote and protect retirement savings.

If you have any questions, please do not hesitate to contact the undersigned. Thank you very much for your consideration.

Sincerely,



Stephen W. Hall
Legal Director and Securities Specialist

shall@bettermarkets.org
www.bettermarkets.org

CC: Members of the Committee on Health, Education, Labor, & Pensions.



January 2, 2024

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Ave., NW
Washington, DC 20210
Attention: Definition of Fiduciary—RIN 1210-AC02
Via Federal eRulemaking Portal: http://www.regulations.gov

Employee Benefits Security Administration
Office of Exemption Determinations
U.S. Department of Labor
200 Constitution Ave., NW
Suite 400
Washington, DC 20210
Application No. D-12057
Via Federal eRulemaking Portal: http://www.regulations.gov

Re: Retirement Security Rule: Definition of an Investment Advice Fiduciary, 88 Fed. Reg. 75890 (Nov. 3, 2023); Proposed Amendment to Prohibited Transaction Exemption 2020-02, 88 Fed. Reg. 75979 (Nov. 3, 2023)

Dear Department of Labor:

Better Markets Inc.[1] appreciates the opportunity to comment on the above-captioned notices of proposed rulemaking (together, the "Proposals"), issued by the Department of Labor ("DOL"). For decades, financial advisers have been allowed to recommend investment products, trading strategies, and account types that cost too much, pose excessive risks, lock up savings in illiquid investments, and provide meager returns for retirement savers. The advisers increase their profits, win bonuses, or receive lavish non-cash rewards, while the retirement savings of millions of hard-working Americans are eaten away. These practices, driven by adviser conflicts of

[1] Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system, one that protects Americans' jobs, savings, retirements, and more.

interest, cost tens of billions of dollars a year in lost retirement assets, and they degrade the quality of life that many workers can sustain in their retirement years. These rules will help put a stop to this practice and protect millions of Americans struggling to save for a decent retirement. They will close huge loopholes in the current rules and upgrade the requirements that advisers must follow when recommending investments for retirement accounts. We strongly support these reforms and urge the DOL to finalize them as soon as possible.

The Proposals would revise the definition of investment advice fiduciary (the "Revised Definition" proposal) to close long-standing loopholes that allow a large swath of advice to retirement savers to escape the high standards of care and loyalty established in the Employee Retirement Income Security Act of 1974 ("ERISA"), which Congress enacted specifically to protect Americans' retirement savings. The Proposals would also make modest but important changes to prohibited transaction exemption 2022-02 (the "Revised PTE" proposal), which specifies the conditions under which investment advice fiduciaries may receive compensation or engage in principal transactions that would otherwise be prohibited under ERISA.[2]

We commend the DOL for taking action to better protect retirement savers from the powerful conflicts of interest among financial advisers that inflict real harm. In this letter—

- we provide background on the evolution of the standards governing investment advice fiduciaries under ERISA and the relentless opposition from some sectors in the financial industry;

- we review the evidence showing that adviser conflicts of interest continue to inflict enormous financial harm on retirement savers, who remain unaware that many advisers act primarily in their own self-interest and at the expense of their clients;

- we offer comments in support of the proposed Revised Definition of an investment advice fiduciary;

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[2] The DOL is also proposing to amend a number of other prohibited transaction exemptions, including PTEs 75-1, 77-4, 80-83, 83-1, 86-128, and 84-24, largely to ensure that investment advice fiduciaries are more consistently required to seek relief under PTE 2020-02. PTE 84–24 would be amended to limit relief for investment advice to independent insurance producers (i.e., independent insurance agencies) that recommend annuities from an unaffiliated financial institution to retirement investors on a commission or fee basis. PTEs 75–1 Parts III and IV, 77–4, 80–83, 83–1, and 86– 128 would be amended to eliminate relief for transactions resulting from fiduciary investment advice, as defined under ERISA. Under these amended provisions, rather than look to an assortment of different exemptions with different conditions for different transactions, investment advice fiduciaries—apart from independent insurance producers—would generally be expected to rely solely on the amended PTE 2020–02 for exemptive relief for covered investment advice transactions. Our comments in this letter focus on the Revised

- we offer comments in support of the proposed Revised PTE 2020-02, including comments highlighting ways in which the DOL should make it stronger; and

- we refute the arguments tirelessly advanced by many in the financial services industry in opposition to these essential reforms.

SUMMARY OF COMMENTS

First, adviser conflicts of interest continue to take a huge toll on the financial resources and the quality of life that millions of American workers can sustain in retirement. The damage is conservatively estimated at tens of billions of dollars a year. Numerous studies over the years have established this level of harm, and the damage has remained largely unchecked because the definition of an investment advice fiduciary dating back to 1975 suffers from major gaps that remain intact to this day. As a result, many if not most recommendations to retirement savers, including rollover transactions often involving a lifetime of savings, have not been subject to the strong fiduciary standards set forth in ERISA. Moreover, other regulatory frameworks, including notably the National Association of Insurance Commissioners' ("NAIC's") model rule on annuity transactions, have done little to curb the powerful conflicts of interest that motivate many advisers.

Second, the updated definition of an investment advice fiduciary is absolutely necessary to mitigate the harmful impact of conflicted investment advice. The current definition is nearly 50 years old, and it contains huge loopholes that allow advisers to avoid their fiduciary duties and place their own interests ahead of their clients' best interest. The DOL's proposed rule would close those gaps.

Third, the proposed changes to PTE 2020-02 will strengthen and clarify the PTE. While we believe that it should be even stronger, it will, in conjunction with the Revised Definition, provide important safeguards against the toxic effects of conflicts of interest, for the benefit of all retirement savers. The amendments to the other PTEs are appropriate and will help ensure that those who render investment advice are more consistently required to comply with PTE 2022-02.

Fourth and finally, there are no persuasive arguments being advanced in opposition to the Proposals. Contrary to what some opponents claim,

1. Neither the Securities and Exchange Commission's ("SEC's") Regulation Best Interest ("Reg BI") nor the state insurance regulations patterned on the NAIC's model annuity rule are adequate substitutes for the safeguards in ERISA. Nor is there a shred of evidence that Congress intended alternative regulatory provisions to substitute for the stringent standards it chose to incorporate in ERISA. On the contrary, Congress acted against the backdrop of decades of securities and insurance regulation and determined that additional measures to protect retirement savers were essential.

2. Disclosures alone cannot adequately protect retirement savers. While disclosure is an essential component of financial regulation, it suffers from numerous limitations and it

therefore cannot possibly substitute for the affirmative obligation under ERISA to act solely in the interest of a client.

3. The DOL has ample, explicit, and specific authority to promulgate the Proposals. In addition, the so-called "major questions" doctrine is inapplicable here. Far from threatening the rare and extreme type of economic upheaval that might trigger the major questions doctrine, the Revised Definition merely closes loopholes and aligns the DOL's rules governing investment advice with what Congress said and intended in ERISA in 1974. And the amendments to PTE 2022-02 are minor, essentially leaving intact the same requirements that have been applicable to retirement advisers since 2020. In any event, the DOL's authority to promulgate these rules is clear and broad. Therefore, to the extent these reforms could possibly be perceived as revolutionary, they are nevertheless what Congress authorized the DOL to implement.

4. The Proposals respect and reflect the core—albeit erroneous—holdings of the Fifth Circuit's 2018 decision vacating the DOL's 2016 rules,[3] which were also designed to close the loopholes in the 1974 definition of an investment advice fiduciary and strengthen the protections against conflicts of interest afforded to retirement savers. Specifically, the Revised Definition incorporates conditions ensuring that recommendations are covered only where it is reasonable to conclude that a relationship of trust and confidence between adviser and client is present. Moreover, in another accommodation to the Fifth Circuit's decision, the Proposals nowhere impose contractual or warranty obligations that could give rise to a private action for violations of the Revised PTE.

5. Retirement savers with small nest eggs will not lose access to advice once these important rules are in place. On their face, none of the Proposals can reasonably be expected to have such a restrictive impact. And experience proves the point. There is no persuasive evidence suggesting that similar reforms, such as the SEC's Reg BI or the laws in some states imposing a fiduciary duty on broker-dealers, have impaired the ability of retirement savers of modest means to obtain quality, affordable advice. Most telling, some advisers currently operate under the fiduciary standard and they serve retirement savers all across the income and asset spectrum.

6. The Proposals satisfy all of the rulemaking requirements under the APA. They are the result of reasoned decision-making, based on an ample record, and supported by a thorough economic analysis. Procedurally, the DOL has provided a more than sufficient comment period and has even convened two full days of public hearings at which all perspectives on

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[3] *Chamber of Commerce of United States of Am. v. U.S. Dep't of Labor*, 885 F.3d 360 (5th Cir. 2018).

the rules were encouraged and received, especially from representatives of the regulated industry.[4]

BACKGROUND

Briefly reviewing the evolution of the regulatory standards governing investment advice fiduciaries provides helpful context for evaluating the Proposals. It highlights in particular the overriding Congressional objective that must guide the DOL's rulemaking. It also starkly illustrates the intense hostility that elements in the financial services industry harbor against these reforms and their unremitting attempt to protect their ability to take unfair advantage of unsuspecting retirement savers for their own gain.

In 1974, Congress enacted ERISA to ensure that Americans' critically important retirement assets were protected with the highest possible standards of loyalty and care imposed on those who manage or administer retirement plans or give investment advice about retirement plan assets. Congress expressly articulated the important purposes of the law by observing that "the continued well-being and security of millions of employees and their dependents are directly affected by" retirement plans; that "adequate safeguards" were not in place to protect those assets; and that it was therefore important to establish "standards of conduct, responsibility, and obligation for fiduciaries" of such plans.[5]

ERISA section 404 requires Title I plan fiduciaries to act with the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."[6] Further, fiduciaries must carry out their duties "***solely*** in the interest of the participants and beneficiaries and for the ***exclusive purpose*** of providing benefits to participants and their beneficiaries."[7] As courts have observed, the obligations in ERISA are considered "the highest known to the law."[8]

These fiduciary duties are reinforced by ***flat prohibitions*** against transactions involving conflicts of interest because of the dangers such transactions pose to retirement plans and their participants. The prohibited transaction provisions of ERISA, including Title II of ERISA which is codified in the Internal Revenue Code (Code), categorically forbid a fiduciary from "deal[ing] with the assets of the plan in his own interest or for his own account," and "receiv[ing] any

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4 Notice of Hearing on Retirement Security Rule: Definition of and Investment Advice Fiduciary and Associated Prohibited Transaction Exemption Amendments, 88 Fed. Reg. 80648 (Nov. 20, 2033), https://www.govinfo.gov/content/pkg/FR-2023-11-20/pdf/2023-25522.pdf.

5 29 U.S.C. § 1001(a), (b).

6 29 U.S.C. § 1104.

7 29 U.S.C. § 1104 (emphasis added).

8 Revised Definition Release at 75900.

consideration for his own personal account from any party dealing with such plan in connection with a transaction involving the assets of the plan."[9]

At the same time, Congress also gave the DOL authority to grant conditional administrative ***exemptions*** from the prohibited transaction provisions, but only if the DOL finds that the exemption is (1) administratively feasible for the DOL, (2) in the interests of the plan and of its participants and beneficiaries, and (3) protective of the rights of participants and beneficiaries of such plan.[10]

ERISA includes a statutory definition of a fiduciary in section 3(21)(A),[11] which provides that a person is a fiduciary with respect to a plan to the extent the person (i) exercises any discretionary authority or discretionary control respecting management of such plan or exercises any authority or control respecting management or disposition of its assets, (ii) ***renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of such plan, or has any authority or responsibility to do so***, or (iii) has any discretionary authority or discretionary responsibility in the administration of such plan. The second prong of this definition, which governs the regulatory implementation in the Revised Definition, broadly and simply provides, in essence, that a person is subject to ERISA's fiduciary standards if they give investment advice about retirement plan assets for compensation.

Yet in 1975, just a year after ERISA was enacted, the DOL hastily issued a rule implementing the statutory definition of an investment advice fiduciary under ERISA that clearly and substantially deviated from the statutory text. Unlike the straightforward language in ERISA, the 1975 rule established a convoluted five-part test for determining when an adviser is a fiduciary subject to the high standards of care and loyalty in ERISA and the prohibitions on self-dealing and compensation in ERISA and the Internal Revenue Code. That five-part test provided, and continues to provide, that a person is considered a fiduciary only if they:

(1) render advice as to the value of securities or other property or the advisability of investing in, purchasing, or selling securities or other property;
(2) on a ***regular basis***;
(3) pursuant to a ***mutual agreement***, arrangement, or understanding with the plan or IRA owner that the advice;
(4) will serve as a ***primary basis*** for investment decisions as to plan assets; and
(5) will be individualized based on the particular needs of the plan.[12]

The rule thus exempted a great deal of investment advice from the requirements established under ERISA to protect retirement savers from conflicts of interest. Whatever justification that

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9 29 U.S.C. § 1106.
10 29 U.S.C. § 1108.
11 29 U.S.C. § 1002.
12 *Nat'l Ass'n for Fixed Annuities v. Perez*, 217 F. Supp. 3d 1, 13 (D.D.C. 2016) (hereinafter "*NAFA*").

test may have had in 1975, the market for retirement advice steadily outgrew it. There was a marked shift away from defined-benefit retirement plans, in which employers guaranteed employees a certain amount upon retirement and bore responsibility for managing plans assets, towards defined-contribution plans such as 401(k)s, in which employees are responsible for managing their own retirement assets.

Faced with navigating the increasingly complex investment marketplace on their own, retirement savers have increasingly turned to financial advisers. At the same time, many of those advisers have easily exploited the loopholes in the 1975 Rule, recommending investments that enriched the advisers at the expense of their clients through products carrying excessive costs, undue risks, and poor performance. Moreover, sporadic or one-time advice about rolling large accumulations of plan assets into new types of accounts became increasingly frequent and important, highlighting the need for reforms that would close the regulatory loopholes in the 1975 rule. As further explained below, losses attributable to conflicts of interest among advisers have continued to mount, reaching a staggering level, estimated conservatively at tens of billions of dollars per year.

In 2010, the DOL began the process of re-examining the outdated 1975 rule and crafting a new rule that would better reflect the reality of the market for investment advice and establish better protections for retirement savers. In 2016, based on an extensive and thoroughly supported record, the DOL concluded that to satisfy the explicit requirements and the underlying purposes of ERISA, it was necessary to substantially strengthen the regulatory protections for retirement savers against damaging conflicts of interest among advisers. That record included evidence that retirement savers were suffering enormous losses every year as a result of conflicts of interest motivating their advisers; that the massive loopholes in the definition of an investment advice fiduciary were largely responsible for those losses; and that the conditions for any exemption from the prohibited transactions relating to conflicted compensation or other self-dealing practices needed to be strengthened in keeping with the requirements in ERISA and the Internal Revenue Code.

Accordingly, the DOL finalized a rule that closed the definitional loopholes by eliminating the regular basis and primary basis prongs. The DOL also established a strong set of conditions known as the Best Interest Contract exemption, requiring advisers to recommend investments "without regard to the financial or other interests of the adviser." The 2016 rule also required advisers to retirement savers with an IRA to enter an enforceable contract setting forth the conditions for the exemption.[13]

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[13] Definition of the Term "Fiduciary"; Conflict of Interest Rule-Retirement Investment Advice, 81 Fed. Reg. 20,945 (Apr. 8, 2016).

As soon as the 2016 rule was issued, broker-dealers and insurance agents launched a series of attacks against it in multiple federal courts.[14] The 2016 rule fared well in these cases, with court after court rejecting the varied challenges to the rule, including the implausible claim that it exceeded the DOL's authority under ERISA's broad, remedial statutory framework. However, in 2018, after forum-shopping their way into a favorable, pro-industry court, industry representatives persuaded a divided panel of the Fifth Circuit Court of Appeals to vacate the 2016 rule, over the strong dissent of the Chief Judge. The court held in part that the DOL had exceeded its authority under ERISA when it dispensed with the five-part test in the 2016 rule and when it established contractual obligations the Court viewed as creating an impermissible new cause of action.[15]

The Trump Administration acquiesced in the Fifth Circuit's ruling and abandoned any effort to seek reversal of the decision either through a petition for rehearing en banc or a petition for certiorari to the U.S. Supreme Court. The DOL subsequently established an interim enforcement policy and announced its intention to revisit the regulatory requirements governing investment advice fiduciaries in light of the Fifth Circuit's decision. In July 2020, the DOL

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[14] Better Markets participated extensively in this series of cases as an amicus supporting the DOL's position. *See* Brief of Amici Curiae AARP, AARP Foundation, Americans for Financial Reform, Better Markets, Consumer Federal of America, National Employment Law Project & Public Investors Arbitration Bar Association in Support of Defendants-Appellees and Urging Affirmance, *Mkt. Synergy Grp. v. U.S. Dep't of Labor*, 885 F.3d 676 (10th Cir. 2018) (No. 17-3038), https://bettermarkets.com/sites/default/files/Markets_Synergy_Group_v._DOL_%2810th%20Cir%29-Amicus%20Brief-9-27-2017.pdf; Brief of Amici Curiae AARP, AARP Foundation, Americans for Financial Reform, Better Markets, Consumer Federal of America, National Employment Law Project & Public Investors Arbitration Bar Association Urging Affirmance of the District Court's Decision in its Entirety, *Nat'l Ass'n for Fixed Annuities v. U.S. Dept. of Labor* (D.C. Cir., filed Sept. 22, 2017) (No. 16-5345), https://bettermarkets.com/sites/default/files/NAFA_v.DOL_%28D.C.%20Cir%29-Amicus%20Brief-9-22-2017.pdf; Brief of Amici Curiae AARP, AARP Foundation, Americans for Financial Reform, Better Markets, Consumer Federation of America & National Employment Law Project Urging Affirmance of the District Court's Decision in its Entirety, *Chamber of Commerce of United States of Am. v. U.S. Dep't of Labor*, 885 F.3d 360 (5th Cir. 2018) (No. 17-10238), https://bettermarkets.com/sites/default/files/Chamber_of_Commerce_v.DOL_%2810th%20Cir.%29-Amicus_Brief%20-7-6-2017.pdf; Amicus Brief of Better Markets, Inc., Consumer Federation of America, & Americans for Financial Reform in Support of Defendants, *Market Synergy Group, Inc. v. U.S. Dept. of Labor* (D. Kan. 2016) (No. 16-4083). https://bettermarkets.com/sites/default/files/Amicus%20Brief%20filed%20by%20Better%20Markets%20et%20al.%20in%20Market%20Synergy%20v.%20DOL%20%207-29-16.pdf; Amicus Brief of Better Markets, Inc., Consumer Federation of America, & Americans for Financial Reform in Support of Defendants, *Nat'l. Ass'n for Fixed Annuities v. U.S. Dept. of Labor*, (D.D.C. 2016) (No. 16-1035), https://bettermarkets.com/sites/default/files/NAFA%20v.%20DOL%20-%20Amicus%20Brief%207-15-16%20Final%20for%20Filing_0.pdf.

[15] *Chamber of Commerce of United States of Am. v. U.S. Dep't of Labor*, 885 F.3d 360 (5th Cir. 2018).

summarily reinstated the 1974 definitional rule in its entirety, feeling unconditionally bound by the Fifth Circuit's errant decision. In December of 2020, it issued PTE 2020-02, which established a series of important new investor protections at least governing any investment advice that did not fall through the cavernous loopholes in the 1975 definitional rule.[16]

Appropriately recognizing the need to ensure that rollover transactions, often involving a worker's entire retirement savings, were covered by the safeguards in PTE 2020-02, the DOL issued guidance in April of 2021.[17] It made clear that a recommendation involving a rollover transaction could be considered "on a regular basis" and therefore covered under the definitional rule if it marked the beginning of an ongoing relationship between the adviser and the client.

Yet even this guidance drew the ire of some advice providers who challenged it, so far successfully, in two separate cases. On February 13, 2023, the U.S. District Court for the Middle District of Florida issued an opinion vacating the policy referenced in FAQ 7 (entitled "When is advice to roll over assets from an employee benefit plan to an IRA considered to be on a 'regular basis'?") and remanded it to the DOL for future proceedings.[18] On June 30, 2023, a magistrate judge in the Northern District of Texas filed a report with the judge's findings, conclusions, and recommendations, including that the court should vacate portions of PTE 2020–02 that permit consideration of actual or expected investment advice relationships when determining fiduciary status.[19]

Fortunately and finally, under the Biden administration and new agency leadership, the DOL has proposed the Revised Definition of an investment advice fiduciary, along with proposed enhancements to PTE 2020-02, specifying the requirements that advisers must satisfy to receive compensation for their advice. These essential rules, once final and successfully defended against the inevitable legal attacks, will improve the lives of tens of millions of hardworking Americans who need, expect, and deserve unbiased, unconflicted investment advice to enter and sustain a decent and dignified retirement.

I. Adviser conflicts of interest continue to inflict enormous financial harm on retirement savers, many of whom remain unaware that their advisers act primarily in their own self-interest and at the expense of their clients.

Because of the ***loopholes*** in the definition of an investment advice fiduciary, conflicted investment advice continues to inflict massive harm on retirement savers, depleting their

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16 Prohibited Transaction Exemption 2020–02, Improving Investment Advice for Workers & Retirees, 85 Fed. Reg. 82798 (Dec. 18, 2020).

17 New Fiduciary Advice Exemption: PTE 2020-02 Improving Investment Advice for Workers & Retirees Frequently Asked Questions (Apr. 16, 2021), https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/faqs/new-fiduciary-advice-exemption.

18 *Am. Sec. Ass'n. v. U.S. Dep't of Labor*, 2023 WL 1967573, at * 22–23.

19 *See* Findings, Conclusions, and Recommendations of the United States Magistrate Judge, *Fed'n of Ams. for Consumer Choice v. U.S. Dep't of Labor*, No. 3:22–CV–00243–K–BT, 2023 WL 5682411, at *27–29 (N.D. Tex. June 30, 2023).

retirement accounts, delaying their retirements, and degrading the quality of life they can sustain throughout retirement. For decades, financial advisers have been allowed to give bad advice to retirement savers, saddling them with overpriced, under-performing, and overly risky investments but enriching their advisers. It costs American retirement savers tens of billions of dollars a year.

This pattern of behavior is unacceptable on every level. It is shamelessly predatory as it takes unfair advantage of vulnerable investors, who generally lack expertise in finance and therefore must turn to advisers they trust to navigate the countless and growing investment options available in today's complex financial markets. It is also fundamentally at odds with what Congress said and intended in ERISA. After all, the statute categorically bars advisers from acting on their conflicts of interest or engaging in self-dealing of any kind, subject only to exemptions the DOL is authorized to create. And it is uniquely harmful given the sheer magnitude of the financial losses such conflicts cause and the special importance of retirement savings to Americans' quality of life in the later years of their lives.

During the 2016 rulemaking, the DOL compiled exhaustive evidence of ***the harm*** that conflicted advice inflicts on retirement savers.[20] The Council of Economic Advisers, for example, found that conflicted investment advice costs retirement savers at least $17 billion per year, a conservative estimate that captures the damage only in relation to one type of retirement account (IRAs) and one type of investment (mutual funds).[21] Similarly, the DOL's Regulatory Impact Analysis released in conjunction with the 2016 rule found that "the underperformance associated with conflicts of interest in the mutual funds segment alone could have cost IRA investors between $95 billion and $189 billion over the following 10 years and between $202 billion and $404 billion over the following 20 years. While these projected losses were substantial, they represented only a portion of what IRA investors stood to lose as a result of conflicted investment advice."[22] Ultimately, as the DOL previously found, "the balance of research and evidence indicates that the aggregate harm from cases in which consumers receive bad advice based on conflicts of interest is large."[23]

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20 *See generally* Regulating Advice Markets, Definition of the Term "Fiduciary," Conflicts of Interest - Retirement Investment Advice, Regulatory Impact Analysis for Final Rule and Exemptions (Apr. 2016), https://www.dol.gov/sites/dolgov/files/ebsa/laws-and-regulations/rules-and-regulations/completed-rulemaking/1210-AB32-2/ria.pdf; Definition of the Term "Fiduciary"; Conflict of Interest Rule-Retirement Investment Advice, 80 Fed. Reg. 21,927 (Apr. 20, 2015); Council of Economic Advisers, The Effects of Conflicted Investment Advice on Retirement Savings (Feb. 2015), https://obamawhitehouse.archives.gov/sites/default/files/docs/cea_coi_report_final.pdf; Definition of the Term Fiduciary, 75 Fed. Reg. 65,263 (Oct. 22, 2010).

21 Council of Economic Advisers, The Effects of Conflicted Investment Advice on Retirement Savings 2-3 (Feb. 2015), https://obamawhitehouse.archives.gov/sites/default/files/docs/cea_coi_report_final.pdf.

22 Revised Definition Release at 75917.

23 Regulating Advice Markets, Definition of the Term "Fiduciary," Conflicts of Interest - Retirement Investment Advice, Regulatory Impact Analysis for Final Rule and Exemptions 5

And that damage is especially acute in ***rollover transactions***. As the DOL has repeatedly observed, decisions to take a benefit distribution or engage in rollover transactions are among the most, if not the most, important financial decisions that plan participants and beneficiaries and IRA owners and beneficiaries are called upon to make. As President Biden explained in October when he announced the Proposals, "[i]n 2022 alone, Americans rolled over approximately $779 billion from defined contribution plans, such as 401(k)s, into IRAs."[24] And retirement investors are projected to move $4.5 trillion from defined contribution plans to IRAs from 2022 through 2027.[25] The damage is also magnified in other ways as well. The current definition of investment advice fiduciary has excluded many recommendations to the ***sponsors*** of 401(k) plans as to the menu of investment options available to employees. When that advice is corrupted by conflicts of interest, employees are left with investment choices marked by high costs and low performance, which erode employees' hard-earned savings and returns over time.

All of this data establishes the magnitude of the harm caused by conflicted advice and the need for reform. And we know that the damage is ***ongoing***. First, the gaps in the current definition of an investment advice fiduciary continue to allow advisers to evade the ERISA requirements entirely, commonly through claims and fine-print client contracts stipulating that the adviser is not rendering advice on a regular basis or that the advice provided is not the primary basis for the client's investment decisions. Therefore, to this day, a huge amount of advice has been left unaffected by the safeguards in PTE 2020-02, and the corrosive effect of conflicted advice on Americans' retirement savings has continued. As the Release summarizes the point, "the limitations of the existing five-part test for fiduciary status still result in significant portions of the retirement investment market operating outside of the PTE's protections."[26]

Second, the evidence indicates that ***other regulatory initiatives*** have done little to mitigate the ongoing harm to investors from conflicted advice. For example, the SEC's Reg BI was finalized in 2019 and effective in June 2020. Yet evidence gathered by the state securities regulators, as well as FINRA, shows that the rule has had a limited impact on adviser behavior. In November 2021, the North American Securities Administrators Association ("NASAA") announced the results of a nationwide survey conducted by state securities regulators that assessed broker-dealer policies and practices following the implementation of Reg BI.[27] NASAA found that

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(Apr. 2016), https://www.dol.gov/sites/dolgov/files/ebsa/laws-and-regulations/rules-and-regulations/completed-rulemaking/1210-AB32-2/ria.pdf.

24 FACT SHEET: President Biden to Announce New Actions to Protect Retirement Security by Cracking Down on Junk Fees in Retirement Investment Advice (Oct. 31, 2023), https://www.whitehouse.gov/briefing-room/statements-releases/2023/10/31/fact-sheet-president-biden-to-announce-new-actions-to-protect-retirement-security-by-cracking-down-on-junk-fees-in-retirement-investment-advice/#:~:text=In%202022%20alone%2C%20Americans%20rolled,in%20the%20saver's%20best%20interest.

25 Revised Definition Release at 75915.

26 Revised Definition Release at 75920.

27 Report and Findings of NASAA's Regulation Best Interest Implementation Committee National Examination Initiative Phase II (A) (Nov. 2021), NASAA-Reg-BI-Phase-II-A-Report-November-2021_FINAL.pdf.

a full year after the rule's compliance deadline of June 30, 2020, little had changed when it comes to the powerful influence that adviser conflicts of interest exert on investment advice. It concluded that Reg BI firms had—

- steadily increased their participation in complex, costly, and risky products;
- continued to rely on financial incentives that Reg BI was intended to curb; and
- still placed their financial interests ahead of their retail customers in violation of the rule's chief directive.

NASAA's more recent 2023 exam results revealed some important compliance progress but also found that "some firms are still ignoring common lower-cost and lower-risk products as part of the reasonably available alternative comparison and that there is little uniformity in effective conflict mitigation. Additionally, the report found continued improper use of the 'advisor' or 'adviser' title."[28] These findings are consistent with FINRA's February 2022 exam results and its January 2023 exam results,[29] which identify a wide range of compliance failures under Reg BI. While these reports also indicate some implementation progress, they indicate continuing failure to comply as well. As to state insurance regulation, there is no evidence to suggest that the states' adoption of the 2020 NAIC model rule on annuity sales has mitigated the damage done to retirement savers by advisers peddling lucrative annuities to their clients that exact huge commissions, offer poor returns, and lock up retirement savings for years.

The failure of Reg BI and the NAIC model rule to adequately protect retirement savers can be attributed to a number of factors. They suffer from inherent weaknesses on their face and they are limited in scope. As explained more fully below, Reg BI only applies to securities recommendations and the NAIC model only applies to annuity sales, while retirement assets recommended by advisers take many forms. The NAIC's so-called best interest standard is so weak that it is essentially meaningless. And neither set of rules is being adequately enforced. It should come as no surprise then, that the demonstrable financial losses to retirement savers arising from conflicted advice have not abated and collectively continue to total tens of billions of dollars a year.

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[28] NASAA Publishes Regulation Best Interest Examination Initiative Update and Issues Proposed Revisions to Its Broker-Dealer Conduct Model Rule (Sept. 23, 2023), https://www.nasaa.org/69493/nasaa-publishes-regulation-best-interest-examination-initiative-update-and-issues-proposed-revisions-to-its-broker-dealer-conduct-model-rule/.

[29] 2022 Report on FINRA's Examination and Risk Monitoring Program (Feb. 2022), 2022-report-finras-examination-risk-monitoring-program.pdf; 2023 Report on FINRA's Examination and Risk Monitoring Program (Jan. 2023), https://www.finra.org/rules-guidance/guidance/reports/2023-finras-examination-and-risk-monitoring-program#:~:text=The%202023%20Report%20on%20FINRA's,collectively%2C%20regulatory%20operations%20programs).

II. The proposed Revised Definition of an investment advice fiduciary is essential for the protection of retirement savers and the fulfillment of Congress's goals in ERISA, and it is well-designed to achieve those goals while providing advisers with flexibility in their preferred business models.

The need for a new definitional rule is abundantly clear. Since 1975, the rule defining investment advice fiduciaries has included huge loopholes that have allowed advisers to avoid the duties imposed by ERISA, exacting a huge financial cost as explained above. For example, the rule requires that advice be given on a regular basis, thus carving out many rollover recommendations, no matter how much money is at stake. Second, the rule provides that advice must be rendered pursuant to a mutual agreement or understanding that the advice will serve as a primary basis for the client's investment decision. Advisers have often exploited this senseless requirement by disavowing it in fine-print contracts, thus avoiding entirely the obligations that ERISA would otherwise impose. Neither of these elements in the current five-part test is found anywhere in ERISA, which defines an investment advice fiduciary simply and broadly as a person who ***"renders investment advice for a fee or other compensation direct or indirect, with respect to any moneys or other property of such plan***, or has any authority or responsibility to do so."[30] Moreover, these narrow tests clearly conflict with the Congressional purposes underlying ERISA: to expand, not constrict, protections for retirement savers and their retirement assets.[31]

The Revised Definition will effectively close these loopholes, ensure that rollover recommendations will be covered, and preclude the use of contract clauses that rob investors of the protections to which they are entitled under ERISA. As described in the Revised Definition Release, the ***core provisions*** in the rule are as follows:

> The Department proposes that a person would be an investment advice fiduciary under Title I and Title II of ERISA if they provide investment advice or make an investment recommendation to a retirement investor (i.e., a plan, plan fiduciary, plan participant or beneficiary, IRA, IRA owner or beneficiary or IRA fiduciary); the advice or recommendation is provided "for a fee or other compensation, direct or indirect," as defined in the proposed rule; and the person makes the recommendation in one of the following contexts:
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> - The person either directly or indirectly (e.g., through or together with any affiliate) has discretionary authority or control, whether or not pursuant to an agreement, arrangement, or understanding, with respect to purchasing or selling securities or other investment property for the retirement investor;

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30 29 U.S.C. § 1002(21)(A) (emphasis added).

31 *See* 120 Cong. Rec. 3977, 3983 (1974) (Rep. Perkins) ("The Committee has adopted the view that the definition of fiduciary is of necessity broad. . . . This is a departure from current judicial precedents but is necessary to the proper protection of these plans.").

- The person either directly or indirectly (e.g., through or together with any affiliate) ***makes investment recommendations to investors on a regular basis as part of their business and the recommendation is provided under circumstances indicating that the recommendation is based on the particular needs or individual circumstances of the retirement investor and may be relied upon by the retirement investor as a basis for investment decisions that are in the retirement investor's best interest***; or

- The person making the recommendation represents or acknowledges that they are acting as a fiduciary when making investment recommendations.[32]

Most importantly, this revised definition ***closes loopholes*** by removing the nonsensical requirements from the 1975 rule that advice must be provided to the client on a regular basis and that there must be a mutual understanding that the advice will serve as the primary basis for the client's investment decisions. At the same time, it establishes new criteria to ensure advice is covered only if it is provided under circumstances indicating that the investor could reasonably place their ***trust and confidence*** in the advice provider. It does so by ensuring two elements: first that the adviser is generally in the business of providing recommendations to clients i.e. that the adviser makes recommendations to investors on a regular basis as part of their business, and second, that under the specific circumstances, the recommendations are individualized and may be relied upon as the basis for decisions in the best interest of the investor.

This approach ***addresses the Fifth Circuit's*** staunchly held albeit erroneous view that any definition of an investment advice fiduciary under ERISA must incorporate the elements of trust and confidence, a common law concept that Congress actually expanded upon when defining the modern statutory fiduciary duty in 1974. Thus, the Revised Definition broadly protects retirement savers by ensuring that the investment advice they receive is subject to the protections under ERISA, as embodied in PTE 2020-02, but all in accordance with the Fifth Circuit's views.

To address a particularly important and common practice among advisers, the Revised Definition Release appropriately explains that the use by advisers of ***titles*** used to engender a sense of trust and confidence among clients will support the application of the "trust and confidence" prong of the definition above:

> For example, some stakeholders have previously expressed concern that investment advice providers that adopt titles such as financial consultant, financial planner, and wealth manager, are holding themselves out as acting in positions of trust and confidence while simultaneously disclaiming status as an ERISA fiduciary. In the Department's view, an investment advice provider's use of such titles routinely involves holding themselves out as making investment recommendations that will be based on the particular needs or individual

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[32] Revised Definition Release at 75890.

> circumstances of the retirement investor and may be relied upon as a basis for investment decisions that are in the retirement investor's best interest.[33]

This approach is appropriate and necessary since the ways in which advisers portray themselves have a powerful impact on investors. Such titles, along with common advertising campaigns, clearly are intended to engender the sense among investors that they can place their trust and confidence in their advisers—even though when fighting against the DOL's reforms or defending themselves in court, advisers hypocritically insist they are mere salespeople, peddling a product and nothing more.

The rule is appropriately broad and protective in other respects. For example, it defines the concept of ***recommendations*** to include a wide range of advisory activities relating to the purchase or sale of investments, investment strategies, the management of securities or other assets, and the selection of other persons to provide investment advice. And it expressly encompasses in that definition recommendations as to "***rolling over***, transferring, or distributing assets from a plan or IRA."[34] The Release further explains that the core meaning of recommendation is a communication that based on its content, context, and presentation, would reasonably be viewed as a suggestion that the retirement investors engage in or refrain from engage in or refrain from taking a particular course of action.[35]

It similarly defines **"*compensation*"** broadly to include compensation that is direct or indirect, from any source, and paid for the advice or "in connection with or as a result of the recommended transaction."[36] And it appropriately includes numerous forms of compensation, including fees, commissions, revenue sharing payments, marketing fees, payments in return for shelf space, and other items of value.[37] These broad formulations in the rule are essential given the wide range of recommendations that advisers make to their clients and the many forms of compensation they receive, directly and indirectly, that can create conflicts of interest.

The rule also expressly limits the use of ***disclaimers***, thus neutralizing the ability of advisers to continue the common practice of inserting language in contracts with clients that in effect waives the applicability of the ERISA standards to the advisory relationship. It stipulates that:

> Written statements by a person disclaiming status as a fiduciary under the Act, the Code, or this section, or disclaiming the conditions set forth in paragraph (c)(1)(ii) of this section, will not control to the extent they are inconsistent with the person's oral communications, marketing materials, applicable State or Federal law, or other interactions with the retirement investor.[38]

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33 Revised Definition Release at 75903.
34 Revised Definition Release at 75979.
35 Revised Definition Release at 75904.
36 Revised Definition Release at 75978.
37 Revised Definition Release at 75978.
38 Revised Definition Release at 75977.

And the Revised Definition contains no carve-outs for recommendations to supposedly ***sophisticated investors***. The very notion of the sophisticated investor is largely a myth, as even investors with considerable expertise in finance and considerable wealth require not only the disclosure of material information to make investment decisions but also protections from fraud and abuse, including conflicts of interest. In any case, as the Release points out, there is no currently reliable test for investor sophistication, as wealth and income have not been established as strong proxies for financial sophistication or inconsistent with a relationship of trust and confidence.[39] "Moreover, and independently, nothing in the statute's text suggests that Congress intended to categorically deny fiduciary protection to "sophisticated investors."[40]

While the new definition is appropriately broad, it also establishes appropriate limits, carve-outs, and flexible allowances. For example, it leaves all ***business models*** intact, as the Release repeatedly explains, including commission-based compensation, limited menus of investments, and proprietary products, subject to compliance with the PTE. It also imposes no continuing obligation on advisers to monitor recommendations to ensure they remain appropriate for a plan or IRA; such a duty is left to "the reasonable expectations, understandings, arrangements, or agreements of the parties."[41]

Importantly, the DOL intends the Revised Definition to apply "broadly to recommendations to ***plan and IRA fiduciaries*** acting on behalf of plans and IRAs," thus affording protections against adviser conflicts of interest to employers seeking to establish a high-quality retirement plan for the benefit of their employees.[42] But at the same time, it makes reasonable allowances for certain activities that do not involve recommendations tailored to the specific needs of plan participants or IRA investors. For example, with respect to "***wholesaling***" activity, "which involves communications by product manufacturers or other financial service providers to financial intermediaries who then directly advise plans, participants, beneficiaries, and IRA owners and beneficiaries, the Department believes that communications to financial intermediaries would typically fall outside the scope of proposed paragraph (c)(1)(ii) because they would not involve recommendations based on the particular needs or individual circumstances of the plan or IRA serviced by the intermediary."[43] Similarly, ***platform providers*** "who merely identify investment alternatives using objective third-party criteria (e.g., expense ratios, fund size, or asset type specified by the plan fiduciary) to assist in selecting and monitoring investment alternatives, without additional screening or recommendations based on the interests of plan or IRA investors, would not be considered under the proposal to be making a recommendation."[44]

The Revised Definition also leaves undisturbed a separate allowance for investment ***education***, which is addressed in the DOL's Investor Bulletin 96–1, reinstated in 2020. That Bulletin identifies examples of four categories of information and materials regarding participant-directed individual account plans—plan information, general financial and investment

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39 Revised Definition Release at 75907.
40 Revised Definition Release at 75907.
41 Revised Definition Release at 75910.
42 Revised Definition Release at 75907.
43 Revised Definition Release at 75907.
44 Revised Definition Release at 75907-08.

information, asset allocation models, and interactive investment materials—that do not constitute investment advice. And that carve-out applies irrespective of who provides the information (e.g., plan sponsor, fiduciary, or service provider).

The DOL has also sought to ***harmonize*** the elements—including specifically the definition of a "recommendation"[45]—with those found in the SEC's Reg BI and the standards under the Investment Advisers Act, with an eye to minimizing compliance costs:

> In crafting this proposal, the Department has worked to align its proposed definition with Regulation Best Interest and the Advisers Act where it can. ERISA has a functional fiduciary test and imposes fiduciary status only to the extent the functional test is satisfied. The Department intends for the compliance obligations under this proposal to broadly align with the standards set by the SEC where practicable and has tried to accomplish such alignment in this proposal. The Department believes that by harmonizing the application of fiduciary duty for retirement investment advisers across regulatory regimes, retirement investors will benefit from more uniform protections from conflicted advice. While extending fiduciary duty to more entities will generate costs, the Department believes any new compliance costs will not be unduly burdensome as the proposal broadly aligns with those compliance obligations imposed under the Investment Advisers Act and the SEC's Regulation Best Interest on investment advisers and broker-dealers, respectively, and simply expands them to larger portions of the retirement market.[46]

Thus, the DOL has developed a new definition of an investment advice fiduciary that will effectively close the existing loopholes and appropriately subject far more investment advice to the requirements in ERISA and the applicable PTEs. And as explained in the Revised Definition Release, this in turn will enable the enforcement mechanisms established in ERISA—for the DOL as well as Title I plan participants and beneficiaries—to serve more broadly as deterrents against conflicted advice and as remedies for those who suffer harm from that advice.

> Under the proposal, the full range of covered investment advice interactions with Title I plans would be subject to the Department's robust enforcement program as well as to a private right of action. In general, participants and beneficiaries have the right to bring suit under ERISA 502(a) against fiduciaries who breach their duties and obligations to the plan, including engaging in nonexempt prohibited transactions. This private right of action, which ensures participants and beneficiaries have ready access to the Federal courts, provides critical protection of tax advantaged retirement plans. For advice interactions not currently covered by relevant standards of conduct, such as much advice provided to plan fiduciaries, these enforcement measures will help to ensure the proposal is implemented

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45 Revised Definition Release at 75904 (noting that "the Department would consider a recommendation for purposes of the SEC's Regulation Best Interest as a recommendation for purposes of this proposed regulation").

46 Revised Definition Release at 75913.

effectively. For advice interactions that are subject to state regulation, under the proposal they will likely have stronger oversight, which will provide greater protections to investors.[47]

III. The proposed changes to PTE 2022-02 are appropriate, although the DOL should further strengthen it.

PTE 2020-02 adopted in 2020 established conditions under which fiduciaries could lawfully accept compensation and engage in certain principal transactions with plans and IRAs that would otherwise be prohibited. The Revised PTE will leave all of the core provisions in PTE 2020-02 intact while making modest but important changes to provide more clarity for the advisers relying on the exemption and more disclosure for the benefit of investors. As amended, the PTE will provide that financial institutions and investment professionals[48] must:

- adhere to Impartial Conduct Standards requiring them to:
  - provide advice in the best interest of the retirement investor, i.e., advice that is prudent and does not place the interests of the adviser ahead of the interests of the investor;
  - receive no more than reasonable compensation and comply with Federal securities laws regarding "best execution" of investment transactions; and
  - avoid making materially misleading statements about investment transactions and other relevant matters;
- acknowledge they are providing fiduciary advice and are fiduciaries;
- provide a written statement of the best interest standard of care;
- provide a written description of their services and material conflicts of interest;
- provide a written statement that the investor has the right to obtain specific information about costs, fees, and compensation;
- document and disclose the specific reasons that any rollover recommendations are in the retirement investor's best interest;
- adopt policies and procedures designed to ensure compliance with the Impartial Conduct Standards and mitigate conflicts of interest;
- conduct an annual retrospective compliance review; and
- maintain records for a period of six years demonstrating compliance with the PTE.[49]

In addition, the Revised PTE 2020-02 continues to include "***self-correction***" and "***eligibility***" provisions. The self-correction provision essentially excuses violations if the adviser remediates any harm and makes timely reports:

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47 Revised Definition Release at 75942.

48 The Revised PTE generally covers "Financial Institutions" and "Investment Professionals," along with "Affiliates" and "Related Entities." In this comment letter on the subject of the Revised PTE, we generally use the term "adviser" to encompass all of these entities.

49 *See generally* Revised PTE Release at 75999-76003.

> A non-exempt prohibited transaction will not occur due to a violation of the exemption's conditions with respect to a transaction, provided:
>
> (1) Either the violation did not result in investment losses to the Retirement Investor or the Financial Institution made the Retirement Investor whole for any resulting losses;
>
> (2) The Financial Institution corrects the violation and notifies the Department of Labor of the violation and the correction via email to IIAWR@ dol.gov within 30 days of correction;
>
> (3) The correction occurs no later than 90 days after the Financial Institution learned of the violation or reasonably should have learned of the violation; and
>
> (4) The Financial Institution notifies the person(s) responsible for conducting the retrospective review during the applicable review cycle and the violation and correction is specifically set forth in the written report of the retrospective review required under subsection II(d)(2).[50]

The eligibility provision is more extensive. It essentially prohibits reliance on the exemption for a period of ten years if the adviser is subject to a variety of criminal convictions or receives a notice of ineligibility from the DOL for a systemic pattern of violating the conditions of the exemption, providing materially misleading information to the DOL, or engaging in other misconduct. It also includes a six-month wind-down period before the ineligibility becomes effective, opportunities to be heard, and opportunities to cure.[51]

Finally, the PTE will require the retention of ***records*** demonstrating compliance with the exemption for six years.

The proposed amendments to the current PTE are important and beneficial. They include the following elements in the proposed Revised PTE:[52]

- The Revised PTE will add a definition of ***riskless principal transaction*** to highlight the distinction between covered principal transactions and riskless principal transactions. This is an important addition, as it will help reinforce the limited types of assets that may be the subject of a covered principal transaction. The release also rightly cautions that the definitions are intentionally narrow in light of the acute conflicts of interest created by principal transactions.

- The Revised PTE will clarify that among those who can rely on the exemption are fiduciaries ***acting on behalf*** of a Plan or an IRA, to ensure that under the exemption, the advice given to a plan or IRA fiduciary is in the best interest of the plan or IRA, not the fiduciary.

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50 Revised PTE Release at 76001.
51 Revised PTE Release at 76001-02.
52 *See generally* Revised PTE Release at 75979-90 and 75999-76004.

- The Revised PTE will narrow some current exclusions, to help ensure that the exemption is applied more broadly, with the result that a broader array of high-quality advice will be provided to retirement investors. Thus, it will specifically provide that the exemption will be available to financial institutions providing investment advice through computer models, i.e., ***robo advice***.

- The Revised PTE will clarify that advisers may not rely on the exemption if they are acting in a fiduciary capacity ***other than*** as an investment advice fiduciary.

- The Revised PTE will add an example to the formulation of the best interest standard, which will make clear that under that standard, it is impermissible for the adviser to recommend a product that is ***worse*** for the investor because it is better for the adviser's bottom line.

- The Revised PTE will clarify that "materially misleading" includes ***omitting*** information that is necessary to prevent the statement from being misleading to the investor under the circumstances.

- The Revised PTE will ensure written ***disclosure*** of the best interest standard.

- The Revised PTE will consolidate the requirement that, before making a rollover recommendation, the adviser must consider and ***document their conclusion*** that a rollover is in the investor's best interest. This is a critically important requirement, given the magnitude and importance of most rollover transactions and the potential for conflicts of interest to induce recommendations that inflict long-term financial harm on investors.

- The Revised PTE makes appropriate changes that will strengthen the requirements governing ***retrospective review*** designed to detect violations of the PTE and ensure compliance.

- The Revised PTE strengthens the duty to maintain policies and procedures by including examples of some actions advisers may not take because a reasonable person could conclude they are likely to encourage advisers to make recommendations that are not in the best interest of the investor. Included among them is a prohibition against the use of ***quotas, appraisals, performance or personnel actions***, bonuses, contests, special awards, differential compensation, or other similar actions or incentives that are intended or likely to result in recommendations not in the investor's best interest. This is a positive addition to the PTE. The Release also makes clear that the policies and procedures must be designed to protect investors from recommendations to make excessive trades, to buy products such as annuities that are not in the investor's best interest, or to allocate excessive amounts to illiquid or risky investments.

- The Revised PTE strengthens the provisions surrounding the policies and procedures by requiring advisers to provide their complete policies and procedures to the DOL ***within 10*** business days of a request.

In a number of other respects, the proposed changes are beneficial as far as they go but should be strengthened to better protect retirement investors. For example:

- The Revised PTE will make wording changes to the definition of a "***covered principal transaction.***" The Release explains that the DOL is *also* considering a change making clear that a covered principal transaction is a transaction *for cash*, thus preventing in-kind transactions from being treated as covered principal transactions. This change should be made, as it will, as explained in the Release, reduce the complexity and the conflicts of interest that otherwise would attend such transactions.[53]

- The Revised PTE seeks to strengthen the disclosure of fiduciary status currently required under the PTE. It explains the DOL's concern that some parties evade this requirement with artful or conditional acknowledgments to the effect that they ***may*** be fiduciaries or that they are fiduciaries ***to the extent*** they meet definitions under ERISA or the Code. The DOL proposes to address this problem by requiring the written acknowledgment to provide that the adviser is providing fiduciary investment advice to the investor and is a fiduciary under Title I, the Code, or both when making an investment recommendation. While the need to address this form of evasion is clear, it is not clear that the proposed amendment will cure the problem, as it appears to be essentially the same as the current requirement. The DOL should therefore also provide that the acknowledgement must be "***unconditional***." In addition, the DOL should include a general ***anti-evasion clause*** in the PTE to curb this form of evasion and any other conduct designed to avoid the substance of the PTE's requirements.

- The Revised PTE will require the disclosure of material conflicts of interest to include, in plain English, whether the investor will pay for services directly or indirectly, including through third-party payments. This is a positive enhancement, but the ***plain English*** requirement should apply to all of the disclosures required under the PTE.

- The Revised PTE will require advisers to inform investors of their right to obtain specific information regarding costs, fees, and compensation that is described in dollar amounts, percentages, formulas, or other means. This is beneficial but it falls short. The final PTE should require this type of ***cost and compensation information***, preferably in dollar amounts, to be disclosed to every investor prior to the advisory service to the extent possible. It is clearly material, and the opportunity to acquire it later will not be meaningful for many if not most investors.

- The Revised PTE Release indicates that the DOL seeks comment on whether it should require advisers to maintain a ***public website*** containing the pre-transaction disclosures,

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[53] Revised PTE Release at 75981.

including a description of the adviser's business model, associated conflicts of interest, and a schedule of typical fees. This should be required in the Revised PTE, as it will facilitate meaningful and timely disclosure to investors, especially younger investors who rely heavily on website-based interactions.

In addition, the ***self-correction*** provision raises significant concerns. It provides that a non-exempt prohibited transaction will not be deemed to occur as a result of a violation of the conditions in the Exemption provided a number of conditions are satisfied: 1) the violation caused no retirement investor losses or did cause losses but the financial institution made the retirement investor whole; 2) the financial institution corrects the violation within 30 days; (3) the correction occurs no later than 90 days after the adviser learns of the violation or reasonably should have learned of the violation; and 4) the violation and correction are set forth in the retrospective review required elsewhere under the Exemption.

In the adopting release for the 2020 version of PTE 2020-02, the DOL expressed the view that the self-correction provision would increase incentives among investment professionals to identify and correct violations.[54] In the current Release, the DOL simply notes that it will retain the provision, and that since the initial adoption, it has received "several" self-correction emails under this provision.[55]

We believe that on balance, retaining this provision is more likely to have undesirable effects. In fact, some firms will be inclined to relax their approach to compliance based on the knowledge that, if violations occur and are detected, they can likely invoke the self-correction process and avoid sanctions. Fueling this attitude will be the knowledge that the detection of many violations will hinge on investor complaints, yet retirement investors are often unaware that their investment professionals have made investment recommendations contrary to their best interest. Thus, the self-correction provision may encourage a lax approach to compliance by instilling the attitude that "violations may never surface in the first place, and even if they do, they can be neutralized under the self-correction provision."

Accordingly, this provision should be ***eliminated*** from the Exemption, as it will undermine accountability and compliance. Instead, the DOL should retain its general discretion to tailor its enforcement approach to situations where the violation is minor, unintentional, and quickly corrected. At most, the PTE should simply include a de minimis exemption. If the self-correction provision is retained, it should be limited to good faith or technical violations and it should specify the maximum number of times the self-correction provision may be invoked.

The Revised PTE also retains an extensive ***eligibility*** section imposing a 10-year ban on reliance upon the exemption by investment professionals or firms in the event of certain events, including certain criminal convictions and engaging in a pattern or practice of violating the conditions of the exemption. In the Release, the DOL explains that it is proposing to retain this provision and that it "continues to maintain that the eligibility provisions ensure that Financial

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[54] Prohibited Transaction Exemption 2020–02, Improving Investment Advice for Workers & Retirees, 85 Fed. Reg. 82798, 82841 (Dec. 18, 2020).

[55] Revised PTE Release at 75988.

institutions provide reasonable oversight of investment Professionals and that both adopt a culture of compliance."[56]

The Release also explains various amendments intended to improve the eligibility provisions. For example, it refines the scope of the provision to include ***affiliates***, to address potential evasion through mere changes in corporate form. It also broadens and enumerates the ***crimes*** that can trigger ineligibility. It adds to the ***predicate violations*** by including a systematic pattern or practice of failing to correct prohibited transactions, report them to the IRS, and pay the applicable excise tax. It reduces the ***"wind-down"*** period—the time between the conviction or other trigger for ineligibility and the actual ineligibility—from twelve months to six, appropriately explaining that the one-year wind-down period provides too much time in which noncompliance and inappropriate conduct could continue. And it eliminates the opportunity to be ***heard*** if the ineligibility arises from conviction by a U.S. federal or state court, since those courts will have provided sufficient due process.[57]

The eligibility provisions are important components of the Revised PTE, as they will help incentivize compliance. And the changes will improve upon the existing eligibility framework. However, the eligibility provisions, even as amended, are still overly encumbered with provisos and procedural requirements that will dilute their effectiveness. They should therefore be further ***strengthened***.

For example, the Revised PTE provides that, before issuing a written ineligibility notice to an investment professional or firm, the DOL must first issue a written warning identifying the misconduct supporting ineligibility and providing a ***six-month*** opportunity to cure. Further, if the DOL determines at the end of six months that the adviser has not taken appropriate action to prevent recurrence of the disqualifying misconduct, it must still provide the investment professional or firm with an opportunity to be ***heard*** in person, in writing, or in combination. Only after this process concludes may the DOL actually effectuate the ineligibility by issuing a formal notice.

This ***opportunity to cure*** should be eliminated from the Revised PTE. As with the self-correction provision, it will undermine compliance and accountability by reassuring investment professionals and firms that, even if they engage in a "systemic pattern or practice" of violating the conditions of the exemption, or even provide materially misleading information to the DOL related to their conduct under the exemption, they will have the opportunity to cure and continue to rely on the exemption. It is implausible that investment professionals and firms who have engaged in a "systematic pattern or practice" of violations will immediately and completely desist from such misconduct during the lengthy cure period. As a result, this provision threatens to expose retirement investors to continued harm while the half-year opportunity to cure unfolds.

Finally, we urge the DOL to eliminate the related provision allowing investment professionals who are found ineligible to rely on the exemption (based upon their criminal

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[56] Revised PTE Release at 75988.
[57] Revised PTE Release at 75988-90.

convictions or other serious misconduct) to nevertheless rely on ***other*** prohibited transaction exemptions or seek an individual transaction exemption from the DOL. This, too, conflicts with a proper regulatory approach that should seek to protect the public and deter misconduct by foreclosing exemptive relief to those investment professionals and firms who are demonstrably unfit to enjoy it.

Overall, and subject to our concerns set forth above, the Revised PTE, with its combination of conduct standards and disclosure and documentation obligations, in conjunction with the new definitional rule, will do an enormous amount to safeguard retirement savers from adviser conflicts of interest.

IV. The arguments tirelessly advanced by many in the financial services industry in opposition to these essential protections are meritless and in some cases disingenuous.

Opponents of the Proposals are launching every conceivable argument against them. They range from attacks on the need for these reforms, challenges to the DOL's authority to promulgate them, sky-is-falling predictions that they will actually harm investors, and even charges that the DOL has failed to comply with the procedural requirement governing rulemaking under the APA. We address each of these attacks in turn.

A. There is no other regulatory regime that can adequately protect retirement savers.

As a threshold matter, some industry opponents claim there is no need for these reforms in light of other regulatory provisions that have been recently adopted, including specifically the SEC's Reg BI and the NAIC's model rule governing annuity sales. Yet neither of those rules have either the scope or substantive strength to protect retirement assets from adviser conflicts of interest. In short, they cannot substitute for the strong and broad standards of care and loyalty that Congress mandated in ERISA and that the Proposals seek to implement. Nor did Congress intend alternative regulatory provisions to substitute for the stringent standards it chose to incorporate in ERISA.

1. Reg BI is limited to securities recommendations to individual investors.

While the SEC finalized Reg BI in 2019 to enhance the standard of conduct for broker-dealers, this standard does not apply to all investment professionals, all products, or all accounts. The SEC's Reg BI is strictly limited in scope to recommendations regarding ***securities***. Yet retirement savers are often advised to purchase a wide array of non-securities products, including fixed indexed annuities, real estate, cryptocurrencies, precious metals, CDs, and derivatives such as futures and options. To the extent an investment professional provides recommendations about any of these non-securities, Reg BI simply does not apply and offers no protection against advisers' conflicts of interest. In addition, Reg BI is limited to recommendations made to ***individual retail customers***. That means, for example, that advice to an employer seeking to create a menu of high-quality investment options for their employees remains vulnerable to conflicted investment advice under Reg BI.

2. The NAIC model rule is narrow and weak.

The NAIC adopted updates to its Annuity Transactions Model Regulation (#275) in 2020. Claims that the NAIC's model rule can somehow substitute for the Proposals are plainly false if not disingenuous. In reality, it cannot come close to filling the regulatory gaps in the current DOL rules.[58] Consider these undeniable weaknesses in the NAIC's model rule:

- In the first instance, ***only 43 states*** have actually adopted the model, so a huge swath of American retirement savers do not benefit at all from the feeble protections it offers.[59]

- It only applies to the sale of ***annuity products***, not the entire range of investments routinely pressed upon retirement savers. (Sec. 2)

- The model expressly ***disclaims*** that it creates "a fiduciary obligation or relationship," providing only that it creates a regulatory obligation. (Sec. 6A(1)(d))

- It imposes a "best interest" standard in name only. It nowhere prohibits producers or insurers from placing their interests ahead of their customers' interests. Instead, it feebly provides that an insurance producer "has met" their best interest obligation if they simply have "a reasonable basis to believe the recommended option effectively ***addresses*** the consumer's financial situation and ***insurance needs***." (Sec. 6A(1)(a)(iii))

- The provision regarding conflicts of interest are doubly weak, in substance and in scope. First, as to substance, the model essentially only requires that a producer ''avoid or reasonably ***manage and disclose*** material conflicts of interest." (Sec. 6A(3)) And it thoroughly guts this provision by excluding entirely from the scope of the definition of "material conflict of interest" any "***cash compensation or noncash compensation***"—even though such forms of compensation obviously create the most intense conflicts of interest. (Sec. 5I(2)) Thus, huge commissions, all-expense paid vacations, sporting and theatre tickets, and any other form of cash or noncash compensation can be used to encourage and reward recommendations that put the insurance professional's financial interest ahead of the individual trying to save for retirement. As a result, the NAIC model rule essentially imposes no meaningful duty to address producers' conflicts of interest.

- The model rule also does not cover annuity recommendations ***inside 401(k)s or 403(b)s***. Plan sponsors, and thereby plan participants, do not receive even the standard's thin protections from recommendations to include sub-optimal annuities as an investment option. (Sec. 4B)

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[58] For a thorough review of the features of the NAIC model rule—what it does and does not provide—*see* CFP Board of Standards, Comparing CFP Board of Standards Code of Ethics and Standards of Conduct to The NAIC's Suitability in Annuity Transactions Model Regulation (Nov. 13, 2023), https://www.cfp.net/ethics/compliance-resources/2023/11/comparing-cfp-boards-code-and-standards-to-the-naic-model-regulation-275.

[59] Revised Definition Release at 75898.

- The model is further limited in scope in that it expressly does not require "analysis or consideration of any products ***outside*** the authority and license of the producer or other possible alternative products or strategies available in the market at the time of the recommendation." (Sec. 6A(1)(c))

- The model generally applies only to individual "producers," i.e., agents licensed to "sell, solicit, or negotiate" insurance, ***not to the insurers*** responsible for supervising the producer. (Sec. 5L)

- The model includes a safe harbor, providing that compliance with "***comparable standards***" will satisfy the requirements of the rule. (Sec. 6E)

The weaknesses in the NAIC model rule are especially damaging because the annuity products now widely offered to retirement savers are "notoriously complex" and investors are compelled to rely on their insurance agents for guidance.[60] Yet with such a weak state-level set of rules currently in place governing the sale of annuities, those investors are largely at the mercy of the conflicts of interest motivating those agents.

Overarching all of these weaknesses in Reg BI and the NAIC model rule is Congressional ***intent***: Nothing in ERISA states or implies that the standards governing advisers under the securities laws or state insurance laws can substitute for the requirements that Congress set forth in ERISA.

B. Disclosures alone cannot adequately protect retirement savers.

In a related vein, some insist that in place of the Proposals, the DOL should simply rely on disclosures to protect retirement savers from conflicts of interest. But to make the argument is to refute it, as simply providing more information to investors cannot, in theory or in practice, substitute for affirmative requirements and prohibitions governing adviser behavior. While disclosure is an essential component of financial regulation, it suffers from ***multiple limitations*** and it therefore cannot possibly substitute for the affirmative obligation to act in the best interest of a client.

Based on experience and expert studies, we know that disclosure is subject to numerous failings. Often, investors don't read them, don't receive them in a timely fashion, or don't understand them. Even when effective disclosures are imparted, investors often remain uncertain about what course of action to take in light of the disclosures. Moreover, disclosures can readily be overridden by assurances from advisers that the disclosures are merely technical boilerplate. Numerous studies confirm these shortcomings in regulatory disclosure, some even establishing that disclosures can have the perverse effect of instilling an unfounded sense of investor trust in advisers while also emboldening advisers to take advantage of their clients. Above all, it is clear that reliance on disclosure is the antithesis of what Congress intended in ERISA, which imposes

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[60] Revised Definition Release at 75939.

the most stringent affirmative obligations and restrictions on those who provide investment recommendations to retirement savers.

C. The DOL has ample authority to promulgate the Proposals.

1. The DOL has explicit authority.

The DOL has all the authority it needs to promulgate the Revised Definition and the Revised PTE 2020-02. Since ERISA's enactment, the DOL has been expressly given the authority to issue ***regulations "necessary or appropriate*** to carry out the provisions" of the statutory provisions imposing fiduciary obligations on advisers and others who deal with retirement plans.[61] ERISA further provides that "among other things, such regulations may define accounting, technical and trade terms used in such provisions; may prescribe forms; and may provide for the keeping of books and records, and for the inspection of such books and records . . . ."[62]

ERISA also explicitly provides that the DOL may create ***exemptions***.[63] At the same time, the DOL is required to ensure that exemptions from the prohibited transactions are "in the interests of the plan and of its participants and beneficiaries," and "protective of the rights of participants and beneficiaries of such plan."[64]

In addition, pursuant to the President's Reorganization Plan No. 4 of 1978,89 which Congress ratified in 1984, the DOL's authority was expanded to include authority to issue regulations, rulings, and opinions on the definition of a fiduciary with respect to Title II plans under the Code (including IRAs) and to grant administrative prohibited transaction exemptions applicable to them.[65]

Thus, the DOL has clear and explicit statutory authority to promulgate the Revised Definition and the Revised PTE.

2. The major questions doctrine does not apply.

On this subject, some opponents of the Proposals appear to harken back once again to the Fifth Circuit's opinion, giving voice to the notion that these reforms will effect an upheaval in the advice marketplace, with profoundly disruptive social and economic consequences, on a scale that requires especially clear and specific Congressional authorization. Yet the so-called "major questions" doctrine is inapplicable here. Far from threatening the rare and extreme type of economic upheaval that can trigger the major questions doctrine, the Revised Definition merely ***closes loopholes and aligns the DOL's rules*** governing investment advice with what ERISA has

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61 29 U.S.C. § 1135.

62 *Id.*

63 29 U.S.C. § 1108(a) (the Secretary "may grant a conditional or unconditional exemption of any fiduciary or transaction, or class of fiduciaries or transactions, from all or part of the [prohibited transactions]").

64 29 U.S.C. § 1108(a)(2).

65 Revised Definition Release at 75900.

provided since 1974. The case for the major questions doctrine is even more strained with respect to the amendments to PTE 2022-02. They are by any account modest, essentially leaving intact the same requirements that have been applicable to retirement advisers for several years. And they align with the SEC's rule governing securities, which has been in effect since 2020. In any event, the DOL's authority to promulgate these rules is ***clear and unmistakable***; to the extent these reforms could possibly be perceived as revolutionary, it is nevertheless what Congress authorized the DOL to implement.

In *West Virginia v. EPA,*[66] the Supreme Court enunciated the principle that where an agency purports to exercise "'extravagant statutory power over the national economy,'" with vast "economic and political significance,"[67] and representing a "'transformative expansion in [its] regulatory authority,'" *id.* at 142 S. Ct. at 2609 (citation omitted), the agency must point to especially "clear congressional authorization" for the authority it has claimed.[68] But the DOL's Proposals do not involve an assertion of extravagant power over the national economy or even a transformative expansion of its regulatory authority under ERISA. Nor do they lack a clear statutory basis. In reality, the Proposals represent the reasonable exercise of clear statutory authority to regulate investment advice affecting retirement savers, something the DOL has been doing for decades.[69] Nor can the Proposals be characterized as extravagant or transformative. Rather, they seek only modest adjustments to the existing requirements governing advice to retirement savers already set forth in PTE 2020-02, and to ensure that the definition of an investment advice fiduciary actually aligns with what Congress said and intended in ERISA. And along the way, the DOL is taking great pains to adhere to the parameters set forth in the Fifth Circuit's 2018 decision—no matter how misguided they may be.

To the extent the Proposals expand the application of the fiduciary standard to members of the industry heretofore exempt, that is largely the result of the major ***evolution*** of the retirement landscape over the past 50 years—including the disappearance of traditional defined benefit plans, the growing complexity of the financial markets, and retirement savers' need for trustworthy, unbiased advice to manage their own savings. The major questions doctrine does not prevent agencies from addressing new threats to the public interest that come with such changes.[70]

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66 142 S. Ct. 2587 (2022).

67 *Id.* at 2608 (internal quotation marks omitted).

68 *Id.* at 2609 (internal quotation marks omitted).

69 *See Loper Bright Enterprises, Inc. v. Raimondo*, 45 F.4th 359, 365 (D.C. Cir. 2022) (explaining that the doctrine does not apply where Congress "delegated broad authority to an agency with expertise and experience within a specific industry, and the agency action is so confined, claiming no broader power to regulate the national economy").

70 *See* J. Robert Brown, Jr., *Mother Nature on the Run: The SEC, Climate Disclosure, and the Major Questions Doctrine*, 60 San Diego L. Rev. 321, 369 (2023) (arguing that the major questions doctrine must not be invoked to prevent agencies from modernizing rules and responding to changing markets); *see also* Daniel T. Deacon and Leah M. Littman, *The New Major Questions Doctrine*, 109 Va. L. Rev. 1009, 1081 (2023) (arguing against applying the major questions doctrine simply when "the agency's considered expertise, perhaps in conjunction with unanticipated changes or new information, counsels a previously untried regulatory approach").

In ERISA, Congress delegated the authority to adopt rules protecting retirement assets to the DOL, the agency with expertise and experience regulating employee benefit plans and those who deal with them. Certainly, the DOL here claims no broader power to regulate the national economy. The major questions doctrine does not apply.

D. The Proposals respect and reflect the core—albeit erroneous—holdings of the Fifth Circuit's 2018 decision vacating the DOL's 2016 rule.

The DOL has carefully designed the Revised Definition to avoid any conflict with the Fifth Circuit's decision. The Court held in relevant part that (1) in ERISA, Congress adhered to the common law conception of a fiduciary and thus required a ***relationship of trust and confidence*** as a condition of fiduciary status, and (2) that the DOL, therefore, violated the statute when it sought to expand that definition beyond those common law contours in a new rule that dispensed with the five-part test.[71] Even though the Fifth Circuit's decision is widely regarded as erroneous on this and its other holdings, the Revised Definition responds to the decision by incorporating conditions to ensure that recommendations are covered only where it is reasonable to conclude that a relationship of trust and confidence between adviser and client is present.

Moreover, in another accommodation to the Fifth Circuit's decision, the Proposals nowhere impose ***contractual or warranty obligations*** that could give rise to a private action for violations of the Proposals. The 2016 fiduciary rule required firms to execute best interest contracts with warranties guaranteeing that they and their investment professionals would comply with certain protective conditions. The contract laid the foundation for a private enforcement mechanism for harmed IRA investors, allowing them to sue for a firm's breach of the warranties. The Fifth Circuit viewed these provisions as impermissibly creating a private right of action, beyond the DOL's authority. In light of this holding, the new Proposals neither include a contract requirement nor require firms to warrant that they will comply with certain protective conditions. The only enforcement mechanism for violating the rule with regard to IRA investment recommendations, consistent with already-existing law, is an IRS imposition of an excise tax.

It is nevertheless important to bear in mind the ***fundamentally flawed*** nature of the Fifth Circuit's holding, as Chief Judge Stewart of the Fifth Circuit made clear in his dissent. To arrive at its holdings, the panel had to ignore the plain language of ERISA; misread numerous Supreme Court precedents; and resort to wholly irrelevant extra-statutory sources, such as the provisions in the securities laws governing the distinctions between brokers and investment advisers.[72] Specifically, as explained by Chief Judge Stewart citing Supreme Court precedent, in ERISA, Congress actually intended to expand upon the common law concept of a fiduciary because "the common law of trust did not offer completely satisfactory protections" for retirement savers.[73]

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71 *Chamber*, 885 F.3d at 368-79.

72 *Chamber*, 885 F.3d at 388-395 (Stewart, J. dissenting).

73 *Chamber*, 885 F.3d at 391 (Stewart, J. dissenting) (citing *Varity Corp. v. Howe*, 516 U.S. 489, 496, (1996)).

Moreover, numerous other courts have explicitly and implicitly rejected the core finding of the Fifth Circuit that the ERISA fiduciary duty is rigidly limited to common law notions of trust and confidence and therefore necessarily incorporates the elements of the five-part test, including the regular basis prong. Two federal courts have expressly found that the 2016 rule, which removed the offending elements of the five-part test, more closely adheres to ERISA than does the old rule. Specifically, in *Nat'l Ass'n for Fixed Annuities v. Perez*, the federal district court in D.C. firmly rejected the claim that the 2016 rule exceeded the DOL's authority under ERISA when it removed the five-part test and replaced it with a more expansive interpretation as to when a person becomes an investment advice fiduciary. The court explained that the 2016 rule was actually more in line with ERISA than the old rule:

> ***Indeed, if anything, it is the five-part test—and not the current rule—that is difficult to reconcile with the statutory text.*** Nothing in the [statutory] phrase 'renders investment advice' suggests that the statute applies only to advice provided on a regular basis.[74]

As the court noted, controlling Supreme Court authority provides that "ERISA does not define 'fiduciary' 'in terms of formal trusteeship, but in functional terms of control and authority over the plan, ... thus expanding the universe of persons subject to fiduciary duties . . . . '"[75]

The federal district court in Texas was equally emphatic in ruling that the 2016 rule "better comports with the text, history, and purposes of ERISA." Specifically, in a thorough and well-reasoned decision on all counts, the court rejected the plaintiffs' claim that ERISA requires regular contact between an investor and an adviser to trigger the fiduciary duty:

> Plaintiffs argue the DOL's interpretation of what it means to render investment advice is entitled to no deference, because ERISA requires regular contact between an investor and a financial professional to trigger a fiduciary duty. ***If anything, however, the five-part test is the more difficult interpretation to reconcile with who is a fiduciary under ERISA.*** The broad and disjunctive language of ERISA's three prong fiduciary definition suggests that significant one-time transactions, such as rollovers, would be subject to a fiduciary duty. Under the five-part test, however, such a transaction would not trigger a fiduciary duty. This outcome is seemingly at odds with the statute's text and broad remedial purpose . . . . An interpretation covering such transactions better comports with the text, history, and purposes of ERISA.[76]

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74 *NAFA,* 217 F. Supp. 3d at 23 (D.D.C. 2016).

75 *NAFA*, 217 F. Supp. 3d at 25 (quoting *Mertens v. Hewitt Assocs.*, 508 U.S. 248, 262 (1993)).

76 *Chamber of Commerce of United States of Am. v. Hugler,* 231 F. Supp. 152, 173 (N.D. Tex. 2017) (emphasis added), *rev'd, Chamber of Commerce of United States of Am. v. U.S. Dep't of Labor,* 885 F.3d 360 (5th Cir. 2018); *see also id.* at 173 (explaining that the DOL has decided that

The upshot is that the Fifth Circuit's decision is an outlier among courts that have addressed the DOL's authority to broaden the definition of an investment advice fiduciary under ERISA. It is not legally sound. Yet, the Revised Definition and the Revised PTE each scrupulously abide by the holdings of the case by incorporating a trust and confidence requirement in the rule and by dispensing with any provisions that could be read as creating an impermissible private cause of action.

E. Retirement savers with small nest eggs will not lose access to advice once these important rules are in place.

Small account savers won't lose access to advice once the Proposals are finalized. Claims to the contrary are scare tactics that find no credible support in theory or in practice. In the first instance, the Proposals are designed to leave current advisory ***models intact***, from fee-based and commission-based accounts to firms offering limited menus and proprietary products. Firms of all types are essentially free to continue operating as they have been, provided they act in their clients' best interest when dispensing advice. Firms that are unwilling to abide by the standards of care and loyalty set forth in the Proposals should not be permitted to give investment advice to retirement savers, especially those with limited means.

Real-world facts belie fears about loss of access to advice. As reflected in testimony delivered at the hearings on the Proposals on December 12 and 13, some financial professionals, including the certified financial planners, already ***successfully operate*** under a fiduciary standard while serving clients all along the income spectrum. In addition, the Proposals broadly align with the SEC's ***Reg BI***, and there is no evidence that it has reduced small savers' access to investment recommendations. And in those ***states*** where broker-dealers are subject to a fiduciary duty under state law, no evidence has emerged that lower-income retirement savers have been denied access to quality advice. The experience in the ***United Kingdom*** also negates concerns about small savers. The United Kingdom took a far more aggressive stance with respect to commissions and conflicts of interest among financial advisers, yet the evidence indicates that following a transitional period,

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its new interpretation "is more suitable given the text and purpose of ERISA"); *id.* at 173 ("An interpretation covering such [one-time] transactions better comports with the text, history, and purposes of ERISA"). Even the Fifth Circuit (albeit a panel different from the panel that heard the case on the merits) could be said to have implicitly rejected the notion that the DOL exceeded its authority by promulgating the 2016 rule, as it summarily dismissed emergency motions for injunctive relief pending appeal of the decision of the Texas district court. Thus at least one panel of the Fifth Circuit apparently implicitly found that the plaintiffs had not demonstrated a likelihood of success on the merits of that claim and others. *Chamber of Commerce v. U.S. Dep't of Labor,* No. 17-10238 (5th Cir. Apr. 5, 2017). Similarly, the D.C. Circuit summarily rejected attempts by the industry plaintiff in the *NAFA* case to win an injunction pending appeal of the D.C. district court's decision flatly rejecting the interpretation of ERISA embraced by the Fifth Circuit. *See* Order Denying Injunction Pending Appeal, *Nat'l Ass'n for Fixed Annuities v. U.S. States Dept. of Labor*, No. 16-5345 (2016)*; see also Mkt. Synergy Grp., Inc. v. U.S. Dep't of Labor*, No. 16-CV-4083-DDC-KGS, 2016 WL 6948061 (D. Kan. Nov. 28, 2016) (rejecting all challenges to the 2016 Rule), *aff'd, Mkt. Synergy Grp., Inc. v. U.S. Dep't of Labor,* 885 F. 3d 676 (8th Cir. 2018).

more and better-quality investment advice is now available in the U.K.[77] It is also expected that with market ***innovations*** spurred by the Proposals here in the U.S., affordable and quality advice will continue to become more widely available, including through target date funds and robo-advisers.[78]

As explained in the Release, some studies were offered in connection with the 2016 rule, purporting to show that those regulatory changes could erode small savers' access to affordable advice. But the Proposals are markedly different from the 2016 rule. More importantly, the DOL closely scrutinized those studies, even retaining an outside consultant, and concluded that those studies were ***unreliable***, relying largely on surveys conducted by the industry and its members and containing significant analytical flaws.[79]

Far from harming small savers, the Proposals will actually provide them with important protections, as they are most vulnerable to the losses attributable to adviser conflicts of interest. With fewer economic resources, they can ***least afford*** to lose any of their retirement savings to bad advice that burdens them with unnecessary fees or low returns. Contrary to the opponents' assertions, small savers, in fact, have the most to gain from the DOL's Proposals by ensuring that the advice they receive will not be driven by conflicts of interest among their advisers. This benefit will accrue largely because the majority of small savers ***rely on pension plans*** for their retirement planning rather than brokerage accounts, and the Proposals will require advice given to the fiduciaries of those plans to meet a fiduciary standard.[80]

F. The Proposals satisfy all of the rulemaking requirements under the APA and applicable executive orders requiring cost-benefit analysis.

Substantive and procedural attacks on the Proposals based on the Administrative Procedure Act ("APA") are equally unfounded. The Proposals are the result of reasoned decision-making, based on an ample record that considers all the relevant factors, draws rational conclusions, and clearly explains the approach taken. And they are supported by rigorous economic analysis. Procedurally, the DOL has provided a more than sufficient comment period and has even convened two full days of public hearings at which all perspectives on the rules were encouraged and received, especially from representatives of the regulated industry.

The ***Regulatory Impact Analysis*** ("RIA") is especially thorough, canvassing all the relevant factors bearing on the Proposals. It analyzes the continued harm to retirement savers from adviser conflicts of interest, the principal benefits from the Proposals, and the reasons why the regulatory alternatives such as enhanced disclosures are not viable. In terms of the principal benefits, the Release exhaustively reviews them, summarized as follows:

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77 Revised Definition Release at 75948.
78 Revised Definition Release at 75945, 75947.
79 Revised Definition Release at 75945.
80 Revised Definition Release at 75945.

> The most significant benefits of the proposal are expected to result from (1) changing the definition of a fiduciary by amending the five-part test, (2) requiring advice given to a broader range of advice recipients, including plan fiduciaries and non-retail investors, to meet fiduciary standards under ERISA, (3) extending the application of the fiduciary best interest standard in the market for non-security annuities, creating a uniform standard across different retirement products, and (4) requiring that more rollover recommendations be in the retirement investor's best interest.

The RIA also reviews the costs of the Proposals (as well as the costs associated with the changes to the other PTEs) and quantifies those costs where possible. Thus, in this rulemaking, the DOL has "examine[d] the relevant data and articulate[d] a satisfactory explanation for its action including a 'rational connection between the facts found and the choice made,'"[81] and it has complied with its duty to analyze the economic impact of the Proposals.

From the standpoint of process and procedure, the Proposals fully comply with the requirements of the APA governing agency rulemaking. Under the APA, agencies must "give interested persons an opportunity to participate in the rule making through submission of written data, views, or arguments."[82] The DOL has done so here, affording a ***60-day comment period***. That is twice the comment period generally required under the APA, and it aligns exactly with the comment period considered reasonable under the applicable executive orders governing the rulemaking process at Executive Branch agencies.[83]

The Proposals are substantively and procedurally unassailable, and they promise enormous benefits to the millions of Americans struggling to save for a decent and dignified retirement.

CONCLUSION

We hope these comments are helpful as the DOL finalizes the Proposals.

Sincerely,

Stephen Hall

Stephen W. Hall
Legal Director and Securities Specialist

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81 *See Motor Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co.*, 103 S. Ct. 2856, 2866 (1983) (quoting *Burlington Truck Lines, Inc. v. United States*, 371 U.S. 156, 168 (1962)).

82 5 U.S.C. § 553(c).

83 For example, Executive Order 12866 directs federal agencies to "afford the public a meaningful opportunity to comment on any proposed regulation, which in most cases should include a comment period of not less than 60 days." Executive Order 12866, Regulatory Planning and Review, § 6(a) (Sept. 30, 1993). Likewise, Executive Order 13563 affirms that comment periods for proposed agency rules "should generally be at least 60 days." Executive Order 13563, Improving Regulation and Regulatory Review, § 2(b) (Jan. 18, 2011).

U.S. Department of Labor
January 2, 2024

Better Markets, Inc.
2000 Pennsylvania Avenue, N.W.
Suite 4008
Washington, DC

NATIONAL UNITED COMMITTEE TO PROTECT PENSIONS,
SUMMERFIELD, NC,
February 25, 2024.

Dear Members of the Senate Help Committee:

I worked in the trucking industry for over forty years, with the last 23 years at ABF Freight. I worked long hours and missed many of my children's after-school activities and other family events. Although these hours were a significant burden on my family, the biggest draw was the promise of a pension, the preferred retirement system in the 70's and 80's. We all had our dream of working hard and long for 30 years or so and retiring with dignity in our golden years. The multi-employer pension system was and still is a great retirement system. You had the opportunity to work for different companies, and even if they went out of business, you had the chance not to lose your pension time, which is something you could never get back.

The trucking industry was shaken to its core during deregulation. The domino effect of mergers and acquisitions was intense for many years, but the pension fund system worked for the workers. All of us were going through job changes and layoffs and hirings. The one thing we were all banking on was the Central States Pension Fund.

Then, in 2008, the Great Recession happened, and it took only a few months for the Central States to lose 11 Billion dollars. They tried to make adjustments, but it didn't work. What was needed was exactly what the institutions and the banking industry were given—a rescue plan. The Pension Fund was slated to go bankrupt in 2025.

When I received my letter from the Central States Pension Fund threatening a cut of 28 percent, we were devastated. It was losing everything I worked for and through no fault of my own. I followed all the rules and put money aside, and because of Wall Street's irresponsibility, it was gone. My Wife and I were sitting at the kitchen table, and survival would be tough no matter how much we looked at it.

Fortunately, after forming a grassroots movement and many years of lobbying Congress, the Butch Lewis Act was passed by Congress and signed into law by President Joe Biden. Without this Act, things would have been unbearable. Our adult son with MS lives with us, and now we are also sharing responsibility for his son, our grandson. Without this rescue, our only option would have been to go on a welfare program or another government-subsidized program. It also allows us to give back to our community, church, and other family members that need help. We know other retirees who also raise grandchildren and are in the same situation.

In addition, and very importantly, this Rescue gave us our dignity of work back. It was a much better way to fix the situation than the bankruptcy of thousands of companies and putting millions of retirees on government poverty programs. It is important to remember that our pensions were earned over a lifetime of hard work and dedication to our companies, communities, country, and families. Thank God for the Butch Lewis Act.

Respectfully,

BERNARD ANDERSON,
NUCPP Treasurer,
KIM ANDERSON.

NATIONAL UNITED COMMITTEE TO PROTECT PENSIONS,
SUMMERFIELD, NC,
February 25, 2024.

Senate Help Committee:

Thank you for allowing us to submit a letter to you. I am 69 years old, and my wife is 65 years old. We have a combined 42 years in the Central States Pension Fund. Our pension is the foundation upon which we built our retirement plan. I retired in December 2013, and Bobbie will retire on February 29, 2024.

Our pension allows us to live our lives in our current lifestyle, which has been our goal. We can pay taxes, afford medical insurance, maintain our residence, donate to our church, and several other organizations we support. Retirement was a dream as I worked years of third shifts, 6 days a week with Tuesdays and Wednesdays off at my first job that included a pension. Not a week went by that I did not think of my upcoming retirement. I know our dream for retirement is not everyone's dream, but I can tell you personally what a retirement nightmare is without a pension.

My parents are middle class, have no pension, and live on just two social security checks and a required minimum distribution from a modest 401K. We lost Pop 6 months ago to a stroke. He was in the hospital for 16 days, in rehab/long-term care for 60 days, unable to walk. Before he passed away, his caretakers told us Medicare would end in 30 more days, and current care would be $10,000 a month, self-pay. Pop would always ask who was paying for his care, and I told him it was Medicare and his supplemental insurance. He never knew it was only for one hundred days. He was 88 years old when he passed. My mom is 89 years old and diagnosed with dementia. Her long-term memory is good, but she cannot remember what she ate for supper. What cost for care is she facing?

A pension would not have stopped what happened, but it would have given them enough money with their family's help to make it. I do not have numbers/statistics, but I think it would be shocking to know the percentage of pensions used to pay long-term medical care. What is the percentage of people over 65 forced into bankruptcy due to medical needs before they die? Pensions will not stop this but will give a person enough money to purchase long-term care insurance, which I believe is a wiser investment than burial insurance.

It is safe to say that every pension supports the needs of at least three people.

As my husband stated, having full pensions allows us both to retire while maintaining a lifestyle as if we both still worked. In today's world, we are all connected; pension moneys will enable us to be providers and contributors in society. Our money flows to family, to church, to serve God, to missions abroad and this country, to businesses, groceries, vehicle maintenance, utilities, maintaining a home, to insurance-medical, house, automotive and allows us to take trips/vacations. Pension money supports various layers of need, helping many people and us to continue providing for our upkeep.

Working-class people's wages are insufficient to support essential family needs such as housing, medical care, education, and nourishment while also funding a retirement plan. This is the reason that earning a pension is so valuable. Pensions allow us to live with dignity, and we thank you for finding a way to ensure we receive our earned pension.

Truly Blessed,

JAMES HANNER,
NUCPP Trustee,
BOBBIE HANNER.

NATIONAL UNITED COMMITTEE TO PROTECT PENSIONS,
SUMMERFIELD, NC,
February 26, 2024.

Dear Distinguished Members of the Senate HELP Committee:

Retirement is a dream goal for almost all people who work hard and strive to save toward it. Early in my life, I knew saving enough was almost impossible with most wages. As a result, I chose to seek employment with a company that offered a defined benefit plan. The contributions were paid into the plan by my company but were a part of my wages, so they were considered deferred compensation. I worked long hours for over 30 years while deferring large amounts of my income into my pension plan. As a result of the work, my body was breaking down, and my 3rd back surgery denied me the ability to return. I had spent a lifetime working and planning for the years when I couldn't work anymore. That was in November 2014. I did have concerns about how we would survive financially. My family had what they needed, but many sacrifices were made.

Our saving grace was my earned pension. My age did not allow me to start collecting, but I knew that in 5 years, my planning would pay off. Imagine the anguish and concern that my wife and I had in 2015 when I received a notification stating that my benefits would be reduced by 67 percent! This was almost crushing. What would we do? Why had we sacrificed for more than 30 years? Thankfully, Congress did pass the BLA and restored the total value of my pension. We now live comfortably and give back to our community through donations and time. We can continue to help our family and church financially as well.

Many have criticized the BLA as a taxpayer-funded giveaway, but I believe it is the exact opposite. We are and have always been taxpayers. Because of my restored pension, we can support local and national businesses by spending our money to drive the economy. We take care of 100 percent of our healthcare and hopefully have all bases covered for long-term care or any other unknown health crises that may

come our way. Many people live their lives as if tomorrow may never come. They may or may not work but will spend everything they have as it comes. All these people will land on the shoulders of the U.S. taxpayers in multiple ways, like food, housing, energy, healthcare, or any of the many other programs my tax dollars have supported and still support. When programs like a defined pension, social security, and Medicare are threatened, the taxpayers who sacrifice today and plan for tomorrow based on these promises begin questioning themselves. Maybe they, too, should live every day as if it's the last. Save nothing and work as little as possible because all the sacrifices will never be rewarded. Without truly believing your plan will come to fruition, there is no reason to try. If that happens, all those people who now are taxpayers will instead become burdens on the system.

Thank God for the good people who support and defend the middle-class workers. Our Country was built and thrives off of their backs.

Respectfully,

DAVEY GRUBBS,
NUCPP Vice President.

NATIONAL UNITED COMMITTEE TO PROTECT PENSIONS,
SUMMERFIELD, NC,
February 27, 2024.

I retired from Teamsters Local 200 in Milwaukee, WI, after thirty years of service in the freight industry. In March 2015, I received a letter about a possible 55 percent reduction to my monthly retirement benefit from the Central States Pension Fund. I was devastated. Then, a few months later, my wife and I were informed she was ill with terminal cancer. That additional stress of not knowing how we would manage our monthly and medical expenses became a huge burden. My life changed that day. My mind started wondering if I would be forced out of my home. Would we become a burden on our children or become dependent on government assistance?

I knew I had to get involved after talking with others at a local retiree meeting. My wife and I discussed it, and although we knew tough times were coming with her health issues, she asked me to promise to fight for the pension until it was saved. I joined the NUCPP and spent the next 7 years lobbying Congress and traveling throughout the United States. With the government oversight of protecting the multiemployer pension funds that was in place, it was Congress's fiduciary responsibility to solve this crisis.

On Day 49 of President Joe Biden taking office, he signed the American Rescue Plan into law, which included the Butch Lewis Act to help struggling pension funds that impacted over 10.1 million Americans. On December 8, 2022, I had the honor of introducing President Biden as he announced that the Central States Pension Fund would receive almost $37 billion dollars in special financial assistance from the PBGC.

My health concerns which developed from the stress of my wife's illness and traveling week after week to DC for 7 years, as well as the worry of becoming a burden to my family if I would lose my pension, have since improved since the signing of the Butch Lewis Act. I have time to care for my health, spend time with my grandchildren, support local businesses, and donate to charities that desperately need help. Notably, the Butch Lewis Act has given me back my dignity and allowed me to collect what I earned over a lifetime of hard work.

A Promise is a Promise is a Promise.

Respectfully,

KENNETH STRIBLING,
NUCPP President-Milwaukee.

NATIONAL UNITED COMMITTEE TO PROTECT PENSIONS,
SUMMERFIELD, NC,
February 27, 2024.

Dear Members of the Senate Help Committee:

Thank you for taking the time to review personal statements from several NUCPP Executive Board of Directors members. As you can tell, the emotional impact on these Teamster retirees was intense and life-altering.

If I may, I would also like to call attention to a group of people directly impacted, but often the silent minority. As Secretary and Director of Communication of the NUCPP, I receive many phone calls and emails from retirees that were directly impacted by the threatened pension reductions and who are now able to live their lives because of the Butch Lewis Act. Many of these calls and emails are from spouses of the pension retiree. You often hear the stories of the long-distance truck driver who spent days away from home. However, you don't often hear from the spouses who, in many cases, could not earn an income outside of the home because they were the ones raising the family, taking the children to doctor appointments, after-school activities, and other functions that are necessary as a family. It was a life lesson for the children that mom and dad were sacrificing a quality family life in return for his hard work paying off when it was finally time for retirement.

Imagine the gut punch when the letter from Central States Pension Fund came, notifying them of a cut in the pension of anywhere from 25 percent–75 percent. And to add to that, the spouse who was staying home, raising the family primarily by herself, would now have her survival benefit if the husband passed away (which varies, but could already be only half of his pension amount) reduced by that 25 percent–75 percent! What was she to do, become a burden to her family? How can that be explained when that husband and wife were only playing by the rules that were in place?

By the passing of The Butch Lewis Act, all of the sacrifices of these husbands, wives, and families were not for naught. They could live their retirement as they had planned for.

It is also worth noting how many of these retirees now support children and raise grandchildren. The BLA keeps many of these family members off government programs and positively influences the importance of working hard. The future of our Country relies on people believing that if you work hard and play by the rules, you will receive what you were promised. The Butch Lewis Act reinforced that principle, and we are thankful for all of those who supported us during our long pension fight.

Thank you for your attention.

DANA M. VARGO,
NUCPP Director of Communications-Massillon, OH.

Economic
Policy
Institute

February 27, 2024

The Honorable Bernie Sanders, Chair
The Honorable Bill Cassidy, Ranking Member
Senate Committee on Health, Education, Labor and Pensions
428 Dirksen Senate Office Building
Washington, DC 20510

Re: Hearing of the Senate Health, Education, Labor, and Pensions Committee to consider "Taking a Serious Look at the Retirement Crisis in America: What can we do to expand defined benefit pension plans for workers?"

Dear Chairman Sanders, Ranking Member Cassidy, and Members of the Committee:

On behalf of Economic Policy Institute (EPI), I am pleased to submit this statement for the record for the February 28, 2024 Senate HELP Committee hearing on the retirement income crisis. EPI is a nonprofit, nonpartisan think tank created in 1986 to include the needs of low- and middle-income workers in economic policy discussions. EPI believes every working person deserves a good job with fair pay, affordable health care, and retirement security. We welcome this opportunity to comment on the causes of the retirement crisis and ways to alleviate it.

The 401k revolution has failed working families.

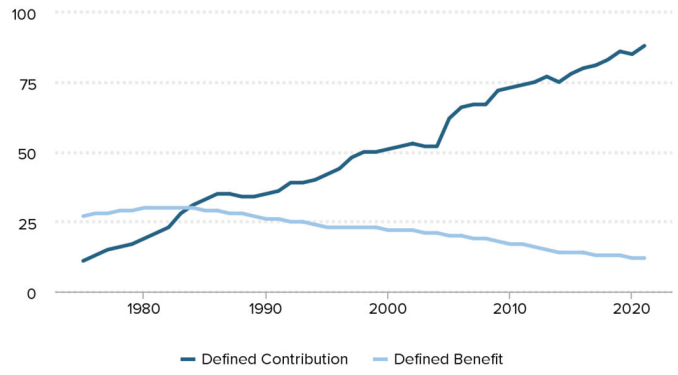
Steady contributions, affordability, and lifetime income are the building blocks of an effective retirement system. Social Security and traditional defined benefit pensions check all three boxes, 401k-style defined contribution plans check none.

The roots of the retirement crisis can be traced to the early 1980s, when employers began shifting from secure pensions to defined contribution plans around the same time that Congress enacted cuts to Social Security to avert an imminent shortfall.

The shift from defined benefit pensions to defined contribution plans is an experiment that failed. 401ks were initially intended as a perk for bankers, not a substitute for pensions.[1] However, they took off quickly and now outnumber defined benefit pensions among private-sector workers by a factor of nearly eight to one (Figure A).

Figure A

Active participants in private-sector employer-based retirement plans, 1975–2021 (millions)



Note: EBSA made methodological changes to estimates of the number of active participants in defined contribution plans in 2005.

Source: Employee Benefits Security Administration (EBSA 2023). Private Pension Plan Bulletin Historical Tables and Graphs 1975-2021, Table E7.

Economic Policy Institute

401ks do a poor job of building savings.

401ks made it easy for employers to offer a retirement plan, since much of the cost and all of the risk falls on workers. Despite making it easier on employers, the shift from traditional pensions to 401ks did not increase the share of workers participating in a retirement plan, which has long hovered around 50%.[2] It did, however, widen the gap between retirement haves and have-nots.[3]

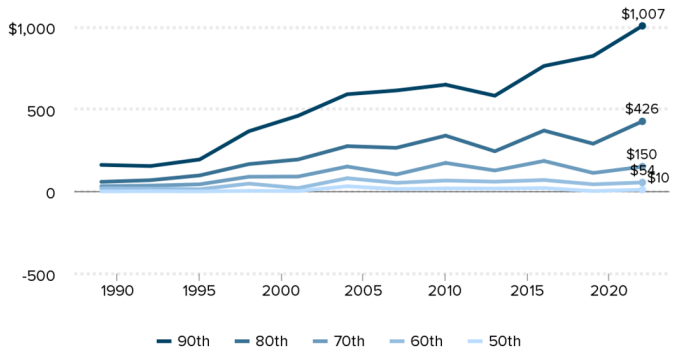
Though defined contribution plans have outnumbered defined benefit pensions in the private sector for three decades, they have done a poor job of growing retirement savings. There are fewer assets in defined contribution plans ($10.0 trillion) than in defined benefit plans ($15.4 trillion). This does not take into account $13.0 trillion in Individual Retirement Accounts (IRAs), perhaps half of which were rolled over from 401k accounts.[4] However, a rough equivalence between assets held in defined benefit pensions and retirement account plans is unimpressive given the much larger number of workers participating in defined contribution plans.

Retirement account balances are highly unequal.

Most households have nothing or next to nothing saved in retirement accounts. Even among households nearing or starting retirement (ages 60-64), 44% have nothing saved in these accounts and the median household has only $10,400. The top 10%, meanwhile, have over $1 million saved in retirement accounts (Figure B).[5]

Figure B

Household retirement account savings by savings percentile, ages 60-64, 1989–2022 (thousands)



Note: Amounts shown include defined contribution plans and IRAs.

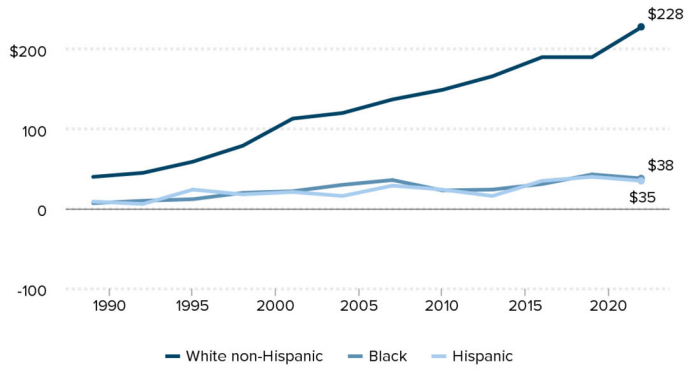
Source: Author's analysis of Federal Reserve Survey of Consumer Finances microdata, 1989-2022.

Economic Policy Institute

Racial and ethnic disparities are stark.[6] Most Black (68%) and Hispanic (73%) households have nothing saved in retirement accounts.[7] Even focusing on households approaching or entering retirement (ages 60-64), 67% of Black and 71% of Hispanic households lack retirement account savings. As shown in Figure C, mean account balances also show large and persistent disparities by race and ethnicity.

Figure C

Mean household retirement account savings, ages 60-64, 1989–2022
($2022 thousands)



Note: Amounts shown include defined contribution plans and IRAs. Amounts are averaged across households with and without retirement account savings.

Source: Author's analysis of Federal Reserve Survey of Consumer Finances microdata, 1989–2022.

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Many workers get no help from their employer or the government.

There are many reasons why most households have little or nothing saved in retirement accounts, including savings diminished by high fees and pre-retirement withdrawals. But the most important factor is that nearly half of workers (47%) do not participate in a plan, in most cases because their employer does not provide one or because they are not eligible.[8]

Participation rates vary considerably by industry, occupation, and other factors.[9] Union membership is an important factor, especially among blue-collar workers, since 94% of private-sector union members have access to a retirement plan and 84% participate.[10] Retirement plan participation is higher among construction (50%), manufacturing (69%) and trade, transportation, and utilities (51%) workers, where unionization rates are relatively high, than among leisure and hospitality workers (16%), where unionization rates are low.[11] Unions influence retirement plan access not only among unionized employers, but also among competing employers.

Though some workers opt not to participate in an employer plan, this is not necessarily a short-sighted decision, as is often assumed. Many low-income and part-time workers are

not eligible for an employer contribution and do not gain a tax advantage by participating because they do not owe income tax. These workers nonetheless face a 10% penalty if they need to access their own funds before age 59-1/2 unless they qualify for a special exemption.

Thus, it is not surprising that many low-income and part-time workers, including many retail workers, do not participate in a retirement plan. Only 9% of Dollar General workers, for example, have positive 401k balances, even though the company considers all its employees "active participants" who are eligible to contribute their own money to the plan. Though the company offers a seemingly generous dollar-for-dollar matching contribution up to 5% of pay, workers are only eligible for the match after a year of service and 1,000 hours, and most retail workers—including, presumably, Dollar General employees—work part-time and do not last a full year.[12] Though employers are required to extend eligibility to part-time workers who work at least 500 hours per year for three years (reduced to two years starting in 2025, thanks to SECURE 2.0), companies like Dollar General can continue to exclude workers by limiting their hours.

In any case, it would be difficult for most Dollar General workers to contribute to the 401k plan since the company has the dubious distinction of employing the highest share of workers (92%) earning under $15 per hour in a study of large service-sector employers.[13] Dollar General's reliance on a low-paid, part-time, and high-turnover workforce kept its 401k contributions to a measly $200 per worker in 2022.[14]

Federal subsidies for retirement accounts are costly and mostly go to high-income households.

The U.S. Treasury Department estimates that contributions to tax-favored retirement accounts cost taxpayers $138.5 billion in 2021.[15] However, we do not actually know how much these subsidies cost because the federal government does not track untaxed investment earnings and other factors that would be needed to calculate tax losses, and different agencies use different estimation methods.[16]

In contrast, we closely monitor Social Security's finances, including long-term projections. The annual release of the Social Security Trustees report elicits concern about projected shortfalls, which the Social Security actuaries last year estimated at 1.3% of GDP over 75 years.[17] Meanwhile, Andrew Biggs of the American Enterprise Institute and Alicia Munnell of Boston College's Center for Retirement Research estimate that the combined cost of tax expenditures related to retirement similarly amounted to 1.3% of GDP annually, yet these subsidies receive far less scrutiny than Social Security's projected shortfall.[18] In addition to receiving less attention, some forgone revenues from tax-favored accounts would improve Social Security's finances because some contributions to employer retirement plans are not subject to the payroll taxes that fund Social Security and Medicare.

This is not to suggest that all subsidies for retirement should be scrapped. However, those that disproportionately benefit upper-income households and do little to increase saving should be repurposed. The Tax Policy Center estimates that 60% of tax expenditures for retirement saving accounts go to the highest-income household quintile (20%).[19] Since these households tend to save anyway, the subsidies do little to incentivize saving but rather induce households to steer savings to tax-favored accounts.[20]

Tellingly, most households approaching retirement would have accumulated more in retirement accounts if tax subsidies that were supposed to encourage saving had instead been divided equally among households and invested in Treasury bonds with no employer or employee contributions—a damning assessment of the efficacy of these supposed saving incentives.[21]

We need to fix 401ks before expanding them.

There are things we can do to make 401ks better, but these have received less support than policies to make them bigger. The financial services industry has embraced automatic enrollment, expanding contribution limits, and pushing back the age that participants are required to start withdrawing funds. In contrast, efforts by the Obama administration and others to improve incentives for low-income savers received little industry support and took years to pass because small accounts are not lucrative. Overdue changes to the low-income Saver's Credit passed in the SECURE 2.0 Act of 2022 will not take effect until 2027, whereas provisions benefiting higher-income households, such as raising the age for required distributions, take effect sooner.[22] Another indicator of who these accounts really serve: exposés of billionaires shielding millions and even billions in tax-favored retirement accounts have not led to better rules and enforcement around contribution limits or capping account balances, though the Obama and Biden administrations proposed limits on accumulations.[23]

Meanwhile, efforts to ensure that retirement savers are not steered to high-cost investments by salespeople posing as financial advisors have met with fierce industry opposition.[24] Though there has been a welcome trend towards lower-cost passive investment strategies, retirement savers are still being steered to inappropriate high-cost investments through gaps in rules intended to protect them, since these do not apply to rollovers or complex insurance products that even financial professionals have difficulty pricing.[25]

This is exactly backwards. Before we funnel more money to 401ks, we need to ensure that they are an affordable savings vehicle for ordinary workers, not a tax dodge for the wealthy. Even then, our priority should be expanding Social Security and access to secure pensions rather than relying more on 401ks.

Social Security is key, but benefits are modest.

Social Security replaces only 39% of pre-retirement earnings for a medium earner retiring at 65, though the replacement rate is higher for low earners and lower for high earners. Before benefit cuts implemented in 1983, including a gradual increase in the normal retirement age, the replacement rate for a medium earner who retired at 65 was 50%.[26]

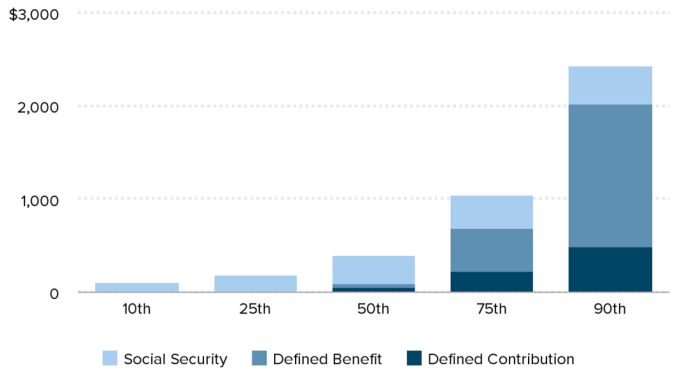
Social Security benefits are lower than benefits from similar plans in most peer countries. The average replacement rate for mandatory pensions in the Organisation for Economic Co-operation and Development is 50.7% for a medium earner—similar to the Social Security replacement rate prior to the 1983 cuts.[27]

Though modest, the value of Social Security benefits exceeds the value of savings in defined contribution plans for all but the wealthiest Americans. For higher income households, the

value of defined benefit pensions exceeds both the value of Social Security and that of defined contribution plan savings (Figure D).

Figure D

Mean household retirement wealth by source and wealth percentile, ages 50-59, 2019 (thousands)



Notes: Households are ranked by total wealth, including non-retirement wealth (not shown). Statistics shown are the mean of wealth for households within +/- 5 percentage points of the cut point (e.g. households in the "10th percentile" are really those in the 5th-15th percentile).

Source: Jacobs et al. (2021), Table 1.

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Defined benefit pensions provide financial security for most union members and public sector workers.

Traditional defined benefit pensions are more efficient than 401k-style defined contribution plans. Pensions pool risk among workers who retire at different times and have different lifespans. In contrast, defined contribution plans are riskier because individual savers do not benefit from intergenerational risk-sharing or longevity risk pooling. Professionally managed pension funds also earn higher risk-adjusted returns and have lower administrative costs than individual accounts. Due to a lack of risk pooling and lower net investment returns, EPI and others have estimated that contributions to 401k plans need to be almost twice as large as contributions to defined benefit pensions to provide similar retirement security.[28]

In the private sector, most rank-and-file workers who participate in defined benefit pensions are union members. Whereas 58% of union members in the private sector have a

defined benefit pension, only 7% of their non-union counterparts do.[29] Defined benefit pensions are the norm in the public sector, where secure pensions partly compensate for lower salaries. Three quarters (75%) of all state and local government workers—including 82% of full-time workers and 82% of union members—participate in a defined benefit pension.[30]

Public pensions are especially critical for women and Black workers, who gravitate toward public sector jobs with secure benefits despite a public sector pay gap.[31] Black (26.2%) and white (30.6%) households have similar rates of defined benefit pension coverage, as do unmarried women (19.9%) and unmarried men (19.7%).[32]

While some union members, including many auto workers, participate in single-employer pension plans, others participate in multiemployer plans jointly sponsored by employers and unions. These Taft-Hartley plans are common in sectors where workers often have longer-lasting relationships with unions than with individual employers, such as the trucking and construction industries. Multiple-employer plans such as TIAA are also common among mobile professionals, such as university professors and clergy.

Multiemployer Taft-Hartley plans can survive the demise of individual employers but run into trouble when an entire industry, or union membership in an industry, shrinks rapidly. With a low ratio of active participants to retirees, it becomes difficult for mature plans to adjust contributions to offset volatile investment returns even if the plans were adequately funded to begin with.[33] Congress included assistance for troubled multiemployer plans in the American Rescue Plan of 2021, effectively stabilizing them for decades to come. However, additional steps will eventually be needed to ensure that these plans can weather the next storm and serve future generations.

The challenge of defined benefit pensions is that while they eliminate individual longevity and investment risks through risk pooling, sponsors still bear some cohort longevity and market risks because future lifespans and long-term investment returns cannot be perfectly predicted. Pension plans deal with this challenge by gradually adjusting contribution rates to offset non-transitory changes in life expectancy or investment returns—a strategy that works well for public sector employers and multiemployer plans with a stable or growing number of active participants. Though quasi-mandatory participation can be enforced through collective bargaining agreements, extending pension-like benefits to a broader group of workers might require mandates or greater risk-sharing with participants in so-called "hybrid" plans that combine elements of defined benefit and defined contribution plans.

It is time for an overhaul of our retirement system that builds on what works.

Social Security is the most important source of retirement income for most workers but needs to be strengthened and significantly expanded along the lines proposed by Chairman Sanders and other cosponsors of the Social Security Expansion Act.[34] We also need to expand Supplemental Security Insurance and other social insurance programs to ensure that seniors and people with disabilities are lifted above poverty and families are not devastated by medical and caregiving expenses.

Defined benefit pensions are critical to the retirement security of public sector and unionized workers. We need to protect existing plans while exploring ways to extend secure pension benefits to more workers. Hybrid plans in some states, provinces, and countries that equitably share risk between employers and workers could serve as models for expanding multiple-employer plans in the United States.[35]

Three decades after 401ks became the most common retirement plan in the private sector, most workers approaching retirement have little or nothing in these accounts. We should stop pretending that the problem is workers and not a poorly-designed system that failed them.

We should begin by implementing the Department of Labor's Retirement Security Rule without delay. We should also tighten and enforce 401k contribution rules; set a $5 million or lower limit on account balances; tax inherited balances immediately; and use the savings from these reforms to help low-income savers.

We should take steps to prevent employers from discriminating against part-time workers, including workers who would prefer to work full-time but are limited to part-time work by employers seeking to save on benefit costs. A provision in the Part-Time Worker Bill of Rights that extended retirement benefits to part-time workers who were employed for two years was included in SECURE 2.0, but more could be done expand access to part-time workers.

Ultimately, employers who want to avoid providing retirement benefits will find ways to do so in a voluntary system. Some state and local governments have therefore taken the step of requiring employers to at least facilitate worker contributions to state-sponsored IRAs via automatic enrollment and payroll deduction. While Auto IRAs do not allow for employer contributions, these efforts could prompt federal action, possibly including requirements for employer contributions or a government match.[36] The idea of an employer mandate has gained currency in recent decades, though it should not be viewed as a substitute for Social Security expansion.

Sincerely,

Monique Morrissey, PhD
Senior Economist
Economic Policy Institute

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INSURED RETIREMENT INSTITUTE,
WASHINGTON DC,
February 28, 2024.

Hon. BERNIE SANDERS, *Chairman*,
Hon. BILL CASSIDY, *Ranking Member*,
U.S. Senate Committee on Health, Education, Labor, and Pensions,
428 Dirksen Senate Office Building,
Washington, DC.

DEAR CHAIRMAN SANDERS and RANKING MEMBER CASSIDY:

The Insured Retirement Institute (IRI)[1] is pleased to submit this letter and requests that it be entered into the record for the hearing to be held on Wednesday, February 28, 2024, by the U.S. Senate Committee on Health, Education, Labor, and Pensions titled "Taking a Serious Look at the Retirement Crisis in America: What Can We Do to Expand Defined Benefit Pension Plans for Workers?" IRI commends you for your leadership in conducting this hearing that continues the Committee's examination of policy solutions to help America's workers and retirees address the anxiety they have about saving for their retirement and having protected, guaranteed income to sustain them throughout their retirement years.

America's Growing Retirement Anxiety and Savings Crisis

According to a survey of voters aged 25-plus conducted for AARP, more than six in 10 (63 percent) are anxious about having enough money to live comfortably throughout their retirement years, and only three in 10 (29 percent) of voters ages 25–44 believe that they will be able to save enough money for retirement. Among voters aged 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, but only two in three (65 percent) employed voters say that they are currently participating in a workplace retirement savings plan offered by their employer.[2]

Two other studies provide further insights into the depth of this anxiety. A study from Allianz Life Insurance Company of North America found that 66 percent of America's workers worry they will run out of money during retirement.[3] A National Institute of Retirement Security 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.[4]

The anxiety over attaining retirement security is more prevalent among people of color. Fifty-six percent of Black and Latino workers and retirees say they are worried about their financial future.[5] That is 10 percent more than their White counterparts.[6] Additionally, according to a December 2021 study, more than half of Black and Latino households have no retirement savings.[7] Of those with savings, the median savings for households with savers aged 25 to 61 is $29,200 for Black households and $23,000 for Latinos. By comparison, more than two-thirds of White households have savings and a median of $79,000 set aside for their retirement years.[8]

This research confirms what IRI's members hear from the millions of people they work with each day to plan and save for their retirement years: workers and retir-

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[1] The Insured Retirement Institute (IRI) is the leading association for the entire supply chain of insured retirement strategies, including life insurers, asset managers, broker-dealers, banks, marketing organizations, law firms, and solution providers. IRI members account for 90 percent of annuity assets in the U.S., including the foremost distributors of protected lifetime income solutions, and are represented by financial professionals serving millions of Americans. IRI champions retirement security for all through leadership in advocacy, awareness, research, and the advancement of digital solutions within a collaborative industry community. Our members support and advocate for common sense, bipartisan policies to help America's workers and retirees achieve their retirement goals by expanding access to professional financial guidance and lifetime income products within an appropriate and effective consumer protection framework.

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ees are shouldering the responsibility of accumulating savings to produce income to sustain them during their retirement years.

Factor #1: Lack of Access to Workplace Retirement Savings Plans

One factor that significantly contributes to this anxiety is a lack of access to workplace retirement savings plans. According to AARP research, almost half of private sector employees—57 million Americans—do not have the option to save for retirement at work. Most workers who lack access to an employer-sponsored retirement plan are employed by small businesses, with about three-fourths of those workers at companies with fewer than 10 employees and about two-thirds of those workers at companies with 10 to 24 employees. In addition, there are disparities by race and ethnicity among those workers, with nearly 64 percent of Latino workers, 53 percent of Black workers, and 45 percent of Asian American workers lacking access to an employer-provided retirement plan.[9] Additionally, Transamerica's research, "Navigating the Pandemic: A Survey of U.S. Employers," found that 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 2 years.[10]

Factor #2: Lack of Lifetime Income Distribution Options in Retirement Plans to Provide Sustainable Lifetime Income

Another factor contributing to workers' and retirees' anxiety is the lack of access to lifetime income distribution options in retirement plans that would provide much-needed protection against outliving one's savings. According to recent research conducted by the Life Insurance Marketing and Research Association (LIMRA), an estimated nine in ten defined contribution plans have no in-plan distribution option for generating lifetime-guaranteed income for retiring employees. The survey found that of private-sector plan sponsors with at least 10 full-time employees, 49 percent of those that do not offer an in-plan annuity in their defined contribution plan said that they have considered adding one at some point but have not yet done so.[11]

According to research conducted by Cerulli Associates of defined contribution recordkeepers, only 23 percent offered participants a distribution option of one-time lump sums converted to protected, guaranteed lifetime income paid out in monthly or quarterly payments. Conversely, only 8 percent of defined contribution plan recordkeepers reported that 16 percent or more of their defined contribution plan clients have adopted a guaranteed in-plan retirement income option. Less than half of surveyed recordkeepers let their participants take ad-hoc withdrawals as needed.[12]

The Decline of Defined Benefit Plans

While defined benefit plans offer features that can address these two factors causing workers and retirees anxiety about their future retirement security, another trend is also at play. During the past several decades, there has been a substantial decline in employer-sponsored defined benefit plans and the percentage of assets contained in those plans.[13] The decline of defined benefit plans is attributed primarily to the elimination of plans with 100 or fewer participants, most of which were eliminated because of the complexity and cost required to administer an employer-sponsored defined benefit pension plan.[14] During that same time, there has been a substantial increase in employee-funded defined contribution plans and the percentage of assets contained in those plans, making it an unrealistic aim to now seek to expand the availability of defined benefit plans.[15]

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[14] *Ibid*, Chapter 13, Page 126.

[15] *Ibid*, Chapter 1, Page 11. The percentage of asset allocated to individual plans (including annuities, individual retirement accounts, and employer-sponsored contribution plans such as

Continued

Defined Contribution Plans Offer the Guaranteed Income Features of Defined Benefit Plans

The primary goal of a retirement plan is not to obtain tax deferral but rather to provide retirement income that will last for the life of the retiree. Defined benefit plans distribute their benefits through life annuities. In a life annuity, employees receive equal periodic benefit payments (monthly, quarterly, etc.) for the rest of their lives. If married, and the employee has chosen the joint and survivor option, upon his or her death, the surviving spouse can continue to receive distributions of at least 50 percent of the employee's periodic payment amount. Some defined benefit plans may also allow employees to receive their entire benefit in one lump sum at retirement. [16]

Today, due to the work that Congress undertook during the 116th and 117th Sessions, two of the most sweeping and comprehensive new laws were enacted aimed at bolstering employer-sponsored defined contribution plans to strengthen retirement security for millions more of our Nation's workers and retirees. The *SECURE Act of 2019* [17] and the *SECURE 2.0 Act of 2022* [18] included measures that will expand opportunities to save for retirement during an individual's working years and facilitate the availability and use of protected, guaranteed lifetime income distribution options for plan participants. These bills were developed and strongly supported by a broad bipartisan coalition of Members of Congress—including many Members of the Senate Committee on Health, Education, Labor, and Pensions Committee.

Specifically, these new laws recognized that workers who are given the option to choose to save in an employer-provided defined contribution plan should also be afforded a chance to secure protected lifetime income through a benefit that mimics a more traditional pension. By offering a lifetime income solution, like an annuity, employees will be given a choice to invest a percentage of ongoing contributions in an in-plan investment option that will build up a stream of guaranteed income for life that is not subject to the same market volatility of a typical equity or bond investment option in a 401(k) plan. These in-plan guaranteed income options typically provide downside income protection through insurance guarantees, upside income potential through participation in financial markets, and guaranteed income for life. [19]

Employers offering plan participants a chance to choose a lifetime income distribution option (rather than just providing for a lump-sum distribution of retirement savings) will help workers who may have difficulties allocating their savings across their retirement years in a way that is similar to how a participant in a defined benefit plan receives distributions during their retirement years. This is especially true for retirees who live longer than anticipated. Recent IRI research 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. [20]

It is clear from the research conducted by IRI and others that an overwhelming majority of employees want to have retirement plan products that offer protected income for life among 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. [21]

401(k), 403(b) and 457 plans) versus private pensions has increased steadily, reaching 88 percent in 2022. Chapter 12, Page 121. Assets in defined contribution plans were $9.3 trillion, or 27 percent of total assets in 2022, compared to 26 percent in 2000. In contrast, assets held in employer-sponsored defined benefit plans decreased from 17 percent to only 9 percent of total retirement plan assets between 2000 and 2020. At the end of 2022, assets held in individual retirement accounts and Keoghs (tax-deferred retirement savings plans for self-employed individuals or small business owners) accounted for the largest segment of the retirement plan market with $12.0 trillion, or 35 percent of total assets, as compared to 23 percent in 2000.

[16] *Ibid*, Chapter 13, Page 126.

[17] Public Law 116–94.

[18] Public Law 117–328.

[19] "*IRI Fact Book 2023*", Chapter 12, Page 123.

[20] "*Retirement Readiness Among Older Workers 2021*", Insured Retirement Institute, September 2021.

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

Proposed Measures to Bolster Retirement Security for More of America's Workers and Retirees

While much was accomplished through the *SECURE Act* and the *SECURE 2.0 Act*, more can be done to further bolster retirement security. IRI respectfully submits for your consideration the public policy proposals outlined below, which if enacted into law will expand opportunities for savings, facilitate the greater use of protected, guaranteed lifetime income solutions, and maintain and augment the current tax treatment of retirement savings to encourage savings.

IRI also submits for your consideration a recommendation that the Committee urges the withdrawal of the Department of Labor's (DOL) 2023 Retirement Security Rule package as it runs counter to Congress's intent and the measures included in the *SECURE Act* and the *SECURE 2.0 Act* to strengthen and enhance retirement security for America's workers and retirees.

Public Policy Proposal #1: Expand Opportunities to Save for Retirement

Require Employers to Offer Retirement Plans to Employees

To provide more workers with opportunities to access a workplace retirement plan and increase their retirement savings, Congress should enact legislation such as the ***Automatic IRA Act of 2024*** (**H.R. 7293–118th Congress**), which would generally require all but the smallest of employers to maintain an automatic retirement savings plan, into which employees would be automatically enrolled with the ability to opt-out. A recent study of the impact of such a new law on workers' retirement security found that over the next 10 years, $7 trillion in additional retirement savings would be generated, and 62 million new retirement savers would be created.[22] The legislation will also help address the anxiety felt by many of America's workers and retirees about outliving their retirement savings by requiring that participants with account balances of $200,000 or more be given the choice to receive up to 50 percent of their vested balance in the form of protected, guaranteed lifetime income products.

Automatically Re-Enroll Employees Three Years After Opting Out

The *SECURE 2.0 Act of 2022* mandated that all new 401(k) and 403(b) plans automatically enroll participants into the respective plans while preserving participants' choice to opt out of coverage. This change will significantly expand participation in workplace retirement savings plans as studies have shown participation rates increase to more than 90 percent under these circumstances.[23] An increase in the use of automatic enrollment features has increased retirement plan participation particularly among Black, Latino, and lower-wage employees.[24]

To further expand the use of automatic enrollment in employer-sponsored defined contribution plans, Congress should enact legislation such as the ***Auto Re-Enroll Act of 2023*** (**S. 2517/H.R. 4924—118th Congress**). The bill would amend *ERISA* and the *Internal Revenue Code* to allow plan sponsors to automatically re-enroll non-participants at least every 3 years. This option will prompt workers who have decided to opt out to periodically reevaluate whether to participate in the plan as their careers progress and financial situations change.

Further, Congress should enact legislation such as **S. 2512–118th Congress** to provide a $500 credit for up to 3 years to any small employers (100 or fewer employees) that adopts an automatic re-enrollment feature in a retirement plan that enrolls employees into elective deferral contributions. This new tax credit would not only encourage employers to offer this feature in their workplace plans, but it would also benefit their workers by providing them an opportunity every 3 years to re-evaluate their financial decisions.

Decrease the Age for Participation in Workplace Retirement Plans to 18 Years of Age

Congress should enact legislation such as the ***Helping Young Americans Save for Retirement Act*** (**S. 3305–118th Congress**). The bill would enable more young

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[22] *Letter of Support Retirement Subtitle "Build Back Better Act*, Page 2, Footnote #s 3–5, ARA, September 2021.

[23] *"How Americans Save*," Vanguard, 2023.

[24] *"Bringing greater financial equity to the workplace to support everyone's opportunity for a better financial future*," Voya, April 2023.

workers to access employer-sponsored retirement savings plans by reducing the age of participation in an ERISA-covered defined contribution plan to 18. Lowering the participation age to 18 will expand opportunities for younger workers to save for retirement by providing them with an additional 3 years to begin saving and take advantage of the growth offered by compounding interest.

Public Policy Proposal #2: Facilitate Greater Use of Protected, Guaranteed Lifetime Income Solutions

Expand the Use of Lifetime Income Products as Default Investment Options

Qualified default investment alternatives (QDIAs), created by the *Pension Protection Act of 2006*,[25] have proven to be an essential step forward in enhancing retirement security for America's workers. Unfortunately, DOL regulations[26] inhibit the use of certain investment options that do not meet specific liquidity requirements. The regulations essentially mandate that any funds in a QDIA must be available for the participant to transfer or withdraw "not less frequently than once within any 3-month period." However, the liquidity requirement in the current rules effectively prohibits the use of protected, guaranteed lifetime income solutions that have delayed liquidity features despite the fact that these features allow them to offer higher returns.

Accordingly, Congress should enact legislation such as the ***Lifetime Income for Employees Act*** (**H.R. 3942–118th Congress**). The bill would allow plan sponsors to utilize annuities that provide a guaranteed return on investment and have a delayed liquidity feature as a default investment vehicle for a portion of contributions made by a retirement saver who has not made investment selections.

Encourage the Offering of Protected, Guaranteed Lifetime Income Products as Default Distribution Options

To address workers' and retirees' anxiety and insecurity about outliving their retirement savings, Congress should **enact legislation providing that employers who offer protected, guaranteed lifetime income solutions as a default distribution option for participants in their defined contribution plans will have satisfied their fiduciary duties under ERISA so long as participants are notified of the default annuitization option and have the right to opt-out at the time of distribution**. Encouraging employers to offer protected, guaranteed lifetime income distribution options as a default in defined contribution plans will help further protect individuals from longevity risk and enhance and strengthen their retirement security.

Additionally, Congress should **enact legislation that would establish qualified payout options (Q-PON) that require employers who have at least 10 employees and have provided a plan for at least 3 years to offer a combination of income and payout solutions that participants can select from at retirement**. Some options that could be made available as a Q-PON include protected, guaranteed lifetime income solutions, systemic withdrawal options, managed payout options, and lump sum withdrawals. Q-PONs would apply to participants or beneficiaries of 401(k), profit-sharing 401(a), 403(b), or "Starter" 401(k) plans.

Authorize the Use of Indexed and Variable Annuities in QLACs

Qualifying longevity annuity contracts (QLACs) are a valuable tool for retirement income planning as they address the risk many retirement savers and retirees face of outliving their accumulated retirement savings. The *SECURE 2.0 Act of 2022* directed the Treasury Department to make changes to the regulations governing QLACs to allow retirement savers to convert more of their savings into protected, guaranteed lifetime income that will help meet their longevity protection needs. Additionally, the *SECURE 2.0 Act* established a 90-day "free look" period to give investors time to ensure that they have selected a product that fits their needs while also clarifying the applicable joint and survivor benefits in the event of a divorce.

While these changes will allow workers and retirees to keep more of their savings in tax-deferred accounts longer and access protected, guaranteed monthly income throughout their lifetime, Congress should enact legislation such as ***Section 201(5) of the Retirement Security and Savings Act of 2021*** (**S. 1770–117th Congress**)

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[25] *Public Law 109–280.*

[26] *Section 404(c)(5) of the Employee Retirement Income Security Act of 1974 (29 8 U.S.C. 1104(c)(5)).*

that would make a diverse slate of indexed and variable annuity contracts with guaranteed benefits eligible to be treated as QLACs. Providing retirement savers with access to a broader array of products that can meet their financial needs and circumstances will further address their anxiety about outliving their retirement savings.

Public Policy Proposal #3: Maintain and Augment Tax Treatment of Retirement Savings

Preserve Tax-Deferred Treatment for Retirement Savings

Tax deferral for retirement savings plays a vital role in spurring America's economic growth and serves as a strong incentive for workers to accumulate retirement savings. Research conducted by IRI shows workers will save less if tax deferral is reduced or eliminated.[27] Congress should **continue to promote retirement savings by maintaining the tax deferral as a necessary tool that helps America's workers plan for and achieve a secure and dignified retirement**.

Protect the Current Structure and Variety of Workplace Retirement Plans

Several types of employment-based defined contribution retirement plans are designed to meet employers' and workers' needs in various employment sectors, including the private, governmental, church, educational, and non-profit sectors. The most prominent types are 401(k), 403(b), and 457(b) plans. Proposals to consolidate these different structures into a single type of plan fail to recognize the essential distinctions between these different employment sectors. Congress should **maintain and protect the diverse array of retirement plan structures rather than attempting to devise a single framework that would eliminate the unique features of the different plan types created to suit the workers who use them**.

Provide Favorable Tax Treatment for Guaranteed Lifetime Income

Distributions and withdrawals from protected, guaranteed lifetime income products—like annuities—are currently taxed as ordinary income. However, these products provide significant social and economic benefits. By helping older Americans avoid outliving their assets, lifetime income from annuities can reduce pressure on Social Security and other social safety nets. Congress should **create tax incentives—such as a lower tax rate, an exclusion of a portion of lifetime annuity income from taxation, or an increased catch-up contribution—to encourage greater use of guaranteed lifetime income products**.

Public Policy Proposal #4: Urge Withdrawal of DOL's 2023 Fiduciary Proposal

The common-sense legislative solutions described above would enhance access to savings and services to build short-and long-term financial security for more of America's workers and retirees. However, a recent rule proposal from DOL threatens to undermine the meaningful steps that Congress has taken to help workers and retirees prepare for and achieve a secure and dignified retirement.

On October 31, 2023, the President publicly announced a proposed DOL rule titled "***Retirement Security Rule: Definition of an Investment Advice Fiduciary***."[28] The "one-size-fits-all" approach taken by the DOL in this proposal will expand the definition of who is an ERISA fiduciary to virtually all financial professionals providing retirement investment guidance. As a result, millions of our Nation's workers and retirees—particularly lower-and middle-income retirement savers—will be harmed. The proposed rule will make it harder, more expensive, and in many cases impossible for individuals to access professional financial guidance and lifetime income solutions.

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[27] "*Boomer Expectations for Retirement 2018*", Insured Retirement Institute, April 2018.

[28] "*Proposed Retirement Security Rule: Definition of an Investment Advice Fiduciary; Proposed Amendment to Prohibited Transaction Exemption 2020–02; Proposed Amendment to Prohibited Transaction Exemption 84–24*; and *Proposed Amendment to Prohibited Transaction Exemptions 75–1, 77–4, 80–83, 83–1, and 86–128*, United States Department of Labor, Employee Benefits Security Administration, November 3, 2023.

The 2023 rule proposal is functionally equivalent to a rule adopted by the DOL in 2016.[29] When the 2016 rule went into effect, 10.2 million retirement savers lost access to essential financial advice through their brokerage accounts.[30] The Fifth Circuit Court of Appeals vacated the 2016 rule, which helped to prevent more harm to retirement savers at that time.[31]

In 2021, Quantria Strategies conducted a study to determine the economic impact of the DOL's continued pursuit of a vastly overbroad re-definition of "investment advice" that would expand the reach of ERISA fiduciary status to nearly all financial professionals who work with retirement savers. Among the study's findings was the startling revelation that adoption of a proposal substantially similar to the 2016 rule would result in a disproportionate reduction in the retirement savings of our Nation's Black and Hispanic populations—resulting in a 20 percent increase in the racial wealth gap over a 10-year period.[32] The DOL has not addressed this evidence that the proposal will harm people of color, nor does it present any evidence to the contrary or, for that matter, any evidence that changes to the existing Federal and state regulatory framework governing the conduct of financial professionals are even necessary at this time.

In recent years, the Securities and Exchange Commission (SEC) and state insurance regulators have established robust best interest standards that protect retirement savers without the unnecessary and problematic restraints inherent in ERISA fiduciary status. Nearly all firms and financial professionals are now held to a best interest standard by regulators with the expertise needed to craft rules that make sense for the industries to which they apply.

Specifically, the SEC adopted ***Regulation Best Interest***, which requires firms and financial professionals to act in their clients' best interest when providing advice or recommendations regarding securities.[33] The National Association of Insurance Commissioners (NAIC) adopted ***amendments to its model regulation on annuity sales practices*** to require that firms and financial professionals act in their clients' best interest when providing advice or recommendations regarding annuities.[34] To date, 44 states have adopted the NAIC best interest model regulation, and the remaining states are expected to do so by the end of 2024. Moreover, the DOL established its own best interest standard in 2020 as a requirement under ***Prohibited Transaction Exemption 2020–02***.[35] Collectively, these rules establish a robust Federal and state framework that imposes tough but fair and workable responsibilities on the industry and provide Federal and state regulators with the tools they need to effectively protect retirement savers and appropriately address the conduct of bad actors.

In 2015, 93 Democratic Members of Congress, 54 of whom still serve in the House and three of whom now serve in the Senate, sent a letter expressing similar concerns to the DOL in response to the proposal that ultimately became the 2016 rule.[36] Specifically, the letter urged the DOL to ensure that its rule "does not limit consumer choice and access to advice, have a disproportionate impact on lower-and middle-income communities, raise the costs of saving for retirement [...] or disadvantage lifetime income options." The concerns raised in the House Democrats' letter were not addressed in the final 2016 rule, nor are they addressed in the 2023

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[29] "*Definition of the Term "Fiduciary"*; *Conflict of Interest Rule-Retirement Investment Advice*", U.S. Department of Labor, Employee Benefits Security Administration, April 8, 2016.

[30] "*The DOL Fiduciary Rule: A study on how financial institutions have responded and the resulting impacts on retirement investors*." Deloitte. August 2017.

[31] *Chamber of Commerce of The United States of America; Financial Services Institute, Incorporated; Financial Services Roundtable; Greater Irving-Las Colinas Chamber of Commerce; Humble Area Chamber of Commerce, Doing Business as Lake Houston Chamber of Commerce; Insured Retirement Institute; Lubbock Chamber of Commerce; Securities Industry and Financial Markets Association; Texas Association of Business v. United States Department of Labor; R. Alexander Acosta, Secretary, U.S. Department of Labor*, United States Court of Appeals for the Fifth Circuit, March 15, 2018.

[32] "*Analysis of the Effects of the 2016 Department of Labor Fiduciary Regulation on Retirement Savings and Estimates of the Effects of Reinstatement*." Quantria Strategies. November 2021.

[33] U.S. Securities and Exchange Commission, *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, adopted June 5, 2019.

[34] National Association of Insurance Commissioners, *Suitability in Annuity Transaction Model Regulation*, adopted February 2020.

[35] U.S. Department of Labor, Employee Benefits Security Administration, *Prohibited Transaction Exemption 2020–02, Improving Investment Advice for Workers & Retirees*, adopted February 16, 2021.

[36] *Letter to U.S. Department of Labor Secretary Tom Perez from 93 Democrat Members of the U.S. House of Representatives*, September 24, 2015.

rule proposal. Leaving these concerns unaddressed is to the detriment of all individuals seeking to participate in the financial system and secure their financial futures.

Adopting the 2023 proposal would represent a significant step backward in pursuing enhancements that make the private-sector retirement system more inclusive and effective. IRI has called for withdrawal of the proposal in testimony during the DOL's public hearing on December 12, 2023,[37] written comments submitted to the DOL on January 2, 2024,[38] and in testimony before the House Committee on Financial Services Subcommittee on Capital Markets on January 10, 2024[39] and the House Committee on Education and the Workforce Subcommittee on Health, Employment, Labor and Pensions on February 15, 2024.[40]

Concluding Thoughts

IRI thanks you for your leadership in pursuing solutions to help more of America's workers and retirees achieve a financially secure retirement. IRI also welcomes the opportunity to work with your offices to advance common-sense solutions that will expand opportunities for workers to save through workplace retirement savings plans and facilitate the use of lifetime income solutions to provide income to sustain retirees throughout their retirement years.

If you have any questions, please do not hesitate to contact Wayne Chopus, President and CEO, Paul Richman, Chief Government and Political Affairs Officer, or John Jennings, Director Government and Political Affairs.

Sincerely,

WAYNE CHOPUS,
President and CEO,
PAUL RICHMAN,
Chief Government & Political Affairs Officer.

AMERICAN RETIREMENT ASSOCIATION

Thank you, Chair Sanders, Ranking Member Cassidy, and Members of the Committee for the opportunity to submit a statement for the record on behalf of the American Retirement Association (ARA) in connection with the Hearing entitled "Taking a Serious Look at the Retirement Crisis in America: What Can We Do to Expand Defined Benefit Pension Plans for Workers?"

The ARA is the coordinating entity for its five underlying affiliate organizations representing the full spectrum of America's private retirement system—the American Society of Enrolled Actuaries (ASEA), the American Society of Pension Professionals and Actuaries (ASPPA), the National Association of Plan Advisors (NAPA), the National Tax-Deferred Savings Association (NTSA), and the Plan Sponsor Council of America (PSCA). Combined the ARA represents over 35,000 retirement plan professionals nationwide. The ARA's members and their affiliated organizations support 95 percent of all the defined contribution plans, such as 401(k) plans, in the United States. The ARA and its underlying affiliate organizations are diverse in the roles they play, but united in their dedication to the success of America's private retirement system.

The ARA's mission is to help working Americans strengthen their retirement security by facilitating well-designed workplace-based retirement savings plans. We do this by educating and informing retirement benefit professionals, and by advocating for policies that give every working American the opportunity to secure a comfortable retirement.

Workplace retirement savings plans have proven that they work for those that have access to them. These plans provide long term economic growth and build fi-

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[37] U.S. Department of Labor, Employee Benefits Security Administration, *Retirement Security Rule: Definition of an Investment Advice Fiduciary and Related Exemptions Public Hearing*, December 12, 2023.

[38] *Comment Letter Submitted By the Insured Retirement Institute to United States Department of Labor Employee Benefits Security Administration "2023 Retirement Security Rule Package,"* January 2, 2024.

[39] U.S. House Committee on Financial Services Subcommittee on Capital Markets Hearing, "*Examining the DOL Fiduciary Rule: Implications for Retirement Savings and Access*", January 10, 2024.

[40] U.S. House Committee on Education and the Workforce Subcommittee on Health, Employment, Labor, and Pensions Hearing, "*Protecting American Savers and Retirees from DOL's Regulatory Overreach*", February 15, 2024.

nancial security for the middle class. This includes both defined contributions plans, like 401(k) plans, as well as defined benefit plans, such as a standard pension plan. We appreciate you holding this hearing and look forward to a productive conversation on policies that Congress could implement to expand access and improve the employer-based system, not on ways to eliminate it or create a Federal system.

Defined Contribution Plans Work for Those With Access

For most Americans, the key to a successful retirement is having access to a workplace-based retirement savings plan. Recent data shows that nearly 60 percent of Americans—roughly 74.5 million—had access to a workplace-based retirement plan in 2020. At the end of the first quarter in 2021, defined contribution retirement plans (the most common being the 401(k) held $9.9 trillion in assets.[1] Household retirement savings—including assets accumulated through those retirement plans plus all other types of retirement plans—represents 59 percent of the non-bank financial capital provided to the equity and bond markets.[2]

The middle class is the primary beneficiary of these plans. Nearly two-thirds (64 percent) of active participants in 401(k) plans have an adjusted gross income of less than $100,000 per year.[3] One-third (33 percent) of participants have an income less than $50,000.[4] The critical factor that determines whether these moderate-income workers save for their retirement is whether they have access to a retirement savings plan at work. Data shows that more than 70 percent of workers earning between $30,000 and $50,000 will save in a plan if they have access to a workplace-based plan, but fewer than 7 percent of these workers will save on their own through an IRA.[5] Put differently, workers are 12 times more likely to save for their retirement if they have access to some type of payroll deduction retirement savings program offered by their employer.

Congress's continued support of expanding retirement plan coverage and simplifying retirement plan rules will increase retirement savings and build even further on the success of the workplace-based retirement plan system.

SECURE 2.0: Working to Close the Coverage Gap

Congress has taken strong bi-partisan action to close the retirement plan coverage gap by passing *SECURE 2.0* a little over a year ago. This landmark piece of retirement legislation contains a variety of provisions specifically designed to make it easier and less expensive for small employers to adopt workplace-based retirement plans, in addition to helping workers build their retirement savings.

Helping small employers offer retirement plans for their workers is the solution to closing the retirement coverage gap. According to the U.S. Small Business Administration, small businesses employ roughly 62 million Americans, totaling roughly 46 percent of all private sector employees.[6] Recent data shows that only 40 to 50 percent of small employers (i.e., employers with fewer than 50 employees) offered retirement plans, compared to 70–79 percent of employers with 50 to 99 employees and 78 to 91 percent of employers with over 100 employees.[7]

Many small employers would like to offer retirement benefits to their workers, but they often face significant time and financial constraints that make it impossible. Fortunately, *SECURE 2.0* includes a variety of provisions designed to reduce the cost and administrative burdens associated with administering a retirement plan, in addition to streamlining the enrollment process for employees.

First, *SECURE 2.0* created the Starter 401(k) plan, which is a new wage deferral-only simple safe harbor 401(k) plan. This plan allows employees to save up to $6,000 per year (with a $1,000 catch-up contribution) in a tax-preferred retirement account but is far less expensive and does not have the same level of administrative complexity as a traditional 401(k) plan. This is largely because the Starter 401(k) plan

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[1] Investment Company Institute, Quarterly Retirement Market Data, June 16, 2021, available at *https://www.ici.org/statistical-report/ret-21-q1*.

[2] Oxford Economics, Another Penny Saved: The Economic Benefits of Higher U.S. Household Savings, June 2014, available at: http://www.oxfordeconomics.com/anotherpennysaved.

[3] Judy Xanthopoulos, Ph.D. of Quantria Strategies, analysis of Internal Revenue Service, Statistics of Income, Individual Income Tax, and IRA Studies, 2017 Tax Year.

[4] Ibid.

[5] IRS tabulations and Vanguard, How America Saves, 2018.

[6] U.S. Small Business Administration SBA, Office of Advocacy, "Frequently Asked Questions About Small Business." United States, 2018. Available at: *http://tinyurl.com/3vyjusb5*.

[7] *See* Bureau Labor Statistics, "Employee Benefits in the United States, March 2023," Historical Tables.

does not require employer contributions and avoids expensive and complicated testing requirements. As a result, small employers with significant time and financial constraints can offer these plans and help their workers start saving for retirement. This will help close the retirement coverage gap because it will bring access to an employer-sponsored retirement plan to millions of workers, many of whom are moderate-income individuals and racial minorities.

Second, *SECURE 2.0* included a dramatic expansion to startup tax credits available for employers that want to adopt a retirement plan for their employees. For taxable years after 2022, this expanded credit covers 100 percent of the employer's out-of-pocket plan costs, increased from the SECURE Act's 50 percent limit. Qualified employers with 51 to 100 employees may receive a credit covering 50 percent of out-of-pocket plan costs. Just like Starter 401(k) plans, these tax credits will help close the coverage gap by removing the financial barriers that make it difficult for many small businesses to offer retirement benefits.

Third, *SECURE 2.0* now requires plans established after December 29, 2022, to add an automatic enrollment feature to the plan no later than the 2025 plan year. While this is an administrative complexity, *SECURE 2.0* includes a tax credit that will provide $500 for small employers for implementing this feature. A recent report by researchers at Vanguard found that among new hires, participation rates triple to 91 percent under automatic enrollment, compared with 28 percent under voluntary enrollment.[8] This data shows that automatic enrollment can have an incredibly powerful impact on participant saving which can be leveraged to help close the retirement plan coverage gap.

Finally, *SECURE 2.0* also included a provision establishing the Saver's Match, which will replace the Saver's Credit in 2027. Rather than a credit against taxes owed, the Saver's Match will be deposited directly into the worker's retirement account. Importantly, more savers will be eligible for this matching contribution than the Saver's Credit thanks to expanded income limits. Under this new provision, eligible savers would get a 50 percent matching contribution on up to $2,000 in retirement savings annually. These expanded income thresholds mean that over 108 million Americans are now eligible for the Saver's Match, which includes millions of gig workers and certain government employees, such as public-school teachers, many of whom do not participate in plans with matching contributions.

Overall, *SECURE 2.0* along with provisions in *SECURE 1.0*, will greatly reduce the retirement plan coverage gap. A number of these provisions were only effective a few months ago and a few provisions have yet to take effect. We applaud the bipartisan work behind *SECURE 1.0* and *SECURE 2.0* and look forward to working with Congress to ensure the provisions are successful in increasing retirement security in America.

State Plans Are Also Helping to Close the Coverage Gap

In recent years, state governments have taken steps to close the retirement plan coverage gap in their jurisdictions by enacting state auto-IRA programs. So far, 15 states have adopted auto-IRA programs, and several others are actively considering similar proposals.

These state auto-IRA programs generally require businesses over a certain size to provide their workers with access to some type of retirement plan. If employers do not already offer a workplace-based retirement plan, or do not want to adopt one available to them in the private marketplace, then they must enroll their workers in a state-run auto-IRA program. Enrolling workers into these auto-IRA programs is very inexpensive and is not labor-intensive, both of which are important to the success of these programs.

Both workers and small businesses benefit from these auto-IRA programs. Nearly all small businesses that do not have a retirement plan want to offer one for their employees. After conducting a survey of small business owners, Pew Charitable Trusts found that 86 percent of small-to medium-sized employers without plans support the concept of a payroll deduction retirement plan with automatic enrollment.

[8] Jeffrey W. Clark and Jean A. Young, Automatic Enrollment: The power of the default, February 2021, available at: *https://institutional.vanguard.com/iam/pdf/ISGAE-022020.pdf*.

Among small employers without plans, 51 percent said they would start their own plan rather than enroll workers in the state-facilitated program. [9]

Accordingly, ARA supports these state auto-IRA plans specifically because they strike the appropriate balance between closing the coverage gap and not overwhelming small employers. In conjunction with *SECURE 2.0*, the ARA believes that these state auto-IRA programs will help close the coverage gap by expanding employer-based retirement coverage to millions of working Americans across the country.

Auto-IRA will further Close the Coverage Gap

The ARA also supports the creation of a Federal auto-IRA program which will build upon the successful state-run programs. In February, Ranking Member Neal (D-MA) of the House Ways and Means Committee introduced H.R. 7293, the Automatic IRA Act of 2024. Similar to the state auto-IRA programs, this bill would require employers with more than 10 employees to automatically enroll their employees in a auto-IRA plan or qualified retirement plan, such as a 401(k).

This bill includes a tax credit of $500 per year for 3 years for employers of up to 100 employees that offer an auto-IRA product, including those facilitated through a state program. Additionally, *SECURE 2.0's* startup credit can be used to cover the costs of starting up their own qualified retirement plan. This means that most small businesses will not have to spend any money to comply with this legislation and provide their workers with access to an employer-based retirement plan.

Additionally, the Auto-IRA Act will buttress state efforts to close the coverage gap, not preempt them. As drafted, businesses that participate in certain state-based auto-IRA programs are also exempt from compliance. This means that states with mandatory auto-IRA programs can continue to run their programs, in addition to ensuring that workers in states without Auto-IRA programs have access to an employer-based retirement plan.

Accordingly, the ARA supports the Auto-IRA Act because it strikes the right balance to close the retirement plan coverage gap while imposing the minimum possible burden on small-to medium-sized employers.

The Retirement Savings for Americans Act Will Decimate the Employer Sponsored Retirement System

The ARA vigorously opposes the Retirement Savings for Americans Act (S. 3102/H.R. 6065) which would create a new Federal Government-managed fund, called the American Worker Retirement Fund ("Fund"), for qualifying workers that do not have access to a workplace-based retirement plan. While the proposal is a well-intentioned attempt to address the retirement plan coverage gap, it is impractical, unfair, prohibitively expensive, and ripe for political abuse.

The most concerning feature of this proposal is the inclusion of the taxpayer-funded Government Match provision, which is only accessible to individuals who do not currently have access to an employer-sponsored retirement plan. The inclusion of a Government Match creates a perverse incentive for employers, particularly small employers with razor-thin margins, to shutter their existing retirement plans so that their workers are eligible to be enrolled in the Fund. This would harm certain retirement savers because many of these plans that would be eliminated have more generous employer matching rates than the Government Match.

This proposal would also have a devastating impact on financial literacy and retirement planning advice, specifically for workers who lose access to their workplace-based retirement plan because of this proposal. Plan advisors, recordkeepers, consultants, and third-party administrators who work with plan sponsors and participants alike to ensure that both the employer and employee have the best information available to make informed financial decisions. These service providers engaged with employer-sponsored retirement plans routinely meet with participants to educate them and help them develop their retirement strategy. Because everybody's retirement objectives are different, having this level of access to a retirement plan professional is a tremendous advantage for workers with access to them. The same quality of advice, communication materials and other resources simply will not exist in the government-run retirement fund.

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[9] Pew Charitable Trusts, Small Business Views on Retirement Savings Plans, January 2017, available at: *https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/01/small-business-views-on-retirement-savings-plans*.

Unfortunately, some academics believe the employer should not provide a retirement plan to employees. Teresa Ghilarducci, who is testifying at this hearing, has specifically stated that the relationship should be between the government and the worker when it comes to saving for retirement. In a recent Yahoo Finance article dated January 30, 2024, Ms. Ghilarducci is quoted in saying "There's a bill in Congress—from Senators Hickenlooper, Tillis, Congresswoman Sewell, and Congressman Smucker—that calls for a government match. It gets the individual employer out of it and focuses on the worker and the government." We respectfully disagree with Ms. Ghilarducci's opinion and believe that the employer plays a pivotal role in ensuring Americans save for a secure retirement.

Conclusion

The employer-sponsored retirement system has helped millions of workers secure a comfortable retirement. The system works because it provides employers with options on the best retirement plan for their employee population, whether it is a defined contribution plan or a defined benefit plan. We look forward to working with the Members of this Committee on ways to continue to expand the workplace retirement plan system to ensure all Americans have access to a retirement plan at work.

AMERICAN COUNCIL OF LIFE INSURERS,
WASHINGTON DC,
February 28, 2024.

Hon. BERNIE SANDERS, *Chairman*,
Hon. BILL CASSIDY, *Ranking Member*,
U.S. Senate Committee on Health, Education, Labor, and Pensions,
428 Dirksen Senate Office Building,
Washington, DC.

DEAR CHAIRMAN SANDERS and RANKING MEMBER CASSIDY:

On behalf of the American Council of Life Insurers, thank you for holding the Senate Committee on Health, Education, Labor, and Pensions hearing entitled: *Taking a Serious Look at the Retirement Crisis in America*: *What Can We Do to Expand Defined Benefit Pension Plans for Workers*? We appreciate your continued support and leadership on keeping the focus on retirement security.

ACLI advocates on behalf of 275 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 change, 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 93 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 insurers' products and services in their employment-based retirement plans. ACLI members are also 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 life insurance industry plays a critical role in helping them plan, save and secure a guaranteed income in retirement. In 2022, American families received $422.9 billion in payments

from annuities, $138.2 billion in payments from life insurance, $21.6 billion in disability income insurance benefits and $13.3 billion in long-term care insurance benefits.[1] ACLI No other financial institutions provide Americans with the level of financial guarantees offered by life insurance companies.

Guaranteed Lifetime Income Products are Critical Retirement Savings Tools in Today's Retirement Landscape

Planning for retirement continues to remain a challenge for many Americans. Fewer companies offer traditional lifetime pension benefits to new employees. More Americans rely on 401(k) plans and similar defined contribution retirement savings plans at work. Americans are living longer—sometimes 30 years or more after they retire. For many, Social Security's protected income is not enough for a secure retirement. These savers will need additional guaranteed lifetime income.

That is why retirement savers are increasingly turning to annuities as part of their plan for long-term financial security. An annuity is a contract between a consumer and a life insurance company. The consumer pays the insurer, which then pays the consumer per the terms specified in the contract. Annuities allow retirement savers to replicate a pension plan's guaranteed lifetime income stream. And unlike traditional defined benefit plans, in which the employer assumes the financial risk, with an annuity, the insurance company assumes the financial risk.

There are several types of annuities, with different features that can best fit the needs of different financial objectives. An immediate annuity provides immediate access to income in exchange for a lump sum. If retirement is still years away, a deferred annuity will help grow your savings until you are ready to begin receiving payments. Annuities are the only individual financial product that offer a guarantee of lifetime income and the peace of mind that comes from knowing that one will never outlive her retirement savings.

Stringent state and Federal consumer protections regulate the sale of annuities. Since 2020, 42 states, covering nearly 80 percent of U.S. consumers, have adopted the new enhanced consumer protections in the National Association of Insurance Commissioners (NAIC) updated model regulation on annuity transactions. ACLI expects all states to adopt this increased standard by 2025. The NAIC updated model regulation aligns with the U.S. Securities and Exchange Commission's Regulation Best Interest. These state and Federal efforts protect moderate-income retirement savers, unlike the Department of Labor's fiduciary-only proposal that would eliminate the option for retirement savers without the financial means or minimum account balances to hire a fiduciary to work with financial professionals compensated on a commission basis.

Guarding against running out of money during retirement is paramount. This year marks the beginning of "Peak 65," the largest surge of retirement age Americans turning 65 in American history. A record 4.1 million Americans are turning 65 this year. Over 4 million Americans will turn 65 each year through 2027, with more than 11,200 Americans retiring every day. A recent study conducted by Morning Consult for ACLI found that retirement savers are interested in taking steps to protect their savings through retirement. More than half (54 percent) say the current economy has them considering independently purchasing a guaranteed lifetime income product that pays out like a pension and nearly three quarters (73 percent) express interest in independently purchasing a guaranteed lifetime income product that pays out like a pension, including 68 percent who do not already have a pension.[2]

With the reduction of defined benefit plans in the marketplace, it's important to consider that annuities are the only way savers can secure lifetime income in retirement through the private sector. Annuities provide a "private pension" like what beneficiaries would enjoy through their defined benefit pension plan. Policies should continue to evolve to promote savings and address longevity protection by increasing access to lifetime income options, removing barriers to annuities in qualified retirement plans, with the aim to create a more financially inclusive retirement landscape and one that provides opportunities for greater retirement security.

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[1] ACLI analysis of 2022 NAIC Annual Statement data.

[2] Morning Consult conducted a nationwide, online survey of 1,003 employed adults planning for retirement between the ages of 45 and 65 on behalf of the American Council of Life Insurers (ACLI). The survey took place May 10 through May 15, 2023 and has a margin of error of plus or minus 3 percent found at: *https://consumerprotection.life/wp-content/uploads/2023/05/2305054-ACLI-Retirement-Planning-CT-FINAL-3.pdf*.

Congress Should Expand on its Successful Track Record with Continued Bipartisan Retirement Policy Legislation

Fortunately, retirement security policy legislation has historically been a bipartisan endeavor. The most impactful reforms have come from across-the-isle collaboration aimed at increasing Americans' retirement savings.

The passage of the *Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019*, and the *SECURE 2.0 Act in 2022*, were the most comprehensive retirement packages passed since the Pension Protection Act in 2006 and are proving instrumental in increasing access to retirement plans. Additionally, these new laws took numerous steps to not only improve access to lifetime income, but to ease burdensome regulations that overcomplicated the use of these products.

For instance, boosting retirement security for employees at small firms and part-time workers was a big part of these efforts. We expect the benefits of the original SECURE Act and the SECURE 2.0 Act to be fully felt over several years but here is what we are seeing now:

- In 2019, prior to the enactment of the original SECURE Act, 48 percent of those employed by a small private sector business (less than 50 workers) had access to a defined contribution plan.
- In 2023, 52 percent of those employed by a small private sector business (less than 50 workers) had access to a defined contribution plan.
- In 2019, prior to the enactment of the original SECURE Act, 35 percent of all part-time workers had access to a defined contribution plan.
- In 2023, 40 percent of all part-time workers had access to a defined contribution plan.[3]

Still, there is more work to be done. Both the House and Senate lawmakers are at work to build upon this progress, and we ask policymakers to continue to look at how public support can spur private action to help Americans save for and guarantee a more secure retirement. Policymakers should continue to encourage retirement savings and support guaranteed income options for retirement. Focusing on ways to help more people achieve a financially secure retirement—increasing savings rates, access to workplace-based retirement plans and lifetime income security for *all* Americans, are all key to financial security.

As Congress continues to look for opportunities to increase Americans' financial security, one critical element is the removal of barriers to guaranteed lifetime income products. Removing barriers to annuities, as well as modernizing existing law, provides savers with the option to ensure they have income for life. Public policy changes to increase access to and information about annuities through the workplace plans and beyond help to build a financial safety net that is critical in retirement.

Pension Risk Transfer Protects Pension Beneficiaries

Congress has long recognized an annuity issued by a life insurance company as the only permissible substitute for an employer's pension obligations. The Department of Labor's Interpretative Bulletin 95–1 provides guidance to ERISA fiduciaries when selecting an annuity provider for the transfer of pension plan benefit obligations. The *SECURE 2.0 Act* directed the Secretary of Labor to review and, in consultation with the Advisory Council on Employee Welfare and Pension Benefit Plans, determine if amendments are warranted to Interpretative Bulletin 95–1. Employers who do not want to continue assuming the risk of maintaining a defined benefit plan have the ability to enter into a pension risk transfer arrangement with an insurance company—thereby transferring the risk to the insurance company while ensuring that plan participants and retirees receive the exact retirement benefit they have earned.

Robust and extensive state regulation and oversight to ensure that insurers can fulfill their long-term promises to customers. State insurance regulators use a variety of tools and confidential disclosures to supervise solvency issues and assess risks for both the insurer and from the broader holding company, when an insurer is part of a group.[4] This system has proved highly effective: since the 2008 financial crisis, ***no insurance company has failed to make a life annuity payment to a plan***

[3] Bureau of Labor Statistics, National Compensation Survey, accessed on January 25, 2024.
[4] NAIC, State Insurance Regulation, (2021) available at: *https://content.naic.org/sites/default/files/inline-files/topics-white-paper-hist-ins-reg.pdf*.

participant following a pension risk transfer.[5] That track record is a function of the robust reserving and capital standards applied to insurers. Any additional Department of Labor guidance should recognize this strong solvency regime and not hinder employers' efforts to purchase annuities to protect private pensions for their plan participants and beneficiaries.

Conclusion

The dedication of the Senate HELP Committee to advancing meaningful retirement security policy has had real-world, positive implications for savers. The current success of the retirement system can be improved further with even greater access and savings for *all* Americans. Public policy should continue to evolve to ensure low-income earners, part-time workers, and others can save at work. America's life insurers continue to support policies that enable all Americans to have access to information about more savings options, and the benefits of guaranteed lifetime income through annuities.

Thank you for your leadership on bipartisan policy solutions to increase retirement savings in America. We look forward to continued collaboration on retirement security policy efforts.

Sincerely,

SUSAN K. NEELY,
President & CEO.

[5] National Organization of Life Health Guaranty Associations ("NOLGHA"), Consumer Protection Comparison, The Federal Pension System and the State Insurance System (2016), available at https://www.nolhga.com/resource/code/file.cfm'ID=2559.

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

STATEMENT FOR THE RECORD BY

THE ERISA INDUSTRY COMMITTEE

TO THE U.S. SENATE
COMMITTEE ON HEALTH, EDUCATION, LABOR & PENSIONS

HEARING ON

"TAKING A SERIOUS LOOK AT THE RETIREMENT CRISIS IN AMERICA: WHAT CAN WE DO TO EXPAND DEFINED BENEFIT PENSION PLANS FOR WORKERS?"

February 28, 2024

Chairman Sanders, Ranking Member Cassidy, and Members of the Committee on Health, Education, Labor & Pensions, thank you for the opportunity to submit a statement for the record on behalf of The ERISA Industry Committee (ERIC). ERIC is a national advocacy organization exclusively representing the largest employers in the United States in their capacity as sponsors of employee benefit plans for their nationwide workforces.

With member companies that are leaders in every economic sector, ERIC is the voice of large employer plan sponsors on federal, state, and local public policies impacting their ability to sponsor benefit plans. ERIC member companies offer benefits to tens of millions of employees and their families, and are located in every state, city, and Congressional district.

This Committee has long been at the forefront of protecting and enhancing the private sector retirement system. Bipartisan reforms championed by this Committee were key portions in the SECURE 2.0 Act of 2022. That law was generally intended to improve coverage, simplify administration, provide plan sponsors flexibility to innovate, and give participants more savings opportunities.

The regulatory agencies, including the Department of Labor, the Internal Revenue Service at the Department of the Treasury, and the Pension Benefit Guaranty Corporation, have already provided necessary guidance to implement many new provisions in the law, and more remains to be done. Workers and retirees benefit when Congress, the agencies, and stakeholders work together to identify concrete, discrete issues with the retirement system and enact bipartisan solutions.

Today's hearing focuses on single-employer defined benefit (DB) plans. ERIC applauds the Committee for examining whether government policies have hindered the continuation of DB plans. We think they have, and offer a number of recommendations for improving the landscape.

The Private Sector Retirement System Holds Trillions in Assets and Covers Tens of Millions of Americans

Employer-provided retirement plans provide the backbone of retirement savings for tens of millions of Americans. In the private sector, both defined contribution and defined benefit plans have proven popular. In 2022, there were 22.265 million workers in 22,766 private sector defined benefit plans insured by the federal Pension Benefit Guaranty Corporation (PBGC), down from 32.516 million in 2012.[1] About 70 percent of the insured participants are in plans with more than 10,000 participants. There are about 115 million defined contribution plan participants and another 9.5 million have cash balance plans.[2]

The private sector defined benefit system has $3.71 trillion in assets, and the public sector another $9.47 trillion, according to a Congressional Research Service analysis of Federal Reserve data.[3] The same report shows $8.1 trillion in private sector defined contribution assets and about half a trillion in public sector defined contribution assets. Individual Retirement Accounts (IRAs) account for another $11.5 trillion.

PBGC Premium Levels are Unnecessary and Discourage Defined Benefit Plans

Congress established the federal Pension Benefit Guaranty Corporation in ERISA to insure private sector defined benefit plans. Part of the PBGC's statutory mission is to "encourage the continuation and maintenance of voluntary private pension plans,"[4] but premium policy is impeding this mission.

Premiums are set by Congress, not PBGC. Congress has increased premiums several times in the previous 12 years, beginning with the Moving Ahead for Progress in the 21st Century (MAP-21) Act of 2012.

[1] PBGC 2021 Pension Data Tables, available at https://www.pbgc.gov/prac/data-books, Tables S-30 and S-31. Despite a popular perception from some that DB coverage was previously universal, it is notable that there were only 27.518 million workers in PBGC-covered single-employer plans in 1980.
[2] Employee Benefit Security Administration, "Private Pension Plan Bulletin," https://www.dol.gov/sites/dolgov/files/EBSA/researchers/statistics/retirement-bulletins/private-pension-plan-bulletins-abstract-2021.pdf at 3 (Sept. 2023).
[3] Congressional Research Service, "U.S. Retirement Assets: Data in Brief," *available at* https://crsreports.congress.gov/product/pdf/R/R47699 (Sept. 20, 2023). Public sector figures do not include the retirement plans for federal employees.
[4] ERISA Sec. 4002(a)(1).

Skyrocketing premiums are reflected on the below chart: [5]

Plan Year Beginning in:	Per Participant Rate for Flat-Rate Premium	Variable-Rate Premium	
		Rate per $1,000 Unfunded Vested Benefits	Per Participant Cap
2024	$101	$52	$686
2023	$96	$52	$652
2022	$88	$48	$598
2021	$86	$46	$582
2020	$83	$45	$561
2019	$80	$43	$541
2018	$74	$38	$523
2017	$69	$34	$517
2016	$64	$30	$500
2015	$57	$24	$418
2014	$49	$14	$412
2013	$42	$9	$400
2012	$35	$9	N/A

There may have been a time when PBGC's financial position warranted closer monitoring and perhaps even premium adjustment. In 2012, PBGC's single-employer program had a deficit of $29.14B.[6] In fact, the program had a net negative position (present value of claims exceeding assets) from 2002 until 2017. However, the premium adjustments that have followed lacked policy justification and have had disproportionate results. Since 2012, assets have ballooned while expected claims have decreased.

The PBGC's single-employer insurance program currently has a surplus of $44.6B and is 152 percent funded. The program has nearly $131 billion in assets and booked liabilities of $86 billion.[7] PBGC's single-employer program received $5.6 billion in new premium revenue in FY 2023, and paid about $6 billion in benefit payments. That means the program's cash flow costs are nearly funded with benefit payments, leaving the $131 billion in assets largely untouched, continuing to grow with investment gains. But these assets represent the assets of the plans that were terminated and were intended to cover the benefit liabilities. Therefore,

[5] "Premium Rates," available at https://www.pbgc.gov/prac/prem/premium-rates.
[6] PBGC 2021 Pension Data Tables, available at https://www.pbgc.gov/prac/data-books, Table S-1.
[7] Pension Benefit Guaranty Corporation, 2023 Annual Report, available at https://www.pbgc.gov/sites/default/files/documents/pbgc-annual-report-2023.pdf, at 28.

current levels of PBGC premiums are unwarranted and entirely unrelated to the needs of participants or the PBGC.

Additionally, past increases have caused many employers to leave the system, reducing the PBGC's premium base.[8] PBGC's Participant and Plan Sponsor Advocate, a position created in the MAP-21 Act, has routinely raised alarms about the effects of premium levels. To quote her latest annual report:

> *One ominous note that threatens the viability of the defined benefit system, completely contrary to the statutory mission of the agency to maintain and preserve the private defined benefit structure, is PBGC premiums. The agency has an extraordinary $44.6 billion surplus that is far in excess of anything that the agency needs. This surplus is not taxpayer money, but money from plan sponsors who, for years now, have not only made significant contributions to their pension plans but have also overpaid PBGC premiums to cover a level of risk associated with the defined benefit system that simply no longer exists.*
>
> *More troubling, the agency has not shown leadership to help policymakers and legislators come to terms with options to relieve this extraordinary financial burden that is driving plan sponsors from the defined benefit structure, threatening the retirement security of upcoming generations who lack the economic security of a lifetime income in retirement. This kind of surplus combined with debilitating premiums has led to an exodus of employers from the defined benefit system, a fact that was confirmed in a two-part de-risking study performed by the Office of the Advocate in 2017 and 2018. One plan sponsor representative summed it up nicely when he told us in focus groups in the 2018 study the following: "The higher the premiums go, the threshold of where we'll de-risk, it just gets closer. It's purely an economic thing."*[9]

There is evidence that private sector defined benefit coverage has decreased as premiums have increased. In 2022, there were 22.265 million workers in PBGC-insured defined benefit plans, down from 32.516 million in 2012, the year the MAP-21 Act, with its large premium increases, was enacted.

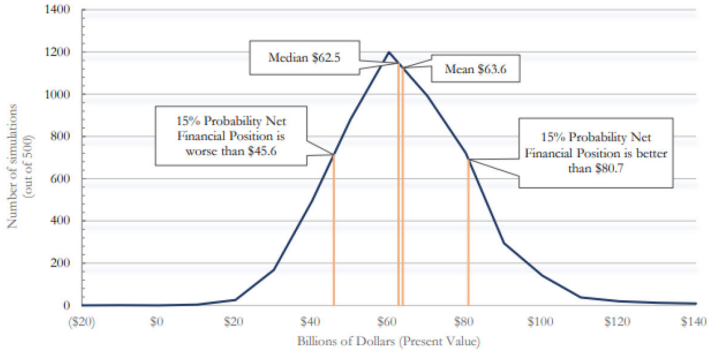
Those plans that do remain are often extraordinarily well funded. According to the actuarial firm Milliman, the funded ratio of the largest 100 corporate defined benefit plans is now 103 percent on an accounting basis.[10] Because of this funding, PBGC has issued projections showing that it

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[8] [8] See "PBGC Single-Employer Premiums and Their Impact on Plan Sponsorship," American Academy of Actuaries, available at https://www.actuary.org/sites/default/files/2020-10/PBGCPremiumsIB.pdf (October 2020).
[9] 2023 Participant and Plan Sponsor Advocate Report, available at https://www.pbgc.gov/sites/default/files/documents/pbgc-advocate-report-2023.pdf, at 4.
[10] Wadia, Zorast, "Pension Funding Index February 2024," available at https://www.milliman.com/en/insight/pension-funding-index-february-2024 (Feb. 7, 2024). These funding percentages do not reflect ERISA's funding methodologies.

has very little risk of negative financial outcomes regardless of economic factors. For example, in its FY 2022 Projections Report (the latest available), of 5,000 economic simulations tested, *only one* resulted in a negative net position by FY 2032. Under every other scenario (4,999 out of 5,000) PBGC's single-employer program has a surplus, often very significant. In fact, the mean FY 2032 surplus is projected to be $62.5 billion. Figures 14 and 15 from PBGC's Projections Report, providing additional detail, are reproduced here:[11]

Figure 14 – Potential FY 2032 Single-Employer Program Net Financial Position



[11] Pension Benefit Guaranty Corporation, FY 2022 Projections Report, available at https://www.pbgc.gov/sites/default/files/documents/fy-2022-projections-report.pdf, at 27-28.

Figure 15 – Variability in 2032 Single-Employer Net Financial Position Present Value at the end of FY 2022 ($ billions)			
	Mean	**15th – 85th percentile range**	**1st – 99th percentile range**
PBGC net financial position			
1. FY 2022 actual	$36.6	$36.6	$36.6
2. FY 2032 projected	$63.6[a]	$45.6 - $80.7	$26.7 - $111.7
Present Value of financial activity expected during FY 2023 – FY 2032			
3. New claims	($6.3)	($11.7) - ($1.3)	($28.3) - ($0.0)
4. Premiums[b]	$32.2	$24.9 - $40.8	$22.2 - $54.8
5. Asset/Liability gain/(loss)	$1.2	($17.3) - $18.4	($34.4) - $51.7
6. Benefits paid	$66.5	$61.1 - $72.0	$56.3 - $89.1

a) If expressed in nominal terms, the mean projected net financial position for FY 2032 is $87.3 billion

b) $32.2 billion mean premium income is the sum of $17.7 billion in flat-rate premium income and $14.5 billion in variable-rate premium income. The variability in premium income is largely attributable to VRPs.

Congress Should Remove Disincentives to DB Plans

Single-employer defined benefit plans are well funded, yet pay exorbitant and unnecessary PBGC premiums which function as a tax. Nevertheless, there are employers that remain in the system; but doing so reduces flexibility, particularly as the plans become overfunded. Therefore, ERIC recommends:

- **Take Premiums Off-Budget**. Premium increases functioned as a budget gimmick used in the 2010s to offset spending on highways and other budget priorities. These premiums are paid by plans directly to the PBGC, not to general revenues at the Treasury. That's why ERIC strongly supports the *Pension and Budget Integrity Act*,[12] which would prohibit premium increases from being used as a funding "offset" for spending proposals unrelated to the retirement system in the future.

- **Reform the Premium Structure to Reflect PBGC's Actual Needs**. As discussed, premiums are far higher than needed to sustain PBGC's single-employer program. Reductions could be enacted without jeopardizing the security of participants' benefits. Congress should consider a range of options, which might include:

[12] H.R. 4830 (117th Cong.)

  - Pause indexation of premium levels. Premium levels are automatically increased every year to reflect inflation; those levels could be immediately frozen.
  - Provide a premium holiday. Congress could grant a multi-year premium holiday to reflect that plan sponsors have effectively overpaid premiums for several years, resulting in a $44 billion surplus.
  - Provide a benchmark for PBGC funding. PBGC is currently 152% funded. While caution is appropriate, this level of overfunding is unwarranted. Congress could set a multiyear target funding benchmark (perhaps 110%) and structure premium levels to adjust to hit that target benchmark.
  - Any proposal to reduce or otherwise make premium policy rational ought not be paired with further onerous requirements on plan sponsors.

- **Strengthen Retirement Security by Giving Overfunded Plans Flexibility to Provide Enhanced Benefits**. For example, Section 606 of the SECURE 2.0 Act included an extension of longstanding policy under Section 420 of the Internal Revenue Code. That provision allows employers with generously overfunded pension plans to use a portion of surplus assets to fund retiree welfare benefits (health care benefits and group life insurance coverage) without jeopardizing the security of the underlying pension promise. This bipartisan policy was initially enacted in 1990 on a temporary basis, and SECURE 2.0 extended and enhanced the policy through 2032. The policy should be made permanent and expanded further to reflect the reduced portfolio risk overfunded plans generally assume.

  Additionally, overfunded retirement and retiree health plans should be permitted, subject to conditions, to use surplus assets to provide additional benefits for workers and retirees. The eligible benefits should include defined contribution benefits for active workers, so long as the defined benefit obligation is held sacrosanct. In other words, it makes no sense to "lock up" assets in excess of those that are necessary to safely provide the promised benefits when those funds can be redeployed to the benefit of workers. Under current law, an employer could access these surplus funds only in the case of plan termination. This reform would reduce one incentive to terminate.

- **Reform the Funding Rules**. Historically low interest rates during the 2010s coupled with the imposition of the Pension Protection Act's funding reforms resulted in pension liability increases and an acceleration of required plan contributions. To offset these shocks, Congress enacted both interest rate "smoothing" provisions and extended the amortization period under which plans have the ability to address funding shortfalls.[13] However, because of the operation of the interest-rate "corridors," some plans now face shortfalls under ERISA's funding rules despite virtually full funding under Generally Accepted Accounting Principles (GAAP). Congress intended interest rate smoothing to provide funding relief, not impose needless contribution obligations where they otherwise

[13] Most recently in the *American Rescue Plan Act of 2021*, sections 9705 and 9706.

are not financially necessary. Congress should give plans that are fully funded under accounting principles relief from minimum contribution requirements under ERISA's funding rules.

Conclusion

Large employers remain committed to providing for the retirement security of their workers and retirees, whether in the context of defined benefit plans or defined contribution plans. We would be pleased to work with Congress to provide a healthier ecosystem for defined benefit plans, remove disincentives to plan maintenance, provide more flexibility for defined benefit plan sponsors, and to reform the system to ensure it serves both plan participants and plan sponsors.



October 31, 2023

PROPOSALS FOR ENHANCING RETIREMENT SECURITY BY STRENGTHENING THE SINGLE-EMPLOYER DEFINED BENEFIT PLAN SYSTEM

The decline in the single-employer defined benefit plan system in the past 25 years has been alarming. For example, in 1998, 49% of the Fortune 500 companies offered a traditional defined benefit plan that was open to new salaried employees. By 2021 that number had declined to 3%.[1] Moreover, the decline accelerated starting in 2006, when premiums payable to the Pension Benefit Guaranty Corporation (PBGC) began increasing dramatically. From 1998 to 2006, the number of open traditional defined benefit plans decreased by about 50%; from 2006 to 2021, the decline was 87%.[2]

This paper includes:

- A brief description of the cause of the decline of the defined benefit plan system.
- A discussion of the role of PBGC premiums in causing that decline.
- Proposal No. 1, which adjusts premiums based on the PBGC's funded status, so that if PBGC is so well funded that it does not need the current level of premiums, premiums would be reduced.
- Proposal No. 2, which takes premium increases and decreases off budget, because premiums cannot be used for any purpose other than paying benefits and PBGC administrative costs.
- Proposal No. 3, which prevents an anticipated wave of plan terminations by permitting non-terminated plans to use surplus assets in a manner similar to what would be permitted if the plan were terminated.

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[1] "A Historical Look at the Retirement Plans of Today's Fortune 500, 1998-2021, WTW, March 2022.

[2] Id.

- Proposal No. 4, which permits unusable surplus assets in retiree health 401(h) accounts in pension plans to be used to shore up the retirement benefits in the pension plan and to provide other benefits.

- Proposal No. 5, which protects employers by reducing funding volatility and protects participants from benefit restrictions that take away earned rights.

- Proposal No. 6, which facilitates a growing type of traditional defined benefit plan, where benefits are adjusted to some extent based on plan asset returns.

- Proposal No. 7, which updates the accounting rules for market-based cash balance plans to base the valuation generally on the value of the notional account balances, which would materially improve the accuracy of the valuations.

- Proposal No. 8, which corrects a glitch in the law that punishes plans that provide more generous lump sum benefits.

Causes of the Decline

The decline in the defined benefit plan system was studied closely by the office of the PBGC Participant and Plan Sponsor Advocate ("the Advocate") in 2017 and 2018, which examined the cause of risk transfer activity. (Risk transfers are generally ways of shrinking or terminating a defined benefit plan by purchasing annuities or paying lump sums to discharge pension obligations.)

The study found that the top factors influencing plan sponsors' propensity towards risk transfer activity are accounting and earnings volatility, balance sheet liability management, funding volatility and PBGC premiums.[3] Two of these factors are within Congress' control: funding volatility and PBGC premiums, which have skyrocketed since 2005. Our proposals, as set forth below, address these issues directly.

Excessive PBGC Premiums are Driving Plan Sponsors out of the Defined Benefit System

As a result of the PBGC having run deficits in prior years, single-employer plan premiums were raised to extreme levels that are clearly no longer needed in light of the extraordinarily high levels of surplus in PBGC's single-employer plan system – currently $36.6 billion and projected to be $63.6 billion by 2032. [4]In fact, PBGC projects

[3] 2017 Annual Report of the PBGC Participant and Plan Sponsor Advocate

[4] https://www.pbgc.gov/sites/default/files/documents/fy-2022-projections-report.pdf

that by 2032, it will likely have $117.5 billion of assets and $53.9 billion of liabilities, resulting in *an astounding funding ratio of 218%.*[5]

PBGC's flat rate premium and variable rate premium have both more than quintupled since 2005 – the flat rate from $19 to $96 (indexed) and the variable rate from .9% of underfunding to 5.2%. In fact, under current law, *some plans that are well-funded on a funding basis could owe as much as $748 per participant in 2023.*

These excessive premiums are applying at a time when PBGC's exposure to risk is at a long-time low. In its 2022 annual report, PBGC estimated its "reasonably possible exposure" at $52 million, by far the lowest in many years – for example, this figure was $176 million in 2020 and $238 million in 2017. These "reasonably possible" liabilities rarely materialize in any material amounts. For example, since PBGC had a deficit of $10.9 billion in 2017 and now has a $36.6 billion surplus, it is clear that the reasonably possible exposure of $238 billion in 2017 did not become a reality.

The Advocate in her 2022 annual report recommended that "discussions should consider topics such as current premium levels and whether PBGC can or should raise the question regarding whether the high level of premiums undermines its mission to maintain the defined benefit system." The 2022 report included the following quotes from plan sponsors when asked about PBGC premium levels as part of the Office of the Advocate's 2018 Pension De-Risking Study:

> "The PBGC premiums have inflated way higher and way faster than anything that would be considered reasonably acceptable."
>
> "[T]he higher the premiums go, the threshold for where we'll de-risk, it just gets closer. It's purely [an] economic thing."
>
> "For us, if we freeze our plan, it will be no question because of the PBGC premiums."
>
> "We justified our [retiree annuity purchase] strictly on PBGC premium savings."

PROPOSALS TO ADDRESS THE DECLINE

As the decline of the single-employer defined benefit plan system has continued, many have discussed the need to incorporate elements of the defined benefit plan system into the defined contribution system. We support those efforts. But the most effective way to promote the beneficial components of the defined benefit system is to strengthen that system.

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[5] Id.

Strengthening the defined benefit system would (1) give participants access to guaranteed income for life, (2) ensure that spouse's rights to retirement benefits are protected, (3) protect participants from market fluctuations, and (4) allow retirees to use their defined contribution savings to address unexpected retirement costs, while relying on their defined benefit plan income to pay for everyday expenses.

PROPOSAL NO. 1

Automatically adjust single-employer plan premiums based on PBGC's funded status

In light of the harm being done by the excessive PBGC premiums, **the Council proposes a set of much-needed reforms described below, based almost entirely on a widely bipartisan bill (with some noted updates):** the Rightsizing Pension Premiums Act of 2017 (H.R. 3596, or "Kelly/Kind")[6] introduced in the 115th Congress by Representative Mike Kelly (R-PA) and then-Representative Ron Kind (D-WI) **with 136 bipartisan cosponsors**.

The most appropriate solution to the current excessive premium regime is to enact an automatic system that adjusts single-employer plan premiums based on the funded status of PBGC itself. Accordingly, under this proposal, PBGC's funded status would be determined by the U.S. Treasury Department under the same rules that Congress applies to private pension plans, except that interest rate stabilization would not apply.[7]

Under this proposal, premium levels would logically be reduced when PBGC is very well funded, as it is now, and increased back to current law rules if PBGC's funded status were to decline significantly.

- **Current law premium levels would apply if PBGC is under 90% funded.** The current levels of a $96 (indexed under the current rules) flat-rate premium and a 5.2% (not indexed) variable rate premium would be in effect whenever the average funded status of PBGC's single-employer plan program was less than 90% during the two fiscal-year period ending in the plan year two years prior to the current plan year. So, for example, if the current plan year is calendar year 2028, the two fiscal years taken into account would be the fiscal years ending September 30, 2025 and September 30, 2026. This multi-year lookback provides stability and predictability.[8] This same lookback rule applies to all the

[6] https://www.congress.gov/bill/115th-congress/house-bill/3596

[7] For this purpose, PBGC's liabilities would be based on all benefits that PBGC is required to pay, a broader definition than was used in Kelly/Kind.

[8] Kelly/Kind had a one-year lookback.

thresholds described below. In these circumstances, the current-law per-participant cap on the variable rate premium with current-law indexing would apply ($686 in 2024 plus future indexing).

- **Premium levels would be reduced if PBGC is at least 90% funded but not 100% funded.** If such average funded status was at least 90% but less than 100%, PBGC premiums would revert to a flat-rate premium of $64 (indexed starting in 2025),[9] a variable rate premium of 2.8% (not indexed),[10], and a $500 per-participant cap on the variable rate premium (indexed starting in 2025).

- **Premium levels would be reduced if PBGC is at least 100% funded but not 110% funded.** If such average funded status was at least 100% but less than 110%, PBGC premium levels would revert to a flat-rate premium of $30 (indexed starting in 2025), a variable rate premium of .9% (not indexed), and a $500 per-participant cap on the variable rate premium (indexed starting in 2025).

- **Premium levels would be reduced if PBGC is at least 110% funded but not 125% funded.** If such average funded status was at least 110%, PBGC premium levels would revert to a flat-rate premium of $19, a variable rate premium of .9%, and a $500 per-participant cap on the variable rate premium, none of these figures indexed.

- **A premium holiday – no premiums – would apply if PBGC's average funded status is at least 125%.**[11] Also, for any year for which Treasury does not measure PBGC's financial status, PBGC shall be deemed to be 125% funded.[12] (Since PBGC's average funded status over two years must be 125% to give rise to a premium holiday, this deeming rule will rarely if ever trigger a premium holiday.)

Congress' ability to modify premium levels would not be affected in any way. Congress remains able at any time to (1) adjust premiums regardless of PBGC's funded status or (2) modify any feature of the proposal, such as raising the 90% funded trigger.

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[9] The year in which indexing starts under this proposal has been updated from Kelly/Kind to reflect the fact that it is now six years later.

[10] In light of the provision in SECURE 2.0 recognizing that indexing a variable rate is not appropriate, the proposal does not index any of the variable rate premium rates.

[11] This last bullet was not in the Kelly/Kind bill, but much has changed since the Kelly/Kind bill in the summer of 2017. At that time, PBGC's single-employer plan program had a deficit of $20.6 billion; now the program has a surplus of $36.6 billion, which is expected to continue to grow, as PBGC itself projects.

[12] This was not in Kelly/Kind.

PROPOSAL NO. 2:

Premium increases and decreases should be "off budget"

As under the Kelly/Kind bill, since PBGC premiums cannot be used for any other governmental purposes, single-employer plan premium increases or decreases would not be taken into account in determining the budget effects of legislation. This concept is also incorporated in the Pension and Budget Integrity Act introduced in recent years.

PROPOSAL NO. 3:

Why many plans may soon be terminated and a proposal to reduce such terminations

For many years, single-employer defined benefit plans in the aggregate have had substantial underfunding, largely due to very low interest rates. This has led to very large contributions to such plans, but because of the low interest rates, the underfunding persisted for many years despite the large contributions.

Dramatic Rise in Interest Rates

Interest rates have risen dramatically, thereby decreasing the value of pension liabilities. Pension liabilities are valued using corporate bond interest rates, and the IRS publishes spot corporate bond interest rates on a monthly basis. https://www.irs.gov/retirement-plans/minimum-present-value-segment-rates For July of 2023, the short-term, mid-term, and long-term rates were 5.35%, 5.28%, and 5.10%, respectively. By contrast, in December of 2020, those three rates were .51%, 2.26%, and 3.01%, respectively. Even before the pandemic, the three rates were far below current rates; for example, for August of 2019, the three rates were 2.09%, 3.00%, and 3.61%.

Dramatic Rise in Funded Status

The increase in interest rates has had such a strong effect on pension plans' funded status that it has more than overcome the adverse asset returns of 2022. Milliman publishes a monthly pension funding index based on the funded status for accounting purposes of the 100 largest corporate defined benefit plans. As of July 31, 2023, ***the funded ratio for those 100 plans was 103.6%, with a surplus of $47 billion.***[13]

To put this in context, between 2002 and 2021, there was only a brief period in 2006 and 2007 when the Milliman 100 had a surplus; in all other years, the Milliman 100 had a funding deficit, often exceeding $200 billion. So we are now in new territory, with

[13] https://www.milliman.com/en/insight/pension-funding-index-august-2023

large surpluses for many large plans (though certainly not all plans, some of which still have material deficits).

Data from Morgan Stanley reinforces the point that pension plans are very overfunded.[14] As of April 30, 2023, the report estimated that "S&P 1500 pension-heavy companies are operating at a median status of 108%." Based on Morgan Stanley data, this is about 10 percentage points higher than at any time since 2001.

This overfunding is triggering a huge increase in pension risk transfers. For example, Morgan Stanley found that pension risk transfers, which were already very prevalent, increased 42% in 2022. So we are looking to the future and, as discussed below, strongly believe that there may be a broad wave of pension plan terminations in our near future unless reforms are enacted.

Implications of Many Large Plans Having Large Surpluses: A Likely Wave of Plan Terminations

Under current law, surplus assets in a defined benefit plans are permitted to be used to pay for nonelective contributions to a defined contribution plan, ***but only if the plan is terminated.*** Briefly, if a defined benefit plan is terminated, Code Section 4980(d) permits surplus assets to be contributed to a "replacement plan," including a defined contribution plan. In order to be a replacement plan, at least 95% of the active participants in the terminated plan who are still employed by the employer must be active participants in the replacement plan. The surplus may be allocated to participants as nonelective contributions to the defined contribution replacement plan over seven years.

Thus, under Section 4980, if plans want to use the large surplus that is building up ($47 billion from the top 100 plans alone), they generally have to terminate the defined benefit plan. For this reason, we could very easily see a wave of very large plan terminations in the next few years; in fact, it would be surprising if such a wave did not occur, especially since so many defined benefit plans are completely frozen (46% of the Fortune 500 have frozen their plan from 1998 through 2021) or closed to new hires (another 22%). WTW, A Historical Look at the Retirement Plans of Today's Fortune 500 1998-2021 (March 2022). If by terminating, an employer can tap into a multi-billion dollar surplus to pay for defined contribution plan contributions, that can be a powerful incentive to terminate.

Policy Implications of Plan Terminations

There are different views regarding the policy implications of plan terminations. Based on hard data, participant benefits are actually safer in the case of terminations

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[14] Morgan Stanley Research, *Snapshot: US Pension Plans Remain Overfunded*, May 7, 2023.

than they are remaining in the pension system.[15] But we also believe that defined benefit plans can for many workforces play a vital role in providing for retirement security. The termination of a defined benefit plan, even a frozen plan, makes it far less likely that the sponsoring employer will ever have an active defined benefit plan again. Thus, the expected wave of plan terminations is a serious issue for policymakers to evaluate.

Proposal

In order to avoid a material incentive to terminate, our proposal would permit plan sponsors to use surplus assets in a non-terminated defined benefit plan to pay for defined contribution plan benefits to the same extent that such surplus could be used if the plan had terminated under Code Section 4980, subject to the following conditions:

- **100% vesting of all benefits under the defined benefit plan**: If the defined benefit plan were terminated, all benefits must be 100% vested. If the surplus assets are used to fund a replacement plan under this proposal, benefits under the defined benefit plan must be vested to the same extent as if the plan had been terminated.

- **No reduction of benefits under the defined contribution plan for an extended period:** If surplus assets are used to fund a replacement plan under this proposal, benefits under the replacement plan may not be reduced during (1) the allocation period (i.e., the period during which the surplus is used to fund the replacement plan), plus (2) the next four years after the allocation period. This "maintenance of effort" rule is modeled after a similar rule under Code Section 420, which governs the transfer of surplus defined benefit plan assets to retiree health and life accounts. ***This is far more protection than would exist if the defined benefit plan were terminated; in the case of a plan termination, there is no restriction on reducing benefits under the replacement plan.***

- **Definition of surplus assets:** To deter terminations, the definition of surplus assets must not be too restrictive. For example, if "surplus assets" is defined as the excess of plan assets over 125% of plan liabilities, then this is likely to be ineffective in deterring plan terminations.

    - **Example:** Assume that a plan has $100 million of liabilities and $125 million of assets. Under a 125% rule, this plan could not use any of the surplus assets. Although the cost of terminating a plan varies materially, the cost of most plan terminations ranges between 105% and 110% of the liability of the plan, measured using the rules used to determine PBGC premiums (i.e., valuations based on asset fair market values and spot

[15] https://www.americanbenefitscouncil.org/pub/?id=176CFD9B-1866-DAAC-99FB-5894C9EF628C

interest rates). So under a 125% rule, the employer would likely simply terminate the plan to gain access to all or most of the surplus.

- **Proposal:** In light of the objective to deter terminations, this proposal sets the definition of surplus assets as the excess of plan assets over 110% of the value of plan liabilities used to determine PBGC premiums for the year of the transfer.

PROPOSAL NO. 4:

Allow transfers from overfunded Section 401(h) accounts to strengthen pension plans and other benefits.

In recent years, many companies have found themselves with very large amounts of surplus assets in their retiree health arrangements, held in either Section 401(h) accounts or VEBAs. In the case of 401(h) accounts, these surpluses are often completely unusable due to legal constraints. So, at a time when there is a great need for funds to pay for pensions or other employee benefits, billions of dollars of surplus assets are being held unusable in 401(h) accounts. **To address this issue, this proposal permits surplus Section 401(h) assets to be used for other benefits under certain conditions that provide security and protection for employees. Because employers would otherwise be deducting the out-of-pocket costs of providing such other benefits, the proposal is expected to raise a material amount of revenue.**

Under the proposal, any "surplus assets" in a 401(h) account would, subject to the protections and safeguards described below, be permitted to be used for other benefits in the following order, without any adverse tax consequences to the employer (i.e., no income tax, no reversion tax, and no additional deduction):

- **For pension benefits under the plan:** The first priority should be to ensure the safety and protection of the retirees and employees benefiting under the pension plan itself. Accordingly, if, as of the most recent valuation date for the plan, the related pension plan portion of the defined benefit plan is less than 110% funded (as determined under Code section 436(j)), but without interest rate stabilization), all surplus assets (as defined below) in the 401(h) account are first transferred to the defined benefit plan to the extent needed to attain such 110% funding. Of course, additional amounts of 401(h) surplus can be transferred to the defined benefit plan over the 110% level to make the plan even more secure.

- **For welfare benefits for active or retired employees (other than key employees):** Here are the safeguards and protections that would apply to the use of the 401(h) surplus for other benefits:

- **Definition of surplus assets:** Surplus 401(h) account assets would be defined as assets in excess of 125% of the present value of the benefits owed under the retiree health plan to which the 401(h) account relates, determined in accordance with applicable accounting standards, after taking into account all other funding with respect to such plan.
    - **Special rules to protect against creating surplus:** For purposes of determining the amount of surplus:
        - *Amounts attributable to 401(h) account contributions (which would not include section 420 transfers) after August 31, 2022 are disregarded.* An employer should not be able to make future contributions to the 401(h) account that create or increase a surplus and then use those previously deducted assets to, for example, pay for active employee medical benefits in later years.
        - *Reductions in benefits after August 31, 2022 are disregarded.* An employer should not be able to cut post-retirement health benefits in the future to create or increase a surplus that can be used for other purposes.
    - **Special rule for terminating pension plans:** If the pension plan is terminating with sufficient assets to pay all pension liabilities, then all assets in the 401(h) account not transferred to the defined benefit plan would be required to be transferred to a VEBA to pay for welfare benefits for active and/or retired employees (other than key employees) and their spouses and eligible dependents.
- **Assets must be held in trust:** To the extent that the surplus is not transferred to the pension portion of the defined benefit plan, such surplus must be kept in the 401(h) account to pay for benefits, as described above, or transferred to a VEBA dedicated to paying permissible VEBA benefits.
- **Defined benefit plan retirement benefits must become vested:** As in the case of transfers under Section 420, pension benefits must be vested in connection with any transfer from a 401(h) account or any use of surplus 401(h) assets for other purposes.
- **Maintenance of effort:** As under Section 420, any welfare plan for which surplus assets are used must not reduce employer cost for five years (or alternatively must not reduce employer-provided benefits for five years).

- **Facilitate use of this proposal to provide benefits to participants.** To facilitate the use of this proposal to provide benefits to participants, one conforming change would be made to Section 420. Under this conforming change, transfers described in Section 420(e)(7) shall be exempt from the limit in Section 420((b)(3) and from the requirement that they be used to pay for retiree liabilities to the extent that such transfers (1) create surplus assets in a 401(h) account, and (2) are used to pay for other benefits under this proposal. In such a case, the maintenance of effort provision under this proposal shall apply in lieu of the maintenance of effort provisions under current law.

PROPOSAL NO. 5

Reduce volatility in the funding rules and protect participants from unfair restrictions on their benefits.

- **Protect participants from benefit restrictions caused by volatile markets or interest rates:** If a plan falls below certain funding thresholds (generally 80% or 60%), plan benefits are restricted in certain ways. For example, if a plan falls below 80% funded, a participant who has been promised the option of taking her benefits in a lump sum, may only receive at most 50% of her benefit in a lump sum. With interest rate and market volatility, well-funded plans can fall below 80% funded, triggering a sudden loss of promised benefits unless the employer can quickly contribute enough to achieve an 80% funded level, which can be prohibitively expensive.
    - **Solution:** Require that the 80% threshold for paying lump sums is only triggered if the plan is below 80% in the current year and at least one of the two preceding two years. This would prevent sudden interest rate or market volatility from immediately triggering harm to participants.
- **Protect plans and participants from market volatility:** For funding purposes, plans are permitted to use the actuarial value of plan assets instead of using the fair market value of assets. Prior to the Pension Protection Act of 2006 (PPA), unexpected gains or losses with respect to plan assets could be recognized over five years for purposes of determining the actuarial value of assets, as long as the actuarial value of assets was within 20% of fair market value. PPA reduced the five-year period to three years and required the actuarial value of assets to be within 10% of fair market value.
    - **Solution:** Return the law to the pre-PPA rule. As noted by the Advocate, one of the key factors driving employers out of the defined benefit plan system is funding volatility.

- **Example**: Assume that a plan was 87% funded for 2021, with $115 million of liabilities and $100 million of assets. Assume further the that the plan was generally invested in large cap equities in 2022 and lost 20% in 2022.[16] So, disregarding expenses, contributions, and benefit payments for simplicity of presentation, the plan's assets started at $100 million and fell to $80 million by the end of 2022. Assume further that the plan's liabilities stayed constant at $115 million. Under current law, the plan's actuarial value of assets would be $88 million (within 10% of fair market value), triggering an immediate additional funding shortfall of $12 million. **Also, this reduction in assets would make the plan 76.5% funded, triggering benefit restrictions, as noted above.**

  Under pre-PPA law, the unexpected loss – which could be $25 million ($20 million plus the failure to gain an expected 5%) – would be spread over five years, so only $5 million of loss would be recognized in 2023, leaving the actuarial value of assets at $95 million (within 20% of fair market value), triggering a more manageable surprise additional funding shortfall of $5 million. (Obviously, the $25 million loss would be fully recognized over five years.) **Also, this reduction in assets to $95 million keeps the plan funded over 80%, thus avoiding benefit restrictions.**

- **Further protect plans and participants from interest rate volatility:** Recent changes in the law have done much to protect plans and participants from volatility attributable to interest rate fluctuations. But one key issue was not addressed. Code Section 430(h)(2) allows plan sponsors to value pension liabilities based on either (1) interest rates averaged over certain periods of time, or (2) spot interest rates. If a plan uses averaged interest rates, it can switch to spot rates at any time. If, however, a plan uses spot interest rates, it cannot switch to averaged interest rates without the approval of the IRS. It hardly seems fair or appropriate to lock a plan sponsor into volatile spot interest rates indefinitely.

  - **Solution:** Permit plan sponsors to elect either spot rates or averaged rates, subject to restrictions on switching back and forth too frequently to game the system (such as no more than three switches in 10 years).

- **Protect participants from losing benefit rights in well-funded plans:** Current law contains a very odd penalty on both (1) employers that make additional unrequired contributions to improve the funded status of their plans, and (2) participants in those plans.

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[16] The S&P Index lost 19.44% in 2022.

- **Example:** Assume that a plan has $100 million of liabilities and $80 million of assets. In order to get to 80% funded, the employer contributed $10 million more than what was required, creating a "funding balance" of $10 million (like a prepayment credit that can be used to offset future contribution obligations). In determining whether the plan is at least 80% funded for purposes of the benefit restrictions, the plan is treated as 70% funded because the funding balance is disregarded (unless the employer waives the funding balance) That does not make sense. First, the benefit restrictions are aimed at limiting participant benefits for a plan that is under 80% funded. This plan is not under 80% funded. So, participants lose benefit rights for no reason. Second, this rule discourages employers from making unrequired advance contributions; this is bad policy, since we want to encourage, not discourage, advance contributions.

- **Solution:** In determining whether the benefit restrictions apply, all assets of the plan would be taken into account. And all funding balances that had been waived by reason of the benefit restrictions would be permitted to be restored for the first plan year for which this proposal is effective.

PROPOSAL NO. 6

Facilitate a new type of defined benefit plan that could become quite popular

A new type of plan – a type of variable annuity plan – has emerged that combines a traditional defined benefit plan structure with a limitation on employers' risk, which could become quite popular. Basically, the plan is a traditional defined benefit plan that adjusts benefits based to some extent on the return on plan assets. Participants receive protections from benefit reductions based on an asset reserve created in the plan. The reserve is built in multiple ways, including by capping the asset returns passed through to participants. In short, participant benefits vary based on plan asset returns, but benefits are stabilized, so that participants do not experience the full ups and downs of asset fluctuations.

These plans are being maintained today and are being received very well. But there are small technical uncertainties that are hindering their further growth.

- **Issue No. 1:** It is very difficult to immediately adjust benefits in year 2 based on year 1's asset returns, yet this is being required by the IRS in order to approve these plans. So, the first fix would be to permit benefit adjustments based on asset returns in a year ("asset year") to be made in the second year following the asset year.

- **Issue No. 2:** The current regulations do not provide guidance regarding how to calculate a lump sum benefit for plans of this type. The second fix would be to direct Treasury to, within one year of enactment, specify how lump sums are to be calculated in this type of plan.

- **Issue No. 3:** As noted, in order to protect participants from benefit losses, the plan creates an asset reserve. Using this reserve to protect benefits requires a plan amendment, which could happen several years in a row if the market has a difficult stretch. Under current law, if a benefit amendment is made repeatedly, it might be treated as a right to which participants are entitled. This would not be workable because the reserve could run low. Thus, the current rules discourage employers from using the reserve too often, which hurts participants. So, the third fix would be to provide that amendments to use the reserve do not create rights to future such amendments.

PROPOSAL NO. 7

Update accounting rules for cash-balance plans

There is increasing interest in market-based cash balance plans under which, for example, interest credits on the notional account balance could be based on the return on plan assets (subject to the capital preservation rule). Unfortunately, the current accounting rules treat such plans in a way that is both inaccurate and generally adverse for the plan sponsor. The accounting rules determine the projected benefit obligation (PBO) by projecting forward to normal retirement age at a reasonable projection of the return on plan assets. Then, that projected value is discounted back at the discount rate required under the accounting rules, which can be materially lower than the projected earnings on plan assets. The result of this projection forward at one rate and discounting back at a lower rate creates a type of accounting whipsaw under which the PBO can be materially higher than the sum of the notional account balances. This does not reflect the economic value of the liability.

To address this current inaccuracy, the accounting rules should be updated to provide that either (1) the projected rate is the same as the discount rate, or (2) the PBO equals the sum of the notional accounts. Either approach would need to be supplemented with certain adjustments, such as in the case of annuity payments from the cash balance plan.

PROPOSAL NO. 8

Eliminate a penalty on employers that provide more generous benefits

ERISA Section 205(g) and Code Section 417(e) provide a ceiling on the interest rates that can be used to value distributions, such as lump sum distributions. In determining these interest rates, employers are permitted to use a "lookback month" that is up to five months before the beginning of the year. Generally, the anti-cutback rules prohibit changing the lookback month, but if the employer uses the highest interest rates permitted (the least favorable for employees), a special rule permits a change in the lookback month if for the next year the plan compares the new and old lookback month and uses the more generous interest rates.

Although the law provides a ceiling on interest rates, employers are permitted to establish lower interest rates that provide larger lump sums to participants. Under current law, these employers are not permitted to change their lookback month, for no apparent policy reason. Some such employers would like to change to an earlier month, so that employees have more advance notice of changes in their lump sum value.

Under this proposal, the option to change the lookback month would be permitted for plans using interest rates that are more generous than required by law, as long as the amendment has a delayed effective date of at least one year, so as to protect participants from sudden changes. After any such change in the lookback month, the lookback month may not be changed again for five years without IRS consent. This proposal would not affect plans that use the full 417(e) interest rates, since present law already addresses those plans.

This proposal was in Section 402 of the Retirement Security and Savings Act of 2021 (S. 1770 in the 117th Congress, sponsored by Senator Ben Cardin (D-MD) and then-Senator Rob Portman (R-OH))[17], and in Section 402 of the Retirement Plan Simplification and Enhancement Act of 2017 (H.R. 4524 in the 115th Congress, sponsored by Representative Richard Neal (D-MA)).[18]

ADDITIONAL PROPOSALS

The Council has developed a number of other proposals to streamline defined benefit plan administration and make the rules fairer for non-highly compensated employees. We look forward to sharing these additional proposals as the process moves forward.

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[17] https://www.congress.gov/bill/117th-congress/senate-bill/1770

[18] https://www.congress.gov/bill/115th-congress/house-bill/4524

Newsweek

OPINION

The Last Thing Americans Need Is Another Broken Federal Retirement Program | Opinion



LEE ZELDIN, *FORMER U.S. REPRESENTATIVE*
ON 5/4/23 AT 9:37 AM EDT

This won't come as a surprise to anyone who follows politics, but the federal government is messing with a good thing again. New legislation could put the United States Treasury Department in control of investing your retirement savings.

Last year, Congress introduced the Retirement Savings for Americans Act, claiming to "improve retirement security and financial well-being for low- and middle-income American workers" by establishing a new federal program. But this proposal for a new Treasury Department-run federal program is setting off alarm bells.

Private industry has been handling Americans' retirement accounts successfully for years. Recent data indicate more than 100 million Americans participate in some sort of retirement plan, which is a perfect complement to their Social Security accounts. The federal government should continue to encourage private retirement plans and create an environment where employees have more money to invest in those plans.

Instead, under this new bill, employers would be mandated to enroll their employees in a new federal program if the business does not offer a retirement plan. That's right, mandated.

On top of that, Congress has already enacted two major retirement policy bills in recent years with provisions specifically designed to encourage small employers and gig workers to adopt retirement plans.

Meanwhile, Social Security continues its death spiral without any real action to preserve and protect it. Most analysts expect the program to run out of money in the next decade unless benefits are cut dramatically or taxes are raised by an obscene amount.

And yet here we are, with the federal government looking to get its hands on more of your hard-earned money so it can set up another massive government retirement program. Isn't one looming disaster enough?

But wait, there's more. The investment decisions for this new fund would be made by government bureaucrats. Unlike the Thrift Savings Plan for federal employees, which is run by an independent board, this new fund will ultimately be controlled by political appointees at the Treasury Department. Can you imagine the instability inherent in a situation where investment decisions can shift based on which party is in power? The current fight over environmental, social, and governance investment is just a preview of what we can expect if this bill were to pass.

As if you needed even more reasons this is such a lousy idea, here's one more: the American Worker Retirement Fund would not be subject to many of the laws and regulations under the Employee Retirement Income Security Act and the Internal Revenue Code that apply to private sector 401(k) plans. This means the protections consumers currently enjoy with their retirement savings would disappear were they to place their funds into this new system.

Retirement savings are important, and I applaud Congress for working to make it easier for people to save. But there are already myriad ways for consumers to meet their retirement needs, and to do so with robust protections that carry no concerns about how political instability might impact their savings. Not to mention the fact that Congress has already made saving even easier with recent legislation. Maybe we should give all that a chance before creating Social Security 2.0.

Lee Zeldin served as a Member of Congress from 2015-2023, where he served on the Committee on Financial Services.

NEWSMAX

OPINION

Worry When Gov't Pushes Their Retirement Plan



(Dreamstime)

By **Bill Wirtz**
Monday, 12 June 2023 03:24 PM EDT
Current | Bio | Archive

A new bill — the "Retirement Savings for Americans Act of 2022" — aims to create a new government-managed retirement fund for workers that do not have access to a workplace-based retirement plan. The legislation may seem to have laudable aims, but don't let it fool you. It is nothing more than the government's latest push to nationalize Americans' retirement accounts.

Retirement plans are a headache for most consumers. It takes time and energy to understand their specifics.

Employees get to make choices about their plans through profit sharing or stock bonus plans — a system that gives workers in the United States more options and choices than most other countries. This system puts more responsibility on the individual to make choices for their retirement, especially for those who do not have an employer-set plan, such as gig workers.

This new bill would create the American Worker Retirement Fund, which, unlike existing 401(k) plans, would not be subject to many of the laws and regulations of the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code.

By offering a government match tax credit, the "money grows on trees" fund would be more generous than private sector plans This appears to be intentional by design in an attempt to steer the American public away from using private accounts altogether.

Workers already have access to affordable retirement plans, many of which are incentivized by federal government programs, such as multiple employer plans (MEPs). The federal government also offers strong tax credits for small companies that adopt new plans.

For example, gig workers can already open individual retirement accounts (IRAs), allowing them to, at low fees, save for their retirement and migrate existing plans from previous employers. Nearly 29% of U.S. households have traditional IRAs, making it (still) the most common type of retirement account in the country. There is absolutely no marketplace need for the government here.

Not only is a government option unnecessary, but it would also be costly, inefficient, and counterproductive.

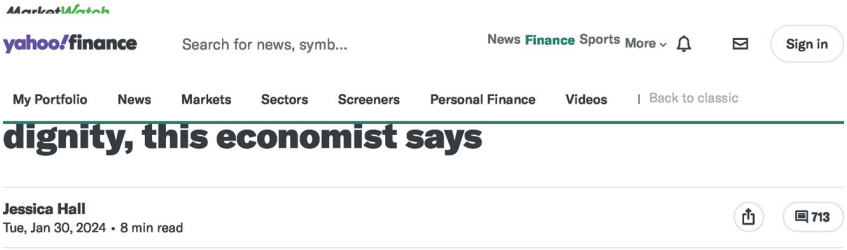
Governments don't exactly have good track records in this space. Everyone knows that Social Security's bankruptcy is right around the corner, but many have already forgotten about the "myRA" program under the Obama administration retired soon after the U.S. Treasury adopted it because of its high price point for and low sign-up rate.

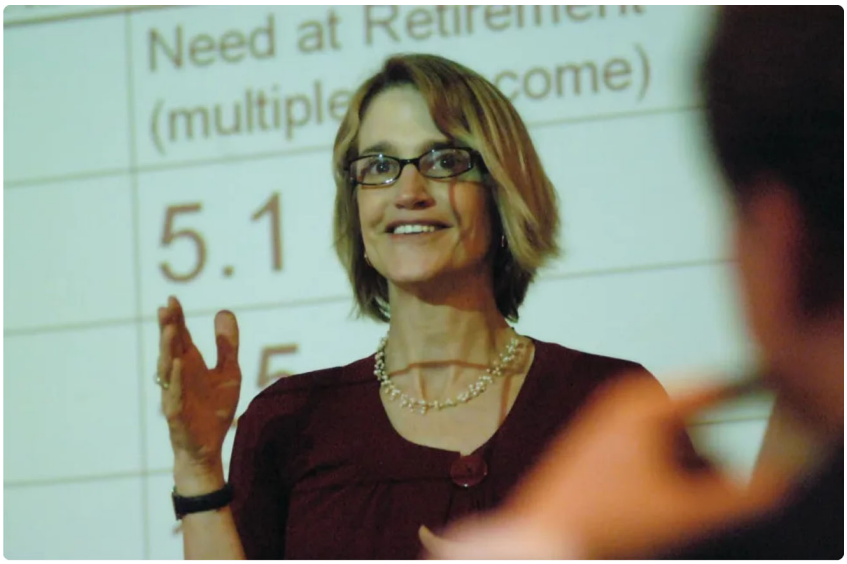
Ultimately, however, both history and recent events have made clear that the public is likely to reject this type of approach.

From the unsustainable nature of the German pension fund, which is expected to collapse under the weight of an aging population, to the violent protests over raising the retirement age in France, it is clear that government bodies are uniquely unqualified to provide retirement services to the people they serve.

They are expensive, inefficient, and lead to politicization, and this new bill would provide no exception to this rule of thumb.

Bill Wirtz is the senior policy analyst at the Consumer Choice Center, focusing on new technology, agriculture, trade and lifestyle regulations. He recently published "No Copy-paste: What Not to Emulate from Europe's Agriculture Regulations."


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Teresa Ghilarducci is the author of the new book "Work, Retire, Repeat: The Uncertainty of Retirement in the New Economy." - University of Chicago Press

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Teresa Ghilarducci thinks older adults shouldn't have to work in retirement. She wants people to stop feeling shame about the size of their retirement accounts, and envisions a "Gray New Deal" that creates job and pension improvements for older Americans.

Those positions may be surprising for a labor economist.

But Ghilarducci is also a professor at the New School for Social Research and an expert on retirement security who explains complicated subjects in an accessible way. She has authored several books and papers, and her latest book, "Work, Retire, Repeat: The Uncertainty of Retirement in the New Economy," talks about how employees are laboring in the broken U.S. retirement system.

As American society urges people to work longer, this takes a disproportionate toll on middle- and lower-income people who may not have the ability to work longer in physically demanding jobs, Ghilarducci told MarketWatch in an interview.


TERESA GHILARDUCCI
WORK
RETIRE
REPEAT
THE UNCERTAINTY OF RETIREMENT
IN THE NEW ECONOMY

FOREWORD BY E. J. DIONNE JR.

- University of Chicago Press

Fifty percent of women and 47% of men between the ages of 55 and 66 have no retirement savings, according to the Census Bureau.

Ghilarducci calls for a Gray New Deal as a public-policy imperative. Today's do-it-yourself retirement system — in which workers fund their retirement through 401(k)s, savings and sheer grit — is not working, she said. This interview has been edited for length and clarity:

MarketWatch: You've written several books. What did you still want to say in this new book?

Ghilarducci: My other books really focused on how to have enough money for retirement. This is a different subject about the policy push to work longer. We have a retirement crisis that's a complex problem and expensive to fix. People retreated to the safe place that we can't fix it. They say, "We have to work a little longer," and that's the solution.

My experience with the rest of the world was that they did not have this sense that working longer was the solution. Other countries have 25- to 30-year work lives and have a dignified old age. This working-longer idea robs us of a dignified old age, which we deserve. There's a cost to our bodies and our lives in working longer.

MarketWatch: Can you talk about the Gray New Deal, what it entails and how insurmountable it may be to see it come to fruition?

Ghilarducci: We have a responsibility to rethink how people work and retire from that work. If you do not ignore the retirement period — people are entitled to retire — there's got to be new ways to think about it. It has to be part of public policy. It has to be as encompassing as the original New Deal. Ninety percent of workers have no problem embracing this idea of retirement, but 53% of retired people when surveyed say they didn't choose when to retire. They were laid off or their bodies wore out. Workers get it that they won't be able to work until they're 62, and working to 70 is nearly impossible for most.

Policy makers, meanwhile, have better, easier jobs. No one's telling them what to do — they are telling other people what to do. It makes them a bit unsympathetic. But if they hear enough from workers — there's lots of support for Social Security. I'm hopeful.

MarketWatch: The demographic bubble known as Peak 65 is happening this year, with a historic number of people turning 65. What will this mean for society, the economy and our culture?

Ghilarducci: Peak 55 happened 10 years ago, and people got really nervous about their retirement savings. Now it's Peak 65, and all illusions about what's possible are gone. There will be 35 million people realizing that their work lives are over and the money won't stretch. We'll have a sea change in views on Social Security. There's no stomach among voters for benefit cuts. There's a bill in Congress — from [Democratic Sen. John] Hickenlooper, [Republican Sen. Thom] Tillis, [Democratic Rep. Terri] Sewell and [Republican Rep. Lloyd] Smucker — that calls for a government match. It gets the individual employer out of it and focuses on the worker and the government.

Peak 65 shows me that the population is aging, and older people vote. There's also an electorate that's younger, and they support Social Security. They're struggling with student debt and they are financially sophisticated. They're learning about compound interest in high school. There's a groundswell of concern about their parents. There's also women in their late 40s and 50s who are having to take care of older parents. Not only are they taking care of older parents, but a lot of the care costs are coming out of their own retirement savings. They're also giving a lot of their own time to provide care that they could be using for work, making more money and providing for their own security, and they're not.

MarketWatch: Does increased longevity mean increased senior poverty?

Ghilarducci: We started charting higher levels of increased poverty years ago — millions of people living in de facto poverty. As the numbers of people go up, the rate and number of people in poverty will go up. The ghoulish good news is that people living in poverty don't live as long. There's a real inequality in longevity, in that the people with means are living longer. That inequality is real.

MarketWatch: In your book, you talk about how working longer weakens political pressure to expand Social Security and employer retirement plans. How so?

Ghilarducci: It could cost $1 trillion to bring Social Security up to full benefits. It would be spread out over decades, but it's still a lot of money. Workers and employers have to set aside money for retirement. Workers also have to pay for emergency savings, housing, student debt. The urgency on the retirement crisis dissipates when people say everyone can work more years, and by working for more time, they won't draw on Social Security. But that's like saying, "Hey, we can afford lunch by not having lunch." And people can just work longer? That's not realistic. There's a push to have everyone in the labor pool and a spate of work to end age discrimination. But a lot of that is turning the other way.

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WORK, RETIRE, REPEAT

The Uncertainty of Retirement in the New Economy

Teresa Ghilarducci

WITH A FOREWORD BY
E. J. DIONNE JR.

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To Joseph Ghilarducci O'Rourke and
Julian Rowan O'Rourke—to your futures.

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Foreword

E. J. DIONNE JR.

In recent decades, our society has largely given up on the idea that a dignified retirement should be the right of every worker in our affluent nation. Most private-sector workers are no longer guaranteed fixed pensions—not because they chose that option, but because employers and government policy have pushed almost everyone into a system where there are no guarantees.

Our debates over retirement rarely look at what this means for middle- and especially lower-income workers—people whose life expectancies, on the whole, are shorter than those who earn higher incomes. In fact, to the extent that these issues are discussed, the arguments are heavily tilted toward proposals to cut back Social Security, typically by raising the retirement age.

Oh, yes, and the elderly who are being told to work late into their lives are also told that they have to live with widespread, informal (if technically illegal) age discrimination.

This book is aimed at shaking up the debate over retirement and shining the bright light of research and analysis on a problem that is so often misdescribed and misunderstood. Teresa Ghilarducci is an economist who has always looked at the world from the bottom up. This perspective allows her to see dimensions of the issues surrounding pensions and savings that often elude those who examine these questions from comfortable quarters and abstract spreadsheets alone.

Ghilarducci, it should be said, is highly skilled when it comes to spreadsheets and data. In fact, she knows that in this argument, good

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data, properly understood, is her friend. But there is humanity—and at times righteous fury—in these pages, so often missing from bloodless policy arguments. Innovatively, she focuses intensely on how economic inequality shapes the experience of people to the very end of their lives. The result: readers are encouraged to look afresh at problems they thought they already understood.

"We have both a tale of two retirements and two old-age labor markets," she writes, adding that "where you sit completely shapes which policies you think should be passed." "At the top," she continues, "people are living longer and healthier and choosing meaningful jobs in old age. Meanwhile, the middle and lower economic classes have much smaller increases in longevity, and they are either struggling in retirement without enough income or trying but failing to find good jobs."

It's important to take note of what Ghilarducci is saying here. She is emphatically *not* against people continuing to work after they are 62 or 65 or 70—or even older. In both theory and practice, I emphatically agree. Being able to do meaningful work later in life is an enormous blessing. It's good for individuals and for society alike.

But she is rightly against pension and retirement policies that *force* those who often live shorter lives to scramble in their final years to find even bad jobs just to keep the lights on and their pharmaceuticals and groceries paid for. Those modest goals are often a challenge for those at the bottom of the wealth and income structure. "Nearly half of all families in the U.S. have no retirement savings," she writes, "and the cost-of-living Elder Index reveals that about 50 percent of older adults living alone are in precarious financial situations."

Implicit in her argument is a critique of the "three-legged stool" theory that elders get sufficient income from a combination of Social Security, employer-based pensions, and personal assets. Americans at the top and some in the middle of the income distribution may have a sturdy-enough perch. But for many, the stool is missing two of its three legs.

Our system's "poor design," she notes, means that "most workers don't voluntarily save for retirement, because it is simply not

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economically feasible." Exacerbating this inequality, government subsidies—the tax incentives for various savings options—mostly go to higher-income groups.

As for those who think it's easy for older Americans to find work, she urges readers to consider the research of journalist Peter Gosselin and Urban Institute economist Rich Johnson. They found that the labor market for older workers is filled with "discrimination and desperately low wages."

Her conclusion is that "working longer is not the solution to bad retirement policy. In fact, working longer is causing an insidious problem—eroding both the quantity and quality of older people's years. Not only is retirement—which is precious time before death—slipping away but also retirement time is also becoming more unequal."

For Ghilarducci, it's time to make a commitment to "an adequate pension" part of our social bargain.

Note, by the way, the modesty of her demand, which would nonetheless be transformative. She is talking about "adequate," not lavish. But adequate income at retirement would make a big difference: "An adequate pension is crucial . . . to whether one has a choice to spend their sixties and seventies working for pay or not. It is this time of life and the quality of time in old age for low-income and middle-class workers that is rigorously contested."

The choice she poses is stark: "We can continue pushing older people to work longer out of sheer necessity—risking their health, keeping them precarious, and destabilizing the larger economy—or we can embrace and reinvigorate a universal pension system that enables old folks to retire in dignity and comfort if they wish."

This book is important for another reason. Too often, rationalizations for paltry or nonexistent pensions and big Social Security cuts are rooted in contrived generational warfare. The (false) claim is that providing a decent retirement for workers across classes forces cuts in needed programs for children, such as universal childcare and preschool, and help for pregnant women and young parents. Surely you've heard the ugly phrase "greedy geezers," as if every older

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person were enormously affluent, rolling across magnificent fairways on a golf cart?

Moving the discussion toward generations is a way of evading the deeper issue of class inequality. For starters, policies that assist low- and middle-income people early in their lives (by, for example, tilting the tax code in their favor and providing savings incentives geared toward those with the least rather than the most) would strengthen the capacity of workers to save for old age.

It's also no accident that those who call for cuts in social spending for the aged often oppose programs to help kids from poor and middle-income households, too, such as an expanded Child Tax Credit. It's entirely true that health-care costs for the aged are high and largely assumed by the government through Medicare (and often Medicaid). Yet so many who complain about those costs often oppose efforts to push down the prices of prescription drugs and other reforms in the system.

Does the retirement of the baby boomers cause fiscal challenges? Of course it does. It is painting with far too broad a brush to say that anyone who worries about deficits is automatically an enemy of a decent retirement for all. But the solution to these problems cannot rest on the shoulders of low- and middle-income elderly Americans who already live with policies that delay the age of maximum benefits under Social Security to 70. The answer to inequities in government policies as they affect poor children and wealthy seniors is not to trash retirees but to insist on a more progressive structure of taxes and tax incentives across generations. It's odd that those who complain about those retirees in golf carts when they make a case for Social Security or Medicare cuts are often not at all enthusiastic about proposals that might tax the wealthiest, including seniors, a bit more heavily.

And those who are worried about the nation's fiscal position need to pay close attention to a key component of Ghilarducci's argument: the retirement crisis cannot be handled by Social Security alone, with the entire cost of a decent old age for all placed on the shoulders of taxpayers. One of the central purposes of this book is to show how we have let private pensions atrophy and have provided far too

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few savings incentives for those who need them most. Ghilarducci is critical of the three-legged stool metaphor not because she's against stools but because they collapse when one or more of the legs are defective or missing entirely.

My hope is that this eloquent, strongly argued, and well-documented book will provoke a broad new debate. Many readers—including some sympathetic to Ghilarducci's overall perspective—may disagree with some of her specific and admirably detailed policy proposals. Let them join the constructive fray. But a warning: her critics will (or at least should be) compelled by her case to describe what they think old age should look like and to explain whether they believe that a longer work life is fair to those likely to have a shorter life expectancy. Also this: if they really want seniors to work longer, how they will provide them with the decent work opportunities they claim are available?

I suspect that for some readers, Ghilarducci's analysis will come as a surprise: They will be taken aback by the extent to which our retirement policies have moved backward. But they and many others will experience a sense of relief in encountering a powerful case for reform, social decency, and a vision of retirement rooted in respect for the humanity and aspirations of us all.

E. J. Dionne Jr. is university professor at Georgetown's McCourt School of Public Policy, senior fellow at the Brookings Institution, and a columnist for the *Washington Post*. His books include *100% Democracy* (with Miles Rapoport), *Code Red*, *Our Divided Political Heart*, and *Why Americans Hate Politics*.

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PART I

How the Working-Longer Consensus Made the Retirement Crises Worse

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1

The Erosion of Retirement and the Rise of Retirement Inequality

Around Christmas time in 2022, a local businessman from Cumberland, Maryland, chatted with an 82-year-old US Navy veteran, Warren Marion, who was working at Walmart.[1] The younger man, Rory McCarty, had seen a fundraising campaign helping another 82-year-old Walmart worker to retire, Mrs. Carman Kelley, who used a shopping cart as her cane. So, he made a TikTok video and started a GoFundMe page, where he wrote: "I was astounded seeing this little older man still grinding. Working 8- to 9-hour shifts." The money flowed in, and because of it, with over $100,000, Marion said he could retire: "What else can I say? I can't wrap my mind around it. What this is going to do for me at 82 years old is allow me to pay all my bills off, including my house, and I will have nothing but my utility bills. I'll be able to travel to Florida whenever I feel like going and to see my kids. I'm very, very blessed."

Is this what America's retirement system has come to? People work until someone does a random act of kindness and collects money on TikTok. Are we heading for a TikTok pension system? If we are, we would need millions more GoFundMe accounts for working people older than age 75 who can't retire.

Long, Deep Cracks in the Retirement System

In 2019, even before the pandemic and subsequent economic meltdown, when jobs were plentiful, many older workers faced downward

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mobility—over 40 percent of older middle-class workers were on the path to becoming poor or near-poor retirees.[2] In the midst of the pandemic, I was quoted in a front-page story in the *New York Times* noting that older workers weren't retiring by choice. For workers with earnings at or below the national median, 52 percent of retirements were involuntary: "By contrast, among the top 10 percent of earners, only 10 percent of exits were involuntary." "It's a tale of two retirements," I said.

If older workers had good pensions, then taking a dignified off-ramp to retirement would make good sense. Pensions may seem like a throwback to an earlier, grittier age when jobs were hard and people were less educated and died sooner. The truth is pensions are needed now more than ever. Working longer is not the "freebie" it is made out to be. Working longer means giving up well-earned rest in old age. Older workers are in warehouses or doing home health care and other jobs that require a great deal of physical labor and intense concentration. For some, working longer means aging more quickly and dying sooner.[3] For most people, the only way working longer boosts retirement finances is grotesque: when they finally retire, they are closer to death.

We have both a tale of two retirements and two old-age labor markets.[4] Where you sit completely shapes which policies you think should be passed. At the top, people are living longer and healthier and choosing meaningful jobs in old age. Meanwhile, the middle and lower economic classes have much smaller increases in longevity, and they are either struggling in retirement without enough income or trying but failing to find good jobs.

Diana Sanger (profiled by *NBC Nightly News* in October 2021), who helps takes care of a grandson with autism, spent all her free time searching for a job after being laid off during the COVID-19 pandemic. "Do you know what it's like to find a job when you are 70, no one wants to hire you, and you can't find a job with benefits and some paid time off?" Diana may be facing discriminatory prejudice, but employers also avoid older workers because they face higher costs for employing them.[5] Average monthly health spending per worker is twice as great for those aged 60–64 than it is for those aged

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30–34.[6] On *NBC Nightly News*, the journalist Harry Smith asked Diana if she would ever retire: "I will die at my job; that's when I'll be able to retire."[7]

Sanger's story is in deep contrast to Howard Lieberman, age 69, who told the *New York Times* in 2022 that he is winding down his consulting business because his wife retired from teaching during the pandemic, and they want to go camping and volunteer.[8] Now, post-COVID-19, that the economy has recovered, why can't these folks just jump back into the labor market? Getting a new job when the economy recovers is not so simple for older workers.[9] The pandemic recession may have produced more Sangers than Liebermans. The COVID-19 recession may push an additional 1 million older workers into poverty in old age.[10]

As we might expect, low-wage older workers (aged 50–60 and earning less than $47,600 in 2020)—such as those toiling in retail, janitorial services, and health care—were more likely to lose their jobs in the recession.[11] Two-thirds had no savings, and for those who did, their average retirement savings were just about $42,000.[12] Middle-class older workers (earnings greater than $48,000 and lower than the Social Security earnings cap of $137,700 in 2020) did a little better, but not very well.[13] Of them, 41 percent had no savings, and those who did had median savings of $101,000. Those who lost their jobs were worse off: they will have less than $5,000 in savings at age 65.[14] It is no surprise poverty rates for middle-income older workers who lose their jobs will increase from 38 percent to 42 percent between 2020 and 2030.

Higher-earning older workers were safer from recession's harm but not completely safe. A whopping 27 percent of these better-off folks—with earnings above $137,700—have nothing but Social Security to rely on in retirement.[15] Astoundingly, the COVID-19 recession is expected to double the number of high earners who end up in poverty in old age.

Moreover, 40 percent of the 21 million people who live in households with an older worker but aren't poor yet will be if they must retire at age 62. Even if all those middle-class older workers delayed retirement until age 65, the number of downwardly mobile would

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still be substantial, about 5 million.[16] And these households are more in debt than they were a decade ago. An Urban Institute study showed that 61 percent of households with people aged 65 and older had debt in 2016, up from 38 percent in 1989.[17] When people's debt rises, they become more economically desperate and thus more vulnerable to need work of any sort.

Needing to work in old age marks our times. Nearly half of all families in the United States have no retirement savings, and the cost-of-living Elder Index, developed by the Gerontology Institute at the University of Massachusetts Boston, reveals that about 50 percent of older adults living alone are in precarious financial situations.[18] The relentless erosion of pensions and the unreliability of other kinds of retirement accounts tied to fluctuating financial markets heightens inequality between people as they age. The retirement crisis also dooms us to watch many more millions of elderly people ending up in poverty, struggling in a job, and adding to the unemployment lines.[19] This humanitarian and economic crisis is on the boil.

So, with such a large and financially precarious American older worker population, you would think that the president and Congress would be facing a national outcry. But politically, the grim reality is that this situation has elicited a big shrug. I think I know why.

The prevailing view is that individuals should save for their retirement—and if they don't have enough money in retirement, it's their own fault—after all, they can work more. Working more and longer is, not surprisingly, a mantra emanating from industry and many policy makers. In lionizing a fall 2019 report, *Working Better with Age*, published by the Organisation for Economic Co-operation and Development (OECD), the pro-business magazine the *Economist* concluded uncritically that "employment of older workers is vital if prosperity is to be maintained."[20] In this starry-eyed scenario, elders should retrain to become the economy's "silver surfers"—"surfing" for computer technology—to save prosperity. Retraining advice is often paired with a shaming message: "If you don't have enough money to retire, it is your fault for not having kept up."

But it turns out that working longer is not the solution to bad retirement policy. In fact, working longer is causing an insidious

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problem, eroding both the quantity and the quality of older people's years. Not only is retirement—which is precious time before death—slipping away, but also retirement time is becoming more unequal.

I can already hear the pushback from elites. After all, in 2024, the president of the United States is 81; and the most powerful Republican in the Senate, Mitch McConnell, is also 81. If they can do it, shouldn't we all? Elon Musk's septuagenarian mother is a supermodel—it may seem we are all living longer, we can all be beautiful as we age, and we all can work more. From Washington's perspective, 64—about the age most Americans are retiring now—seems just the right age to launch your presidential and congressional career. A third act for a rather elite bunch.

But the truth is, over the past seventy years, life expectancy for Americans at age 65 has inched up more slowly than in other nations, and all that added longevity went to those at the top.

Working longer solves the problem of inadequate retirement accounts funding retirement only because the length of retirement just shrinks. And working longer may even hasten death for workers in subordinate positions and in other stressful situations, making the funding of retirement not a problem because, gruesomely, there is no retirement to fund when people work until they die.

The nation should not depend on people working longer to make up for inadequate retirement-income security. Doing so only exacerbates inequalities in wealth, health, well-being, and retirement time. Even in purely economic terms, compelling people to work longer is not likely to pay dividends. As a rule, more grannies laboring wearily for longer at McDonald's diminishes average productivity, shortens retirement life for the vulnerable, and may suppress wages and working conditions for younger workers. Working longer doesn't even improve a person's Social Security benefits: most older workers collect Social Security benefits to supplement their wages, forgoing any delayed retirement credit. Perhaps the only beneficiaries of older people working longer—beyond the few older workers with good jobs and adequate wealth—are employers who benefit from the increased labor supply. Yes, Granny deserves a good job if she wants one, but working until you drop is not a civilized plan for a civilized society.

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Everyone needs a dignified way to retire. Despite the limited benefits, the push for elderly people to work longer is everywhere.

BOX 1.1 Doomsday for Pensions and the Rise of Older Workers

The do-it-yourself American pension system is failing. For instance, the median holding in a retirement account for all workers aged 55–64 is only $15,000, but the average worker needs $600,000 to supplement Social Security and maintain their standard of living. The bottom 50 percent have nothing but need $300,000; the next 40 percent have $60,000 but need $600,000; and the top 10 percent need at least $1 million but have $200,000.

As all this evidence tells us, it's past time to banish the myth that America has a "three-legged stool" supporting the elderly; that is, that elders get income from Social Security, employer-based pensions, and personal assets. Only elders at the top of the income distribution have anything resembling a stool.

The Urban Institute's "This Is Not Your Parents' Retirement" predicted that by 2020, middle-class Generation Xers would receive 37 percent of their retirement income from Social Security when they reach age 67; about 24 percent will come from working; 22 percent from personal assets (mainly from owning a house); and, bringing up the rear, 18 percent from employer pensions. So that means for our three-legged stool, the Social Security leg is 37 inches; the earnings-from-work leg is 24 inches; the personal-assets leg is 22 inches; and the employer-pension leg is just 18 inches. That's an awfully wobbly stool.

I offer an alternative to cutting pensions and forcing work on elders. A work plan that is pro-worker enforces anti-age-discrimination laws, institutes effective job training, and pays for good pensions and more Social Security benefits. In contrast, the working-longer consensus is a recipe for creating a group of elders desperate to work. The pro-worker plan for retirement helps elders choose work on their own terms.[21]

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The Age-Old Controversy: Who Deserves to Retire?

While I was on a panel of retirement finance experts, we were all asked to call retirement something else—the moderator said it was a bad word. Earlier, I had asked a friend about her retirement plans, and she mumbled defensively, "I'm not really going to retire; I am not going to nothing." Her defensive response made me think I, indeed, had said a bad word. On the panel, I responded a bit tersely, why a new name for retirement and not for holidays, vacation, bathroom breaks, and the weekend? Is retirement bad because it is "time off"? Couldn't the same arguments marshaled against retirement be made against the weekend and holidays? After all, we would increase economic output if people worked seven days a week all year long. OK, maybe people have leave to take care of children—but that is still work. We haven't had to seriously defend the weekend and paid holidays just yet, but widespread shaming for wanting time away from work causes us to defend and justify the word *retirement*, which for our purposes only means controlling the pace and content of your time at the end of a working life.

Who deserves to retire, and who gets to retire? The answer to this question has changed dramatically over time. Back in 1935, when President Franklin Delano Roosevelt and Congress established Social Security, most working men died in their boots—they never retired. Women were not prevalent in the paid workforce, so we do not have reliable statistics about how many died on the job. Only the well-off got to retire. Although some might romanticize the family spirit of those times, the elderly did not generally live in the bosoms of their extended families. Instead, they filled poorhouses and lonely boardinghouses.[22] Then, as now, the poor elderly were less likely than other elderly to have financially stable adult children with extra income or in-law suite to help them out.

For decades—in the more than eighty years since the Great Depression—Social Security and workplace pension and retirement plans only expanded. An economically secure retirement became a staple of American life and a commonplace expectation among

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most workers. But since the 1980s, fewer people have access to decent pensions, and even fewer have enough financial assets to spend down in their retirement. As a result, access to retirement itself has become a luxury and viewed as an economic privilege rather than a normal expectation for someone who worked their entire life. In this, the distribution of retirement time, as well as the average time in retirement, tells the story. On average, American elders are working more and further into old age. Between 1985 and 2016, the labor-force participation rate for men at age 65 shot up from 31 percent to 46 percent, and for women from 15 percent to 23 percent.[23] But the work circumstances of these millions of older workers are very different—some are working out of abundance and interest, and others are working because they can't afford to retire.

And there is more to the story than fairness in retirement time and the well-being of elders. The circumstances under which elderly people work matter to everyone, regardless of age. The sheer scale of the aging population poses huge questions for the balance of power between employers and workers.

Economists project that over 6 million jobs will likely be added to the US economy by 2026—and more than 4 million will be filled by workers older than age 55.[24] That's a lot of older workers. Their sheer numbers, low pay, and weak pensions affect all workers' bargaining power. The size of the boomer cohort coupled with their insecure pensions—and by "pensions," I mean a source of income in retirement, such as assets in an employer-based defined-contribution or 401(k)-type plan, an employer traditional defined-pension plan, and/or government-based Social Security—will cause a flood of impoverished elders, many of whom were once middle class, and a stark increase in elderly workers. The quality of their pensions—if they have any at all—will create spillover effects on the overall labor market.

As the aging economy barrels ahead, how we pay for pensions and Social Security depends on how we answer basic quality-of-life questions: When can workers catch a break? What is the ideal retirement age anyway? That a nineteenth-century German leader tagged 65 as a retirement age is irrelevant to our twenty-first-century question of what workers deserve. A nation's retirement age—whether

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age 65 or 62 or 70—is never determined on the basis of longevity, working capacity, or optimal career trajectory. Retirement ages and decent pensions are born of union contracts, political negotiations, social norms, struggles for retirement, public employment activism, and employer practices that changed according to employers' own needs.[25] So age 65 is not scientific; it is a political number set by convention and consensus.

The choices we make about funding pensions and Social Security—and about who gets to retire and when—also have a huge bearing on younger workers. How much do Generation X, Generation Y, and Generation Z owe their parents' and grandparents' generations? Should younger populations subsidize older workers working less, either by retiring completely or working part-time? How many years of retirement leisure should a worker get? These questions are deceptively simple.

How Long Should People Work before They Retire?

At one extreme of defining who deserves to retire is Yale law professor Anne Alstott. In her provocative 2016 book *A New Deal for Old Age*, Alstott encourages an average retirement age of 76 based on evidence that, on average, older people can work longer.

The attempt to pick a retirement age based on science is typically based on so-called work ability, not on improving people's lives. Extending the scientific approach to paid time off could lead to a ridiculous rethink of the "scientific" number of holidays, weekend days, and so on. It's clear that all those decisions are based on struggle, won by workers' political leverage and market power. Retirement policy has shifted ground away from improving workers' lives to a science-based length of working time.

Another problem is the widespread notion that retirement is not something workers deserve. The notion is that someone either accumulates hundreds of thousands of dollars and can supplement their Social Security retirement or must work into their older years to cover retirement costs. In *Working Longer*, the well-respected Boston College retirement researcher Alicia Munnell and coauthors

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argue that unless they work longer, older people will fall short of a secure retirement.[26] But there is evidence to suggest this is simply not true. In one study, my coauthors and I were surprised to find that working longer did not increase financial preparedness for retirement as much as these experts had expected.[27] Working longer makes retirement more affordable only because a person has less retirement. It is like making lunch affordable by skipping it. Yet despite the oxymoronic policy, promoting work to solve the retirement-income crisis persists. In a July 2019 interview, Munnell advocates age 70 as the new retirement age: "With people starting to work at 22 and retiring at 62, that's 40 years of work. They then have 20 years in retirement, so you must put away enough in those 40 years—after paying for housing, educating your kids and other big expenses—to support yourself for at least 20 more years. That just is not feasible. If you can add eight years to your work life by delaying retirement, suddenly the ratio of work to retirement years changes dramatically. 70 should be the goal now."[28]

The advice to work until age 70 is presented as "pragmatic." The recommendation ignores politics and inequality and concedes to diminishing the value of human labor by diminishing paid time off. I call this blithe promotion of working-longer policies the "working-longer consensus." The working-longer consensus hides behind a veneer of science. In a 2012 report, the prestigious National Research Council proposed that average work lives be at least forty-five years long and that people retire after age 70, because, on average, people were living longer and were healthier.[29]

The National Research Council's conclusion represents the regrettable view that US retirement is overly generous because healthier Americans are not working longer than they were in the past. This alleged problem, the report claims, is caused by too-high FICA taxes—that's for the Federal Insurance Contributions Act—on older workers and the legacy of defined-benefit retirement plans, like those in the public sector, which encourage Americans to retire too early. "Too early," though, is subjective; it points to science that shows that retiring in one's 60s is "too early" because people in their 60s today

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can work longer than those in their 60s could in the past. The academy's report focuses on the less educated, arguing that their ability to work far exceeds their "work effort." Thus, it identifies reluctant older workers as the problem rather than scrutinizing the kinds of jobs elders can get. Many older workers' jobs offer low pay, inflexible conditions, and bad hours. Older workers without a college degree face worse conditions. The National Research Council's report does not address older workers' meager leverage in the labor market and how that little bargaining power compels most to accept low pay and bad working conditions.

A so-called science-based age of retirement would be convenient. If economists and physicians could come up with a formula to determine how many years people should work before they receive decent pensions, we wouldn't need to make value-based judgments, politics, and economic struggles about what workers deserve. Finding this scientific answer—with codas that some workers in especially dangerous jobs, such as mining and the military, should be able to retire after fewer years—is the goal of many scholars working in this field. But there is no such thing as a scientific answer about the proper age of retirement. Retirement is moral, political, and social, not scientific. The most influential economist of the twentieth century, John Maynard Keynes, wrote—after reordering the global monetary system and revolutionizing the way governments stave off recessions—that prosperity would bring future generations less work and more healthy time to do what they please.[30]

An example of the struggle is what unionized workers and their employers have worked out. When workers have bargaining power, they bargain for a particular retirement-age target. Forced retirement is illegal in the US. That means that an automatic retirement age isn't established; instead, a pension or retirement fund design is bargained over. "Thirty and out," for example, is the defined-benefit pension deal for union miners with the United Mine Workers. If they want, they have access to a pension for life that pays out about 80 percent of their pre-retirement income after working full-time for thirty years. The UAW, which represents auto, aircraft, and other

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industry manufacturing employees, has a similarly designed pension plan. It's twenty and out for the military, police, and firefighters. There is no science behind this, only market power.

Another way to understand the politics of retirement age is to take a close look at national policies surrounding retirement age for a clue about what rich countries have worked out about how long people should work. In the United States, the age at which a person receives a maximum benefit from Social Security is age 70. I used a simple method to compare the socially determined retirement age in the US with other nations. For each nation, I compare the age of retirement (i.e., the age at which national pension systems stop increasing benefits) and subtract from that the age people start work to get a "policy work-life norm." By this method, the US policy work-life norm is forty-eight years for college graduates and fifty-two years for people who start work at age 18. And it may not be a surprise that the "policy-target work life" in the United States is the highest among our national peers who belong to the OECD. Norway, Poland, Italy, and Israel have target work lives between forty-four and forty-five years. Turkey, Korea, France, and Greece have target work lives shorter than forty years.[31]

Americans work longer because of our stingy pensions. American men work an average of 46 years, compared to 43 years for men in the OECD countries. Women in the US work an average of 45 years, compared with 42 years for women in the OECD countries.[32] The United States ranks ninth out of the thirty-eight OECD nations in average work life for men and second behind Japan among the large G-7 nations in work time for women.[33] The United States ranks fourth out of thirty-four nations and second behind Japan in the G-7 in working time for women.

When nations choose the age at which workers get full retirement benefits, they are also making a choice about who effectively gets full benefits. Retirement-age policy is a value statement about the value of work and elders' quality of life. In most nations, the so-called full retirement age is typically much higher than when people retire. That means the average worker doesn't get a maximum pension ben-

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efit. In the OECD countries, men get the maximum benefit in only thirteen of thirty rich nations, and women collect the maximum benefit in only ten of thirty.

Whose choice is it to retire before age 70—the worker's or someone else's or something else's? In the United States, most retirees lament retiring earlier than planned because they were laid off, forced out, or their health or their spouse's health drove them out of the labor force.[34] Fewer than 10 percent of Social Security claimants wait until age 70. Setting ages for maximum benefits much higher than actual retirement age means nations essentially penalize workers for claiming benefits before the maximum age and reward those who can wait—those with brighter employment prospects or more wealth.

We are left with an unhealthy (and unsustainable) contradiction. Many older workers are forced out of the labor force in their mid-60s or earlier. Many other retirees are forced back into the labor force or to work longer because of inadequate pensions. All the while, the nation sets policies as if working and waiting to claim benefits until age 70 were a personal choice, or even a possibility.

The Cultural Emergence of the Greedy Geezer

A sinister consequence of policies that target a high retirement age is that retirees younger than, say, age 70, feel they must be apologetic and explain why they aren't working and why they retired "too early."

With a cultural norm of 70 as a retirement age, a needy retiree younger than that is being moved from the "deserving" to the "undeserving" category. As I pointed out earlier, most people don't work as long as the "policy norm," which automatically makes those who retire before the target retirement age socially on the defensive.

A mandated retirement age is now unthinkable in the US, yet a ban on forced retirement weakens claims to pensions. Retirees had a more socially acceptable claim to pensions when retirement was mandated. Now, work is the new pension.

For the half century between the 1930s and the 1980s, the elderly worker had the two characteristics required for a socially legitimate

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claim to pensions: being blameless and needy. Mandatory retirement (which was legal in the US before 1978) meant that being retired was through no fault of one's own, and elderly poverty rates were so high their need was not questioned.[35] I do not favor bringing back mandatory retirement, but mandatory retirement legitimated providing decent Social Security and pensions.

Being "deserving retirees" would give workers stronger claims to secure, adequate pensions. But sometimes, being legitimate and deserving is not enough. Obtaining a claim to income after a lifetime of work may require threats. Workers organized into unions that mobilized and pressured politicians and employers to provide pensions and expand Social Security. The Gray Panthers, a name that echoes the militant group Black Panthers, was formed in 1970 and aimed to inspire more fierceness into old-age advocacy. (In 2022, the scholar and activist Bill McKibben's started the Third Act political movement to recruit elders for progressive social change.[36])

Age 62 is the youngest age at which an eligible person can claim Social Security benefits, which acknowledges that many older households need income supplements and that work lives get cut short before people are in their mid-60s. But monthly benefits are reduced substantially before "full retirement age," the age Social Security targets as the age at which one gets 100 percent of a monthly benefit that is neither reduced for early claiming nor increased for "delaying" claiming.[37] Collecting early has become less common: in 2000, about 45 percent of men and 27 percent of women applied for benefits at age 62, and by 2020 those shares fell further, to 24 percent for men and 26 percent for women. But Social Security amendments in 1983 intended to cut benefits and change social norms by raising the "full retirement age." Age 62 remained the "early" retirement age, but the 1983 law raised the full retirement age—which had been 65 since 1935—from 65 to 67 for people born between 1943 and 1960. The age for maximum benefits became age 70.[38]

By 1983, legal mandatory retirement was out, and anti-age-discrimination protections were in. Banning age discrimination is obviously a good thing, although, combined with Social Security cuts, a side effect is the diminished social legitimacy of retiring before

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age 70, because one isn't forced to retire and is rewarded for working longer. Both the rise of the 401(k) plan—the do-it-yourself pension—and the push to work longer have caused those who reach retirement age without enough money to be seen as undeserving of sympathy or help.[39] Add a third factor, the "forever young" movement—for example, the 2008 World Science Festival claimed "90 is the new 50"—and changing cultural norms, and struggling older Americans become people who have created their own predicament by not saving enough or investing better or working long enough.[40] The DIY retirement system promotes shaming and blaming older economic victims, and it effectively suppresses the idea that older folks are deserving of retirement income.

THE RISE OF THE WORKING-LONGER CONSENSUS

You will recognize the working-longer consensus everywhere. One aspect of the working-longer consensus is the popular portrayal of older workers featured in feel-good human-interest stories. Another aspect is academics and policy makers treating working longer as a free-lunch policy—all gain, no pain. In the media, it's a cliché that reporters always highlight the bad. But reporting on older workers is a consistent exception. Older workers in grinding jobs without protection are hardly mentioned; instead, the media is filled with one-sided profiles of delighted older workers.

My favorite examples are the 100-year-old yoga teacher profiled by AARP's magazine who wondrously declared, "I start every day an optimist," and the *Huffington Post*'s report on 90-year-old Alice Pirnie, of Broken Bow, Nebraska, who had worked as a greeter and cashier at a McDonald's since she was 64.[41] Too bad Alice met only a feel-good-seeking reporter and not a Good Samaritan with a TikTok account.

A probing journalist would have asked Alice what her financial situation would be if she didn't work. "Oh, I don't need the money; I have a large pension and Social Security" might mean we could presume her fallback position was strong and she genuinely liked working at McDonald's. But if Alice answered, "Without McDonald's

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wages I would skip dinner most nights," we could assume her fallback position is grim and her bargaining power low.

The labor market for older workers is two-sided. On the one hand, older workers face discrimination and desperately low wages, and most retirements are involuntary.[42] On the other hand, involuntary retirement often diminishes people's self-regard for the rest of their lives. Although in surveys Americans often say they want to work longer, most practically cannot do so because of their own personal circumstances or employers not wanting to hire them. The COVID-19 recession exaggerated the mismatch between the age at which one wants to retire and the age at which they are forced to.[43]

The erosion of guaranteed pensions and the "legitimate" retiree, and the rise of the media portrayal of the happy older worker, makes adequate pensions seem like some artifact from the past. But the need for better pensions and more secure income in old age is greater than ever.

Why Do We Even Have Pensions?

The current American do-it-yourself pension system, which essentially tells workers they are on their own, runs counter to some of the core principles behind pensions. Nations set up pension systems for two practical reasons.

First, most people in market societies are workers, and their well-being depends on them selling their labor (or depends on their family members' labor). This means the risk of superannuation—that is, becoming unemployable before the age one wants to retire—is shared by most everyone who works and is not a capital owner. In the face of this universally shared risk, nations promote various forms of public or social insurance to protect against worker obsolescence.[44]

Second, nations establish pensions because as societies grow richer, so does the demand for paid time off. In the United States and other market economies, workers and unions fought for paid time off, a victory encapsulated by a favorite slogan: "Don't Thank God It's Friday, Thank the Labor Movement."[45] Universal public education for children under age 16, paid vacations, paid family leave, and retire-

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ment came about thanks to collective bargaining, political pressure, and societies reaching together for a good life.

Economists describe the social demand for retirement as a form of paid time off. The demand for more paid time off increases with a nation's wealth, meaning the political demand is sensitive to the level of income people have (the nerd term for this is *income elastic*, the demand for time increases as the income of a person in a household increases). In other words, as income goes up, demand for paid time off, such as retirement, increases. What good is having money to buy roses if you don't have time to smell them? Humans like paid time off, and retirement is a special form of paid time off—the time is taken at the end of our working lives.

With income elasticity, when pay increases, we buy more of what we like and fewer cheaper substitutes. As nations grow richer, demand rises for pasta and falls for potatoes; it goes up for houses and declines for mobile homes. As countries boost wealth, they make more arrangements for vacations, holidays, weekends, and shorter workdays and workweeks.[46] The economic historian Dora Costa has shown that as economies grow, people's demands for retirement time increase, and the long hours of work required to obtain subsistence goods and services fall.[47]

Although it's clear that we all want time off and that economic riches expand that possibility, the distribution of this freedom—who gets it and when—is hotly contested. The prevailing concern expressed in this debate, that working families don't have enough paid time, carries the unfortunate implication that retirees have too much time, as if age were the central feature of the time-off conflict rather than class and inequality.

Two progressive feminist scholars have asked whether society allocates individuals' time off efficiently. Kathleen Gerson and Jerry Jacobs argue for reallocating time off so it is not bunched up at the end of people's working lives because young families need paid time off. But paid time off is not a fixed good.[48] Economist Heather Boushey argues what workers and employers want is often in conflict.[49] The distribution of pay and time is not a reflection of what people want; it is what they are compelled to accept. Household demand alone,

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then, does not drive the distribution of paid time off. The pioneer in feminist, political economy of aging studies, Carroll Estes, turns the question of efficient time allocation on its head. The allocation of time has little to do with efficiency but rather is about dominance. Aging is a women's issue because the combination of patriarchy and the market as a dominant institution affecting women's life supports a gendered system that puts women in a dependent role socially and financially to men or to state programs.[50]

Economists, sociologists, anthropologists, psychologists, and historians all wrestle with how societies get people on the off-ramp from paid work into retirement. They all agree on one thing, at least: humans need a period at the end of their lives for personal narrative, to derive a meaning for their life, and to control the pace and content of their lives. The psychologist Erik Erikson described the last stage of life as one of integrity and wisdom.[51]

No one seriously disputes the care and respect that elders need beyond their productive years. But how do we ensure this happens? A modern and humanistic idea of old age and retirement emerged in the 1970s that claimed everyone—poor, middle class, rich—deserves a life stage of integration that requires hope and economic security to ward off despair. An adequate pension is crucial, though, to whether one has a choice to spend their 60s and 70s working for pay or not. It is this time of life and the quality of time in old age for low-income and middle-class workers that is rigorously contested.

How Long Do People Live after Retirement?

Even before the COVID-19 vaccine was widely available, several polls found that older workers, especially those in the middle class, were planning to work more to survive the pandemic recession. Both high- and low-income older workers told surveys that they were retiring earlier than they had planned. A December 2020 consumer survey revealed that 59 percent of boomers planned to keep working during their retirement because of the pandemic recession.[52] A November poll reported that 19 percent of people in their 50s planned to work full-time in retirement.[53] Did you just blink? Yes, you read

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that right. Working full-time in "retirement." These plans come at a cost. Since life expectancy has not kept up with the increase in work, working longer reduces access to some of the best years of life. And economic strife only makes work at older ages worse. In recessions, employers write the rules on wages, hours, and labor conditions. Employer power tilts the retirement playing field even more against workers.

And the loss of pensions is made worse by the loss of life expectancy. The US is one of the few OECD nations in recent years that has seen reduced life expectancy among people in the lowest-income groups. This means that Americans experience less time not working in their later years.

We can chart this back to policy decisions made in the 1980s. In 1983, President Reagan and Congress faced an emergency. Within just a few years, Social Security would not be able to pay full benefits. To achieve full funding for the next seventy-five years, Congress passed a combination of benefit cuts and revenue increases.

The cut in future Social Security benefits came about mainly by gradually raising the "full retirement age"—the age at which beneficiaries could collect "full" Social Security—from 65 to 67 for people born after 1960. Notably, the "full benefit" is different from "maximum" Social Security benefits, which kick in at age 70. Congress, for reasons of complex calculations and politics, has hopelessly confused the full benefit with the maximum benefit. The maximum benefit is obtainable at age 70. Reduced monthly Social Security benefits are available as early as age 62.

In 1983, raising the age to get maximum benefits seemed fair—lawmakers held out the likelihood that life expectancy would continue to improve and workers would not miss a bit of retirement time. But growth in American life expectancy did not keep up with the growth in retirement ages. A nation will shrink the retirement time for its workers by making the pensionable age increases faster than life expectancy. And in making things worse for American workers' prospects in old age, the US almost stands alone. While only a few nations in the OECD raised full retirement ages faster than their life expectancy growth—notably the US, Hungary, and Poland—most

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OECD nations improved their residents' life expectancy faster than they raised the full pensionable age.

The US is also home to stark and growing differences in the amount and quality of healthy retirement experienced by whites and nonwhites, women and men, and disparities by geographic region (more on this in later chapters). While the US has reduced retirement time over the past sixty years, between 1958 and 2020, the average OECD country created more retirement time by setting the pensionable age at 62, thus increasing life expectancy after pensionable age. I calculate the life expectancy after pensionable age by subtracting elder life expectancy from the nation's established pensionable age.

Throughout OECD countries, during the years 1958 and 2020, the average increase in life expectancy after retirement age is just over six years for women and just over five years for men. This rise of five to six years in retirement time after age 62 is a tremendous achievement worthy of celebration—it is concrete economic and social progress that boosted demand for leisure in people's final years.[54]

If we scan the century from 1958 to a projected 2050, we see even more glaring disparities in nations' progress on retirement time. For all OECD countries, the projected average increase in time in retirement during this period is about 56 percent for men and 51 percent for women. Meanwhile, by comparison, the US increase in retirement time was much lower, just a 38 percent increase for both men and women. (The US reduction in retirement time would be even worse if I incorporated the negative life expectancy effects of the COVID pandemic and opioid addiction.[55]) Even this miserly rise might be much smaller or nonexistent if OECD researchers used the current American "unofficial" retirement age of 70 in calculations. In stark contrast, other nations have expanded retirement as their economies and national wealth expanded. For example, with different policy choices and better life expectancy, Canada's retirement time is expected to double for men and to grow 71 percent for women from 1958 to 2050. Norway and France will have expanded their national expected retirement time by about 92 percent; Spain,

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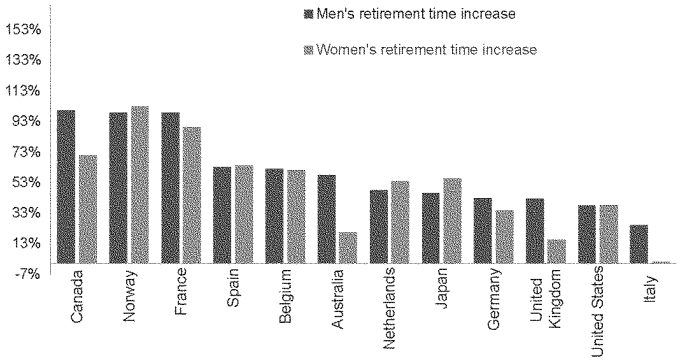


FIGURE 1.1 US Lagged Projected Increases in Retirement Time in Rich, Large Nations, 1958–2050

Note: "Rich, large nations" have per capita gross domestic product over $30,000 and more than twelve million people. Retirement time is the time between life expectancy and actual pensionable age. Life expectancy is calculated using data from 1960 for the pensionable ages applicable in 1958, the earliest dates these data are available. Historical data on life expectancy are taken from the OECD Health Database 1960–1995. Recent data and projections of life expectancy in the future are based on the UN Population Division Database, World Population Prospects—The 2008 Revision, and the OECD's *Pensions at a Glance 2011: Retirement-Income Systems in OECD and G20 Countries* (OECD Publishing, 2011).

Belgium, Australia, and the Netherlands expanded by about 50 percent (fig. 1.1).

In closing, the picture for Americans' retirement is dismal. The US did not always rank near the bottom of retirement time. In 1958, the US ranked eighteenth among nations in the OECD in retirement time. Over the following decades, pension plans and health improved, so the US ranked fourteenth in 1983, before the Reagan administration's policy shifts took hold. But with longevity gains slowing and anti-pension policy decisions since then, the US has fallen backward. By 2050, the US is expected to rank twenty-fifth, near the bottom of retirement time after pensionable age. Let's peel back another layer of the bitter story: if we take the US pensionable age to be 67 instead of 70, then the US would be dead last among rich nations in providing people with retirement time. The US is a rich nation, and it can do better for its workers' old age.

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This book fully rejects the working-longer consensus and proposes the Gray New Deal in its place. Gray New Deal policies create genuine choices to work or retire and recognize that civilized democratic societies provide adequate pensions and enable people to retire or work in dignity.[56] The dignity part is vital. The problem is not that people do work in their late 60s, 70s, and 80s; the problem is that very few work at older ages for the right reasons.

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2

The Shift to Retirement Insecurity

The US retirement system is broken. Most elders need to supplement their meager retirement income with work. And worries about insecure old-age finances are not isolated to low-income workers. After 2020, even many high-income older workers earning $170,000 or more per year will retire into poverty because they lost their jobs and were pushed into an early, underfunded retirement. Faced with low incomes and meager savings, many elders will need to turn to gig work to maintain their material conditions; for many, this will be a matter of survival. This pressure to work longer in old age, combined with unequal socioeconomic class-based life spans and top-heavy wealth accumulation, will worsen inequality in well-being in old age. This inequality is not only financial—many of today's older workers will have less time before infirmity and death to enjoy productive physical and social activities than their counterparts in the past and in other nations.[1]

Retirement used to be a social norm, a good thing, sought out and respectable. Retirement was something both the rich and the poor aimed for and a legitimate goal for working people to plan. Ending mandatory retirement was a good thing; age discrimination is wasteful and violates human dignity. But the stealth attack on a decent retirement that most people can count on is a big loss to society. It is also unfair and unnecessary. But I am getting ahead of myself. How did we get to such an impoverished and unequal American retirement landscape?

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A Short History of Retirement in America

A bit of history is in order. The Social Security program, launched in the 1930s, aimed to help off-ramp older workers to a dignified old age. Through the 1950s, labor unions and employers that agreed to union demands developed retirement plans, enabling more pensions and less work. Advanced capitalist nations created ways for workers to save while working to fund retirement without dropping off a cliff. The alternative to pensions was no or meager pensions, which created a pool of desperate elderly workers clinging to their jobs to survive.

In the late 1970s, the legal end to mandatory retirement and the rise of a new way to save for retirement through the 401(k)-type plan promised workers two good options: in old age they could continue working or could retire with adequate income. But forty years later, most workers can't expect even one of those options.

The rise in old-age inequality and old-age poverty is rooted in the prolonged period of stagnating wages and job quality. Over the past thirty years, living standards have fallen for a large share of elderly workers because increasingly inadequate retirement-income sources will fall short for more workers to maintain pre-retirement living standards. Researchers at Boston College compute a retirement adequacy indicator every year, and it always falls.[2]

The reality of failure contradicts the widely repeated myth that Americans are living longer and have easier jobs. The well-off are doing well, of course, but the boomer generation and the generations following will do relatively worse than their parents and grandparents did in older age.

Since 1980, wage patterns created economic inequality: the earnings of the top 1 percent increased 158 percent, whereas hourly compensation for most workers increased by less than 12 percent.[3] Wealth inequality trends are even worse.[4] Those in the top 1 percent in 2022—that's about 1.3 million households out of 130 million—have 22 percent of the country's wealth in comparison to 7 percent in 1978. You could fit those elite households in either the small neighborhood

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of Soho or Greenwich Village in New York or Presidio Heights in San Francisco.

The American retirement system contributes to the growing and extreme distribution of American wealth: high-paid workers save a lot more, they get the bulk of available tax breaks for saving, and they get high rates of return on their assets. As the economist Thomas Piketty has pointed out in his best-selling book, on average, financial market rates of return have exceeded wage increases and economic growth over the past four decades.[5]

The once-sturdy pension and retirement systems that emerged after World War II were built by policy makers, unions, and employers. They secured middle-class stability for generations of older Americans who were covered by these pensions. Even so, about 40 percent of families were untouched by them. In contrast, the retirement plans that emerged during and after the Reagan era were mainly guided by the financial industry. The 1980s ushered in dramatic shifts in retirement plans and policies, marked by the rise of do-it-yourself, individual-directed, market-based, voluntary retirement, as well as the now-ubiquitous 401(k) and Individual Retirement Account.

Retirement itself is a dynamic ecosystem that involves work, Social Security, workplace retirement plans, tax codes, and culture. The good retirement systems are flexible and can weather disturbances like recessions and politics. A good retirement system helps employers and workers both. In contrast, the current retirement system is driven by the financial industry's profit interests and the needs of upper-income workers. The current retirement system is also part of the reason people's old-age security is upside down. Despite heaps of hype about the power of the market and the individual to shape a retirement future, huge shifts in the design of retirement plans have made it more difficult for older folks to stop working when they want to.

Economists Joseph Quinn and Kevin E. Cahill demonstrated the cold hard truth that saving for retirement in individual accounts during a prolonged period of low interest rates can be a disaster that a worker might never recover from. And for many years since the late

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1970s, when the do-it-yourself retirement savings system was put in place, rates of return on safe assets like government bonds were low. The do-it-yourself pension system divided people into those with access to sophisticated investment portfolios and managers and those who stuck their savings in ultrasafe assets.[6] The former were the winners and got much higher risk-adjusted returns than the latter, who played it safe. And this divide is not about personal preference; it is mostly about luck and structural advantages. Allow me to explain. Ordinary workers who have a retirement plan at work—which is just half of the workforce at any point in time—likely have do-it-yourself 401(k)-type plans, not the traditional defined-benefit (DB) pensions, whose assets were pooled and managed by professionals. In the defined-benefit plan, interest rates and financial market volatility could be smoothed over and hedged through diversification. The DB professionals also used the sheer size of the pooled funds to pay lower investment fees. In self-directed 401(k)-type plans, portfolio holders pay higher fees and have less diversification. Lower-income workers and women are more likely to have their money invested in lower-return assets.

The differences in investment strategies mean that traditional DB plans earn much higher rates of return than individual accounts earn now. In DB plans, all workers get the same return because all workers have professional money managers who are legally required to earn the highest risk- and fee-adjusted return to their pension funds.[7] And DB plans mandate that all workers participate. If you are working for an employer with a defined-benefit plan, you are automatically enrolled, and the employer automatically saves for you. In contrast, the current defined-contribution (DC) or 401(k)-styled system is a voluntary, commercial, and individually directed system. Workers decide whether they participate in a 401(k)-type or Individual Retirement Account (IRA) plan. Therefore, saving for retirement is voluntary. And as you might expect, lower-income workers and workers with unsteady employment and circumstances tend to opt out and not save for retirement. More importantly, many employers also decide not to be bothered by sponsoring or contributing to a retirement plan for their employees. These DC plans are

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self-directed, so even if people do save, they don't invest as well as a professional would—individuals tend to buy financial assets when the values are rising and to panic sell when values fall. And the plans are commercial—the investment fees are retail and often quite high. The American voluntary, commercial, and individually directed retirement system has created the predictable disaster of inadequate retirement savings and massive inequality.

The current do-it-yourself savings system was based on the false hope that interest rates would always be much higher than they turned out to be.

The essential truth about older people having to work longer is that it helps employers. Employers are better off because the increase in labor supply drives down wages, working conditions, and business costs.[8] Working longer reduces retirement time and helps employers maximize their profits. People working longer may save costs for governments—but not as much as one would think. We are compelled to ask: Where is quality of life in this arithmetic?

Advising people to work longer when retirement-income security fails serves businesses' bottom lines, but the advice is profoundly problematic for the economy and workers. First, the work-longer push makes life harder for most workers, and it falls particularly heavily on low- and middle-income workers and on those without advanced degrees. Older workers, in general, face more difficulties keeping and finding a job relative to younger workers. Second, Americans already have fewer expected retirement years than workers in other rich countries.[9] Third, retirees, even if they are physically able to work, overwhelmingly enjoy having time for themselves and want to be healthy and autonomous before they die.[10] Having autonomy and dignity in old age depends largely on your finances when you retire. Even if you don't retire, having a comfortable and secure financial situation when you are older reduces stress levels at work and reduces subordination for employers because they know a worker has a solid fallback.

Mitigating that desperation to work at older ages was the very intent of government policies that created pensions in the first place. Federal policy moved away from seeking to help workers and retirees

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in the 1980s and moved toward encouraging elders to work more, create their own retirement plans, or live on less pension income. The US was the first among rich nations to ban mandatory retirement, to institute laws against age discrimination, and to develop job-training programs for older people (on paper at least, because the training programs don't work well for older people). It is a telling sign of conflict to come that the labor movement had always been ambivalent about lifting mandatory retirement ages because the move creates new supplies of labor—or in political economy terms, increases the reserve army of labor. The move toward older people working more weakens political pressure to expand Social Security and employer retirement plans. Therefore, it makes sense, in contrast to the US labor movement's high-profile stance in the women's and civil rights movements, labor was not at the vanguard of age antidiscrimination laws and ending mandatory retirement.[11]

US labor's ambivalent stance toward federal laws banning mandatory retirement also makes sense. The US labor movement always has had to contend with American employers' relentless search for cheaper sources of labor; the arc of American economic history rests on surpluses of capital and land and relative shortages of labor. The American employer was already ahead of other rich nations in employing women, immigrants, and children.[12] It is logical that employers' search for excess labor supply would extend to elders.[13] Before Social Security was passed in 1935, most men worked until they died, with no retirement to speak of. That dreary fact changed as workers wanted more of a life, pressured politicians for improvements, organized into unions, and sought cultural changes to make dignified old age expected and normalized.[14]

During this Recession-era reform, to help older workers retire, railroad workers secured pensions, and unions led the charge in pushing for early retirement and seniority rules that helped older employees transition to easier jobs. Social Security legitimized the concept of retirement for all workers. The American folk singer Joe Glazer wrote the song "Too Old to Work and Too Young to Die" for the autoworkers' 1959 strike against Chrysler, capturing the labor movement's push to make retirement a normal part of life for poor and

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middle-class workers, not just top earners: "Your boss gets a pension when he is too old, / You helped him retire—you're out in the cold."[15] Unions expanded occupational pensions that often allowed workers in particularly arduous jobs, such as coal mining and steelmaking, to retire before Social Security eligibility began at age 62. But retirement wasn't just for the blue-collar worker in a gritty job. Andrew Carnegie endowed pensions for college professors when he funded TIAA, and K–12 teachers, nurses, and insurance salespeople all constructed retirement plans and expectations.

So, in the post–World War II era, unions negotiated for (and many nonunion employers adopted) traditional defined-benefit pensions. As I have explained, DB plans encourage retirement at certain ages: they typically end benefit accrual at age 62 or 65, allowing workers to choose when to retire. The best feature of these plans is their goal of smoothing the path to retirement and minimizing uncertainty. For this reason, they were especially common in jobs requiring extreme mental, physical, and routine labor, where workers might age out earlier, like firefighting, nursing, auto assembly, and construction. Likewise, some defined-benefit plans provided a larger benefit before the Social Security claim age to pave the transition from work to retirement. Still, most retirement decisions are a product of circumstance, not of employees carefully weighing costs and benefits. As numerous studies make clear, most older workers and recent retirees are bullied or gently pushed out of work through early retirement offers, layoffs, demotions, and outright firings. These postwar policies pro-retirement plans and policies were electric. Workers of all incomes started planning to retire before they died. These plans were a huge breakthrough in legitimating retirement and equalizing retirement time.

At the same time, by the 1960s, Americans were beginning to acknowledge age discrimination as a civil rights violation. But the Age Discrimination in Employment Act, passed in 1967, protected workers aged 40–65. Court cases challenged the justification for not protecting those 65 and older, citing a lack of evidence that age 65 was any meaningful indication of work capability. The advocates argued that employers were mistaken in factoring in a worker's age

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when deciding who to hire, train, promote, and pay well because age was an unreliable signal of quality at best, and it perpetuated bigotry at worst. But as I argue later, just because employers can't legally use an arbitrary age to decide who can work or not does not mean that work capability or the desire to work does not change as we age.

In legally banning age discrimination, policy makers were laying the groundwork for a political and pro-business consensus that working longer was good economic policy. Working longer became a convenient off-the-shelf and off-the-cuff catchall concept solving the nation's inadequate funding of retirement. Not all advocates for ending age discrimination viewed work as a substitute for pensions. The AARP, the Gray Panthers, and labor-union-affiliated retiree groups advocated for an end to age bigotry and a dignified old age with secure income and decent opportunities, including work. To these advocates, demands for better jobs, access to jobs, good pensions, and well-funded Social Security were complements, not substitutes. But in 1982, an influential official in the Republican Reagan administration person pushed forward a one-sided future that work would substitute for good pensions.

The Reagan administration's active measures to cut taxes and shrink government came with glowing views of older workers. Malcolm Lovell, President Reagan's deputy labor secretary, warned Congress that smoothing the way for elders to work made practical budgetary sense. With employers backing away from workplace pensions and Congress scheduling cuts in Social Security, the elderly would have to work longer.[16] Congress soon complied by passing aggressive laws prohibiting age discrimination and phasing out mandatory retirement at a certain age, though this was slower for key executives, pilots, and university professors. Evidence for what workers needed or wanted was not relevant; older workers saved Congress from funding pensions.

The Reagan-era policy shift and other trends conspired to lengthen work ages and expand the elderly labor pool. Economists reasoned along with employers and lawmakers that cutting Social Security benefits by raising the retirement age would gently nudge people to work longer. And the nudge, or push, seemed to have worked: since

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1983, employment rates of older workers have risen substantially. Further study has shown the stick of financial hardship, increasing levels of educational attainment, and women's economic emergence all contributed to the elderly working more.[17] Older women in particular were more educated, faced better opportunities, and filed for more divorces. And the rise of pushing, prodding, and sometimes welcoming older people into the labor force coincided with the rise of finance, the decline of unions, and the shift toward more market-driven, do-it-yourself retirement systems.

Redefining Pensions: The Shift to Market-Driven Defined-Contribution Plans

In the 1980s, defined-benefit plans began to morph into a defined-contribution model as market-driven 401(k)-type plans emerged—and this alongside other pension-eroding trends. Defined-contribution plans are not insurance like Social Security and DB plans are. The 401(k) model requires workers to self-finance their risk of old age. As part of this deal, in 1979, Americans were offered tax incentives for individuals—mainly higher-paid management—to put part of their paycheck into a 401(k) to prepare for future risk rather than relying on Social Security insurance. The idea was that a person would accumulate enough assets in voluntary, do-it-yourself market-based individual funds, but these were not well regulated. It was akin to eliminating health insurance and giving people tax breaks to save for possible kidney transplants or difficult births.

So by the early 1980s, politics and policies had changed. In 1983, retirement was on the block when Congress cut Social Security benefits by raising the so-called full retirement age from 65 to 67. This age increase may not seem big on its face, but it represents a cut in benefits of between 10 percent and 13 percent for people collecting at all ages. In 2022, people born in 1960 were 62 and facing a 30 percent lower Social Security benefit than people born after 1930. I know 60-year-olds barely hanging on to their consultant jobs or who are bound to be laid off in the next recession, and I know they won't have enough at retirement.

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Cutting benefits by raising the retirement age is especially hard for people forced to claim benefits before age 70.[18] The average benefit for new Social Security beneficiaries claiming at age 62 is about $13,000 per year, which was about the poverty line for individuals in 2020.[19] The Urban Institute warned that the future cuts in benefits would put more 62-year-olds at risk of poverty because replacement rates at age 62 would fall to about 25 percent of pre-retirement earnings rather than over 30 percent. This means that someone making the average wage and claiming Social Security benefits at age 62 would live below the poverty line. If the Reagan-era cuts hadn't happened, the average benefit at age 62 would be $15,600 per year, 20 percent higher—a substantial increase in benefits for a household with so little income.

Ted Benna is the famous employer consultant who was key to spreading the do-it-yourself retirement plan, showing employers how to use the tax code to phase out traditional DB pensions and use the cheaper 401(k) model. His blueprint spread among the pension-providing universe of employers. But the anointed "father" of the 401(k), a thoughtful man, has since called the tax loophole a "monster." The 401(k)—note it is named after a section of the tax code and is not called, for example, the American Retirement Plan—Benna said, is "a plan for the wealthy and one that leaves behind most Americans."[20] Indeed Benna saw what we all saw. Larger private employers who sponsored a retirement plan—and most medium-sized and small firms do not—gradually replaced defined-benefit plans with cheaper defined-contribution, 401(k)-type plans. And new employers either instituted a 401(k) or nothing at all. The 401(k) did not expand coverage; it only replaced more generous plans.

And in contrast to DB plans that max out benefits at age 65, defined-contribution accounts accrue benefits indefinitely. Vast research has concluded that the waning of defined-benefit plans and the waxing of defined-contribution plans has also induced people to work longer. Autoworkers with DB pensions retire without shame or defensiveness after thirty years of work. If they had only a 401(k), they might feel pressure to continue working to accumulate more and more.[21] The nation's weak workplace retirement system, shrinking Social Se-

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curity, and anti-age-discrimination laws expanded employer access to older workers.

In short, using carrots and sticks, the US government since the Reagan administration has sought to encourage—and prod—work at older ages in five ways. First, the US leads the OECD member countries in laws against age discrimination, well-intended policies that have also promoted more elderly work. Second, the 1983 Social Security reform gradually increased the Social Security full retirement age from 65 to 67 for people born between 1933 and 1945—equivalent to an across-the-board 13 percent cut. Third, the Social Security earnings test—$1 of benefits was withheld for every $2 of earnings over a certain amount—was relaxed in 2000, so people could work and keep more of their Social Security benefits.[22] Fourth, Social Security increased benefits for a those who can postpone collecting Social Security benefits. These so-called delayed retirement credits increase benefits by a whopping 8 percent a year after full retirement (which is age 67 for people born in 1960). This means that by waiting, that is, by delaying collecting by one year, the monthly benefit goes up by a guaranteed 5 percent–8 percent per year between age 62, the earliest age to collect, and age 70, the age at which monthly benefits don't increase. To lawmakers, this present for waiting was supposed to serve as an incentive to keep working! It's the best deal on the planet for those who can work and wait. And it is a great deal for wealthy retirees who have other income to live on. But the reality is that people who work past 62 and on to age 70 rarely get the benefit of the generous delayed retirement credit. Only 6.3 percent of retired workers claimed benefits at age 70.[23]

Fifth, Congress incentivized defined-contribution plans that eventually displaced defined-benefit plans, which had promoted retirement. The shift to defined-contribution plans likely hinders retirement because people can accumulate more assets while they are working. It is a difficult choice for people to draw down their nest egg, so working longer delays drawdowns.

Fast-forward to 2000, and we find more dramatic changes reversing retirement progress. That year, Congress passed the Freedom to Work Act, penalizing retirement before age 70—the new age at

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which Americans could begin collecting full benefits under Social Security. With these major shifts, the United States stands apart from the European Union and OECD members in its treatment of retirement age and benefits.

Also in 2000, Congress gave even more generous incentives to prod workers to delay claiming Social Security until age 70—a lifetime benefits increase of 76 percent for people who delay claiming for eight years between age 62 and 70. But only 8 percent of Americans get this reward because most people can't wait to collect their Social Security benefits. The reality is they need the money sooner. The 8 percent of claimants who can afford to wait are more fortunate. They are more likely to be the well-heeled, who have reason to believe they will live longer than most.

As of 2020, workers still in defined-benefit plans—which included public-sector employees, pharmaceutical companies, contracted defense sectors, and other unionized workplaces—are not experiencing significant improvements in their plans. Most employers have mixed feelings about defined-benefit plans. They are useful tools to encourage older workers to retire because they allow employers to phase out older workers in a less clumsy, controversial, or anxiety-provoking manner. Workers stay longer in jobs that have only 401(k)-type defined-contribution plans. Workers can accumulate more benefits, and because defined-contribution plans are not paid out in the form of annuities, the fear of running out of money keeps people in their jobs longer than those who have defined-benefit plans.[24] If more businesses and employers followed this path back to traditional defined-benefit plans, many more elderly Americans would be far more economically secure. If more businesses and employers followed this path back to traditional defined-benefit plans, many more employers could more easily transition out older workers.

How Did the Working-Longer Consensus Replace Good Pensions?

It should be no surprise that the roots of the working-longer consensus can be traced to the 1980s, when policy makers, pundits, and

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politicians promoted working longer as a solution to the harsh reality of Congress cutting Social Security benefits and employers eroding pensions throughout that decade.[25] At the time, patching together paid work at older ages seemed a prudent response to these broad rollbacks.

But four myths seeped into the culture that served employers' and politicians' desires for more labor supply and less opposition to pension cuts, obscuring critical thinking about the approach. The first myth is that people choose when they retire—in truth, older workers are usually pushed out before they are ready. The second myth advertises that work is good for older people—but the reality is that older workers are more likely to find themselves stuck in low-paid jobs without benefits. The third myth purports that because we all are living longer, we should work more. But those longevity improvements are not spread evenly across race, class, and gender. Longevity gains in recent decades have all gone to the top half of the income distribution, a predominantly white and male cohort. The fourth myth insists that working longer makes people substantially more financially prepared for retirement; this sounds logical enough, but it's just not true, the evidence shows. Because older workers are usually low paid, often have mentally and physically taxing jobs, get no pension benefits, and collect Social Security while they are working, work in old age not only does not add to a person's wealth; work can hasten ill health because it reduces time for exercise, sleep, and other forms of self-care. People who work until 70 are not much richer, their monthly Social Security benefits are not larger, and working might have even made them sicker.

These four myths conspire to manufacture the working-longer consensus, and the next four chapters tackle them in depth. First, however, let's better understand the origins and growth of the consensus.

The working-longer consensus, a term I coined, is an homage to the pro-market Washington Consensus of the late 1980s, which emerged from institutions with DC headquarters—including the International Monetary Fund, the World Bank, the US Treasury—and was supported by American academics. The Washington Consensus

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rolled up the disease, the cause, and the cure into one big technocratic market-based set of economic policies that would cure sluggish economies that were supposedly stymied by "excessive" government regulation.[26]

Like the Washington Consensus, the working-longer consensus involves the promotion of neoliberal and technocratic ways to prod older people to work, to cure what is diagnosed as a "sluggish economy," caused by aging populations and too-generous pensions. This consensus promises that persuading elders to work more will help a nation's poor retirees while also solving labor shortages and cutting government spending. The working-longer consensus promises healthier elders and richer economies, as well as improved economic performance. Making older people work longer is billed as the ultimate free lunch—all winners, no losers. But there is no such thing as a free lunch. Making older people work longer creates very real, specific losers, especially among older people who have a harder time meeting employers' physical, mental, and time demands. Meanwhile, according to the evidence, these elderly workers end up treading in the financial waters. Working-longer consensus policies have the same key ingredients—reduced pensions and longer working lives.

Powerfully augmenting these messages and myths, the influential 1999 book *Social Security and Retirement around the World* blamed generous pensions for elders' early departures from the labor force. The authors based their claim on a correlation between nations with low elder labor-force participation rates and nations that allowed people to collect Social Security at younger ages. Cutting pensions, they concluded, would get older people to work more. This book is a major source of the myth that pensions can be cut without losses.[27]

In 2019, the World Economic Forum and the consulting firm Mercer were still promoting the working-longer consensus by recommending that most nations cut benefits by raising the age at which workers can claim pensions. The *Melbourne Mercer Report*, as it became known, even recommended that workers in Japan and the US work longer, even though workers in those countries already work longer than others in OECD member countries. Yet the report

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neglected a key fact: Japanese and American elders also have the highest elder poverty rates, suggesting that working-longer policies correlate with weaker national commitments to decreasing elder poverty.[28]

But there is also growing resistance to the working-longer push. In September 2019, the Bank of Japan pushed back on the working-longer consensus. At a central bank meeting, a Bank of Japan official argued that Japan's economy in fact suffers from too many elderly people working in low-productivity, part-time jobs—and that meager pensions have driven Japan's elderly into austerity because workers saved way too much in fear of old age, and workers and senior alike do not consume enough to fuel the economy. What the Japanese economy needed instead, the bank official argued, was higher pensions and better jobs for the elderly.[29]

Workers and labor movements have fought the working-longer push, too. In January 2020, the French General Federation of Labor led a nationwide strike opposing President Macron's bid to reform French pensions. Macron clung to his plan for two years before finally caving and backing down in June 2021. But in 2023, more than a year after Macron won a tough election battle for president, he was bracing for more protests as he put through the pension reform. In spring 2023, protest trash fires and work-stop actions popped up in France to protest the government's raising of the retirement age.[30]

In Italy, pension reform attempts have frequently inspired strenuous resistance. The Italian populist Five Star and Northern League movements gained strength from resisting the Italian government's raising of the retirement age in 2011.[31] Edoardo Campanella, an Italian economist and Harvard fellow, pushed back against this populist resistance, arguing that underfunded Italian pensions were overly generous and that the only solution was for older Italians to work more—instead of making retirement work, his real focus is making retirees work.[32] This particular economist may not have been famous, but the view is mainstream among technocrats. Italian voters must not have squared the work-longer message with the Italian economy's failure to fully employ prime-aged adults.[33] The Italian far-right, populist government has not advocated cutting pensions.

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Prime Minister Giorgia Meloni has not gone anywhere near the rising Italian cost of pensions, although Italy has the oldest population in the OECD.

The point I am making is this consensus among elites, technocrats, and lawmakers that working longer is a comprehensive, costless fix is political dynamite among ordinary people. The working-longer consensus aims to "fix" inadequate retirement funding by eliminating retirement. That's like "fixing" the car by junking it.

Unintended Consequences of the Active Aging Movement

Seniors and older workers may be experiencing the unintended consequences of what some might consider "progress" in aging. Policies in the US that promote more work for seniors are bolstered by thirty years of well-intentioned "active aging" or "forever young" movements—the rash of advice that exercise and well-chosen hobbies can stave off decline. In her book *Never Say Die*, Susan Jacoby challenges the comforting myth that aging doesn't have negative consequences on health or mental acuity. The chance of experiencing cognitive decline is related almost entirely to age. Believing that we can stay forever young has helped justify cutting benefits by raising the retirement age. As I have argued, what appeared to be a good thing on the surface—prohibiting mandatory retirement ages in most occupations—was the opposite when there was no corresponding move to guarantee pensions or improve the jobs that older people have. The freedom to work has come to mean having no other choice but to work.

The American approach of prodding older workers has not made US elders better off than their counterparts abroad. In fact, the differences are striking. About 23 percent of American elders are in poverty, while the rate in France is half that. Leaving aside developing countries, only Japan's elders work more than seniors in the US. As it happens, Japan and the US also have comparable elder poverty rates and startlingly similar elder labor-force participation rates. The evidence bears out a disturbing and surprising reality: elder poverty is positively correlated with working longer, despite the myths

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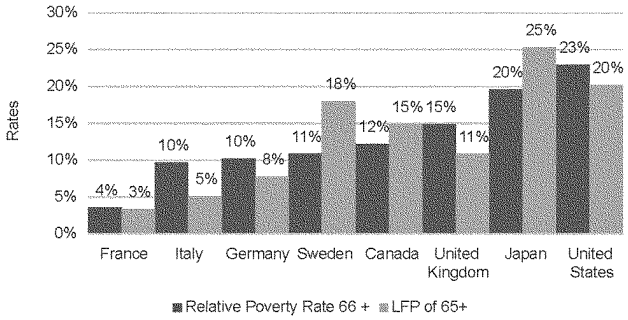


FIGURE 2.1 Working More Is Associated with Higher Elder Poverty

Note: The OECD uses a relative standard and the US an absolute, which is much lower than the national standard. OECD (2020), Poverty rate (indicator), https://data.oecd.org/emp/labour-force-participation-rate.htm. The poverty rate is the ratio of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population.

propagated by the working-longer movement that laboring into your old age reduces hardship (fig. 2.1). Creating a reserve army of gray labor goes hand in hand with tolerating poverty among the elderly. A reserve army is often made up of desperate people.

Beyond the differences in elder poverty in OECD countries lie some commonalities. One is that the average work life is about thirty-five to forty years for men and about thirty years for women—but there is a great deal of variation by class or socioeconomic status. Pensions are typically funded at three tiers: by the state; by work-related retirement plans that are often heavily subsidized indirectly by government; and at a smaller scale by charity, family donations, and personal wealth. The US pioneered the ironic notion of earnings as a source of "retirement" income; since the 1980s, "retirement" has been work.

Another commonality among people is what economists call the income effect—as people get more income and after they have met basic needs, they want more of everything they like: better health, more years of life, more paid time off, more flexibility. But how countries have responded to growing income and wealth is quite different, with the US, again, being an outlier. Following World War II, as

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almost every demographic group in America began living longer, the US enacted policies so that children and older men worked less. But since the 1980s and the working-longer consensus, retirement—the ultimate paid time off—has been contested and eroded. Other nations used their riches to expand leisure time to its citizen—the US fell behind and opted to expand the labor force instead.

Why Focus on Older Workers?

It is quite stunning how much older workers matter to the economy. Older workers over age 65 are projected to grow by more than 4.8 million, which accounts for most (58 percent!) of the 8.3 million jobs predicted to be created between 2021 and 2031.[34] And older workers, and how they are treated, are gaining influence in the labor market. From 1995 to 2020, the share of workers older than 55 has more than doubled, to nearly 24 percent from 12 percent.[35]

If we as a country don't do something about creating better pensions, most older people will work or will seek work under circumstances that guarantee them to have weak bargaining power. The result, because of spillovers, is less bargaining power for everyone.

In other words, the sheer size of the baby boomer cohort, coupled with their insecure pensions, means that the quality and balance of power in the American labor market depend on the circumstances of older workers. When those 5 million older adults enter the labor market, bargaining power will shift to employers because those adults won't have enough retirement income to meet basic needs. Older workers' lack of retirement readiness will shape employment patterns, the direction of public policy, and the strength of workers' bargaining power for all American workers, old and young.

The Working-Longer Consensus Is Not a Plan

As we've seen throughout this chapter, the working-longer consensus has etched itself into our nation's retirement policy for forty years. But despite its ubiquity, it is not well thought out, and its myths are causing harm to older workers and society. The working-longer con-

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sensus is also a major front in social welfare debates. Since the early 1980s, the consensus has steadily eroded the long-standing social compact that, after a lifetime of work, a person deserves some years toward the end of their life without work. The working-longer consensus makes some accommodations for a small minority of people who cannot work (e.g., because of disability), but proponents insist that most elders must either have private wealth or work. As we've seen, this seismic shift in American retirement policy rests on dangerous myths about working through old age—that work is good for older folks and good for society. The evidence demonstrates otherwise, pointing to an urgent need for sweeping change.

In the following pages, I challenge the idea that people should work longer to make up for inadequate pensions. All adults should be able to work if they want to, but the conditions and terms of that work matter. Working because you must leads to quite different results in pay, conditions, and dignity than does working with a good fallback position.

The following chapters examine the false presumption that seniors choose whether to work or not. The reality is that some people have more free choice than others. We will find out who works and who doesn't, who must work, and who has a real choice to work because they have good pensions. In short, we find those who can work for "love" and who must work for "money."

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PART II

The Hidden Costs of Working Longer

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3

Working Longer Is Often Not a Choice

Jeff Goethelf is an enterprising 47-year-old software engineer and author of *Forever Employable*. The self-published book advises older people to post instructional videos to YouTube and hire themselves out as experts.[1] In this engineer's view, every older person has a choice to work for pay. But the truth is, only a small fortunate portion of people aged 62–70 (very few people work beyond age 70) can choose whether to retire or keep working. The share of older people who seem to genuinely love to work because they can afford not to is surprisingly small. In this chapter, I show the numbers that reveal the truth of what is really happening to people who say that they want to work and to retire in a sentence whose contradictions can take your breath away: "I want to work full-time in retirement."

Who Gets to Retire and Who Has to Work?

Imagine you walk into a party with a hundred people between the ages of 62 and 70. You mix and mingle and find out who is working and learn about their finances. I assembled such a get-together but with a big government data set. My coauthors and I "met" thousands of people in a computer database of the University of Michigan's Health and Retirement Survey.

We did this data analysis because we wanted to understand why older people were working and how they were doing in retirement. What we found was disconcerting. Only eleven out of one hundred

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partygoers were financially ready to retire but were still working. By "financially ready," I mean that they would have enough income and assets to maintain their pre-retirement living standards or stay out of de facto poverty even if they stopped working. Because those fortunate few have a good fallback position, I categorize them as working voluntarily—some positive aspect of work motivates them to stay on the job. That is, they probably like their jobs. As a group, these eleven older people among the hundred partygoers are the most educated of the group. They have well-paying jobs and likely control the pace and content of their work. This is not to say the money does not matter to them, that they would work for free, but because they could retire with enough money to maintain their living standard, their primary motive to work is engagement, status, or some other positive thing.

Another ten people at my virtual party are also financially secure and retired. They resemble the archetypical retirees from advertisements on sailboats, vacation cruises, golf courses, or buying apples at small-town farmers' markets.[2] The bottom line here is that only 21 percent of Americans aged 62–70 have enough money to maintain their standard of living in retirement; ten of them are retired, and eleven are working. That bears repeating: Only 10 percent of people aged 62–70 are retired and financially stable. Eleven percent could retire and financially maintain their living standards, but they are still working.

Back to our pretend party representing Americans aged 62–70. The rest of the seventy-nine seniors—all who had worked for pay sometime in their lives—in the room, or 79 percent of Americans aged 62–70, are not faring well. The majority, 51 percent, are retired but can't maintain their pre-retirement standard of living. And the rest, 28 percent, are working and cannot afford to retire. I worry a lot about this ignored 79 percent. Much too much has been said about the 11 percent of seniors who love their jobs and keep on working. Over twice as many older workers are working because they have to, and the majority of elders aren't working and are living on income living below their pre-retirement standard of living, even after accounting for reduced transportation and other work-related

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expenses. And the research shows that a lower standard of living after retirement is correlated with having the lowest levels of mental well-being, even if one's health is stable. These seniors are in worse shape if they are forced to give up work because of layoffs, age discrimination, or something else. The financially unstable retiree has low levels of well-being because of financial uncertainty.[3]

Older people are financially unprepared for retirement, and I have established that most older people are surviving on Social Security. Even if some people in their household work, older people still cannot afford to maintain the standard of living they had achieved in their late 50s. Many of these people are living with incomes up to 200 percent of the federal poverty level. If 200 percent of the poverty line sounds like a lot, think again. The official federal poverty level is so low—about $12,000 for an individual in 2020. Twice that is $24,000 per year, or $2,000 per month. To review: At our party of a hundred people representing all Americans aged 62–70, ten are retired with enough money; eleven are working even though they could retire with enough money; fifty-one are retired without enough money; and twenty-eight are working because they presumably don't have enough money to retire on. Seventy-nine people—the vast majority—do not have more than $24,000 a year to retire on. Scary stuff.

Americans over 50 or so are very worried and tense about their work and financial future. Most people won't have enough money to retire, and most people are forced into retirement before they are ready.[4] The gut-felt reality comes up against the cultural fantasy created by the working-longer consensus that no one needs to worry; if you don't have enough money at retirement age, you can just work longer. But most people cannot work longer. When norms and expectations clash with reality, it induces anxiety.[5]

Even more revealing, 19 percent of respondents in their 50s answered yes to an oxymoronic survey question during the pandemic: "Will you work in retirement?" That response was more than double the 8 percent reported in May 2020. You read that right—"work in retirement." I am guessing neither the respondent nor the questioner blinked at the contradictory phrase. Working is not retirement. But the doublespeak lives on in America.

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The Contested Ages of 62–70

The Upjohn Institute's Beth Truesdale and Harvard's Lisa Berkman come to similar conclusions in their 2022 book focusing on a younger group, workers in their 50s, and find what people who age know viscerally. Many people in the age group—ten years younger than the group I focused on earlier—already face unstable and unfriendly labor markets.[6] My research shows that many people between ages 62 and 70 cobble together paid work and retirement leisure (table 3.1). In this contested and confusing age zone, older people are still able to be employed for pay, yet know that many of their best salaries, promotions, and chances for career growth are behind them.

For the rest of this chapter, we take a closer look at one of the four groups of elderly Americans. Who works for love or money, and who has adequate retirement income? Here is the summary of the four groups again.

- The first group (11 percent) can afford to retire but *choose* to keep working because they want to. They may be taking advantage of outplacement organizations like Encore and Career Pivot that link older workers—mostly white-collar professionals—to interesting jobs.
- The second group (10 percent) has retired and can afford to stop working altogether. They are enjoying their retirement, economic security, and well-being.

TABLE 3.1 Most people aged 62–70 do not have enough retirement income, and many work because they must

People aged 62–70	Retired (61%)	Working (39%)
Can afford to retire (21%)	10% (happy and free from work)	11% (enjoying their job)
Cannot afford to retire (79%)	51% (scraping by in retirement)	28% (working for money)

Source: Ghilarducci, Papadopoulos, and Webb, "The Illusory Benefit of Working Longer."

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- The third group (51 percent) cannot afford to stop working but were pushed into retirement, typically through layoffs or early buyouts.
- The fourth group (28 percent) cannot afford to retire and must keep working. They have no real choice.

These working seniors in the first and fourth groups, but especially the fourth group, are the focus of this chapter. These 28 people at our fictional party are working because they can't afford to retire—because without a job, they would be below 200 percent of the poverty level, living off just $24,000 a year. This group, their economic precarity—and how that fragile status affects bargaining power for all workers—represents a huge opportunity for better public policy.

Working for Love versus Money

Some older workers love their jobs. I mentioned President Biden and Senator McConnell before. In the pandemic we relied on Dr. Anthony Fauci, who is now the former director of the National Institute of Allergy and Infectious Diseases and was the chief medical adviser to the president during COVID-19. He announced his retirement at the age of 80. Some financially well-off people might be driven to keep working. And then there is someone I admire, but bristle at the attention given to, the 100-year-old yoga teacher who wondrously declared, "I start every day an optimist," featured in a 2016 AARP magazine story.[7]

And then there are the amazing seniors featured in the wildly popular 2019 book *Successful Aging*, by Daniel J. Levitin. He describes a 90-year-old scientist happily researching brain chemistry.[8] To some, it might seem that we live in an age of senior glory, a "golden age," so to speak. Many seniors might find meaning in their work and joy in the engagement. However, older people who genuinely choose to work—those who work for pay when they can afford to retire—have vastly different circumstances from those who are working because they cannot afford to retire.

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Beyond the famous few, most older workers do not control the pace or content of their jobs. Even after a lifetime of paying their dues, they are not in the driver's seat. There is some evidence compounding this: under certain conditions of job stress, hierarchy, microaggressions, and prejudice, working longer can shorten people's lives and make them sick. Very few people are working in their late 60s and 70s for sheer pleasure; more are working because their retirement income is low and unstable. Because of this, policies must be aimed at that majority. And the temperature of excitement about working-senior wonders should be dialed down.

There are hundreds of economic studies on what encourages an older person to keep working. Most presume that older workers "drive the bus" and are the masters of their own universes. In this typical conception, economists suppose that people make decisions to "maximize" their lifetime wealth, health, and enjoyment of leisure and work. Using these "free choice" frameworks, most economists downplay older people's lack of choices and the looming uncertainties about being fired or becoming injured or sick.[9]

Instead, the labor market is a dynamic set of bargaining relationships defined by power. That is why my research team posed the question: Which older people are working because they have little to no fallback? Having a weak fallback means they have little bargaining power and are employed on the employer's terms, not theirs. Older people with good pensions and high Social Security benefits can walk away from a bad job and bargain for the terms they want. Those with low and insufficient retirement income must work even if they want to retire, don't enjoy their work, or if their work makes them sick. Through this power analysis, we see the people who are working between the ages of 62 and 70 who don't have enough money to retire.

This regrettable reality has labor-market repercussions beyond this sizable group of older workers. More older workers toiling in poverty means less leverage for seniors in the larger labor market. And these dynamics of precarity and leverage in turn deepen the divide between those who can work for love and those who must labor on for survival. When older workers can walk away from their job, employers need to lure them to stay with higher pay and improved

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working conditions. Workers who have good pensions are in a better position to get employers (including shareholders and consumers) to pay more for their work. Thus, the social and political question of who among the elderly can retire and who must keep working, and under which terms, is driven by the existence of healthy pensions and retirement income. And retirement security is not doing well. When retirement security erodes, older middle-class workers can become downwardly mobile and part of the working poor.

Remarkably, given the extent of senior economic precarity and inability to retire, there has been scant research on what motivates elderly workers. When my research team began studying this in 2008, as the Great Recession was poised to take a mean toll on the oldest boomers, we were stunned to find that nobody had investigated why so many older people are still working or whether they stay on the job out of financial necessity.

Since then, a few influential studies have cropped up, but they make some problematic assumptions. Two studies—a 2020 article in a prominent academic journal and a 2016 Boston College study—advocate that people work longer and collect higher Social Security monthly benefits by postponing claiming benefits until an older age, up to 70 if they can hold out.[10] Both studies made a crucial assumption that turned out to be wrong. They assumed that people collect Social Security after they retire, which is simply untrue. The reality is that many seniors are working and collecting Social Security. Why don't they work and then collect to get a higher monthly benefit? From their wages and their other income, my coauthors and I conclude that, because of low wages and high expenses, they collect Social Security benefits while they are working to cobble together a living.

In the Boston College study, people with lower levels of education were more likely to choose to retire too early. The study emphasized individual choice over systemic analysis, conveying the idea that people had to make better decisions, including to work longer and claim their Social Security later, so that all would be fine in retirement. But the study assumed that only retired people claim Social Security and that when older people work, they continue to pile up savings in their

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401(k)s rather than spend down retirement assets. Both assumptions are wrong.

On the first count, many academics, and even the Social Security Administration, in the way they communicate material to the public, conflate claiming Social Security with retiring. The reality of the labor market is that almost all workers over age 66 are collecting Social Security. Because many of them make low wages, they are likely collecting Social Security to supplement their low pay.[11] In fact, Social Security effectively subsidizes low-wage employers. The implications of low-wage older workers collecting Social Security means that cutting Social Security for people who claim benefits before age 70 would create perverse inequality. How so? Higher-income elderly folks, who can expect a longer life, can wait until age 70 to get a much higher monthly benefit. Lower-income people cannot wait.

Readers at this point might wonder why I go to the trouble to use data to find out how much retirement income people have to infer why they are working or how they are living. Why don't I just survey people and ask how they are doing? We economists don't trust surveys of feelings. We know it is dignified to tell a journalist, a surveyor, your friends, or family that you "love" your job, that it interests you, that you have a desire to "keep busy." We all feel better if we project control over our lives. Admitting that you are working in your late 60s because you got pushed out of your career job, or your divorce depleted your assets, or that you mortgaged your house to pay for your kid's education could cause shame and depression.[12] So we infer that people are happy to be working if they are working beyond Social Security age despite having access to enough money to maintain their standard of living without working.

But if people are working because they would be poor or near poor if they did not, we assume they are working to stay out of poverty and may not have a genuine choice to retire. About 10 percent of older workers are part of the working poor.[13]

All poverty is brutal, and being poor while old compounds other challenges of elderly life. For example, housing is becoming an uncertain expense for elderly renters and homeowners faced with rising utility, taxes, and maintenance costs, and transportation and

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medical expenses take up money and time. Having about $7 to $13 a day for food—about what people living at the poverty standard and twice the poverty standard, respectively have—is difficult when you have failing capacities and are at risk of isolation. The older working poor may have Medicare or Medicaid but no time to take care of their health, or they may have uncertain social support to get to the doctor or comply with complicated pharmacy regimes. At all ages, the working poor do not have the money or time to socialize or buy gifts for friends and family. Now, imagine struggling with this after working hard for a lifetime, losing your elderly friends, and experiencing chronic ailments (if you're lucky) and social isolation. This is a predicament nobody should have to experience at any age. Further entrenching this elderly poverty, older workers generally don't qualify for the major federal subsidy to low-wage workers—the Earned Income Tax Credit—because they don't have dependent children and are over 65.[14]

Questions of Class and Education

Older workers' economic class affects their options, decisions, and conditions. To understand how class affects older workers, we can take educational attainment as a proxy for socioeconomic status. This can be a crude measure, but education levels are generally fixed and thus can more reliably determine a person's purchasing power and economic security than a snapshot of their income in time can.

Education is an important determinant of how much people work in old age, but not in the ways one might expect. It is no surprise that older people with more education work more than older people with fewer formal degrees. Educated people are more likely to be sought out by employers and offered more interesting jobs. They also started in the paid workforce later than workers with a high school education or less. I was in graduate school until age 26; my childhood friend started full-time work when she was 18. Yet at the same time, rising labor-force participation by older workers is not driven solely by education—older adults at all education levels are working longer. Across education levels, workforce participation for

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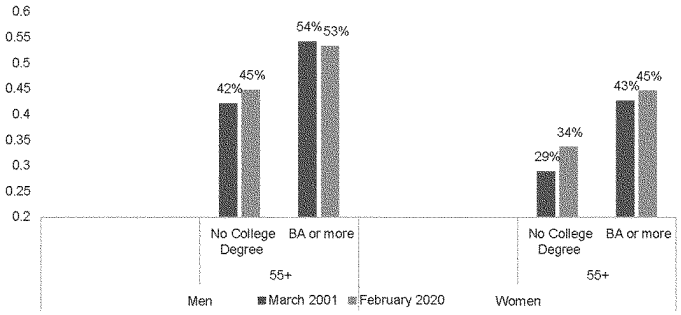


FIGURE 3.1 Working More or Less, March 2001 to February 2020

Source: Current Population Survey Monthly Data, Integrated Public Use Microdata Series (CPS Monthly Data IPUMS).

those aged 65–74 is projected to be 30 percent in 2026, compared with 18 percent in 1996.[15]

But factor in gender and the impact of education tells a more interesting story. The increase in work among older workers with a college degree or more is driven by women. Between 2001 and 2020, workforce participation among older male workers with a high school education increased, but labor-force participation among men with college degrees or more fell between 2001 and 2020.

For women, whose workforce participation continues to rise, older women with a four-year college degree or higher worked as much as older male high school graduates, both labor-force participation rates were 45 percent in 2020 (fig. 3.1).

These generational work shifts have paralleled (and propelled) longer-term slippage in wages and bargaining power. Since 1991, older men's wages have fallen relative to younger workers' wages.[16] For older workers with less education, the wage slippage has been even worse. Among workers aged 55 and over, those with a high school degree earned 12 percent less in 2017 than in 1990, while older college-educated workers lost 8 percent in that time. In contrast, during this same period, wages for workers aged 35–54 grew by over 10 percent.[17]

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Looking ahead, we can expect similar trends to continue. The two jobs that the Bureau of Labor Statistics projects to grow fastest by 2026—personal-care aides and home health aides—are low-paying jobs (24 percent earn less than $15 per hour) that disproportionately hire older women (37 percent of workers in this field are women over 55). Unless we make some changes, these multilayered inequities are likely to deepen.

Probing further, we see more layers of age-related pay inequity. At all education levels, older workers have experienced less than 1 percent real wage growth since 2007, while weekly earnings for prime-age workers (aged 35–54) grew 5 percent.[18] In prior business cycles, older workers' earnings grew at similar or higher rates than prime-age workers' earnings. Now, that relationship has been reversed. From 1990 to 2019, older college-educated men working full-time saw their real median weekly earnings shrink by almost 3 percent, even as wages increased by almost 9 percent for prime-age male workers with bachelor's degrees. Here, again, older workers' fortunes have fallen.

Older Workers Are Not Worth What They Once Were

As I write this, I am reminded of Toby Keith's 2006 hit song "Good as I Once Was" in which an older cowboy laments the loss of his youthful talent for dating and fighting. Keith could have added the loss of his employer's regard.

Once upon a time, experience mattered. Employers paid decent money for it. Economists found that workers' accumulated job experience provided an "experience premium."[19] One's years of working were rewarded by pay increases based on experience, which helped explain the difference in pay between younger and older workers. This seniority boost was especially evident when skills and knowledge were connected to a particular occupation, like teaching or tool and die making.[20] There was a time when older workers earned higher wages and enjoyed faster wage growth than younger workers. But today, being loyal to one employer does not boost earnings like it once did.[21]

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Since the early 1990s, real wages for older workers have declined relative to younger workers' wages; the experience premium is waning.[22] Older workers' bargaining power is declining, and many older workers find themselves in on-call and temporary jobs. Anemic pay and permanent layoffs among older workers indicate that decades of ladder climbing and loyalty have become less meaningful for workers nearing retirement age.

For the past twenty years, older workers have experienced falling returns for their years on the job, even after considering other factors that would explain wage losses, such as race, gender, union membership, and changes in occupation. Between 1992 (the first year the research started collecting all the necessary data) and 2002, each additional year of job tenure garnered about a 1.5 percent increase in wages per year. By the 2010s, the average returns to experience fell by almost half, to about 0.8 percent.

A 2019 Bankrate survey provides further evidence of the waning power of older workers. Half of workers aged 55–64 reported not getting a pay increase over the previous 12 months. Workers aged 65–73 fared even worse—nearly three in five did not receive a pay increase, the worst experience of all age groups in the survey. Back in 2009, Urban Institute economist Richard Johnson and colleagues found that having more work experience no longer protected older adults from job loss as it once did.[23] It's time to move that research forward. When the COVID-19 recession ended, older workers became more replaceable than anyone ever thought they would be.

For seniors who still need to work to pay the bills, the upshot of all this is that expecting a payoff for your years of experience and loyalty may cause you to overestimate your chances of working in your 60s and beyond. Returns to experience might fall even more because of the COVID-19 recession. Congress needs to get a grip and realize that people's market power falls when they get older. Knowing that the risk of job loss increases with age and that pay raises and promotions practically stop after 45 are essential facts for lawmakers, who wrongly think that a lacking of financial literacy or tax breaks are the key barriers to saving.

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The Key to Happiness Is Choice and Agency

To be sure, retirement without income is harmful, but retirement itself, under the right circumstances, promotes satisfaction, heightened control over one's time, and less depression. Retirement can boost feelings of well-being. The economist Kevin Bender found that, while income boosts well-being in retirement, its effect is small; instead, a major factor in happiness during retirement is whether one chooses to retire or is pushed out of work.[24] Money isn't everything, but financial security is the broth to the soup.

Beyond whether one is compelled to work or pushed out of a job, senior happiness and security may also depend on the form of one's retirement income. Researchers have found that among retired people with the same wealth and income, earning from an annuity (a guaranteed stream of income), compared to an equivalent lump sum that one must manage to last a lifetime, is associated with higher levels of well-being. A million dollars converted to a stream of steady income for the rest of one's life makes older people less anxious (and therefore happier) than having to manage a lump sum of a million dollars.

Here I feel compelled to add an example repeated in every elementary research methods class in college: it is important to be aware of "spurious correlations," which conflate causes with outcomes. For instance, we might notice that more babies are born in the spring; at the same time, we see migratory storks roost in spring. And so storks bring babies (many think this is how that childish story arose). In like manner, happy old people may be working, but working doesn't necessarily make them happy.

Most People Can't Retire

As we have seen, the past few decades have not been kind to older people, whether they are "retiring" in poverty or working to survive. Declining bargaining power for older workers has become a huge issue as seniors have become a more prominent part of the labor

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force and as their economic fallback—and thus their labor-market leverage—continues to weaken. Conditions for this bargaining power and retirement security are deeply intertwined.

The working-longer consensus may sound good, but it has failed older working Americans, with grave consequences for the rest of us. The inescapable reality is that, after age 62, older people have constrained choices about work and retirement. While one small subset of older people aged 62–70—just 10 percent—can retire with enough money to maintain their standard of living, most seniors (51 percent) are retired but don't have enough money to maintain their standard of living or meet poverty-level income targets. Another 28 percent are still on the job because they don't have access to retirement income that would keep them above a de facto poverty level.

BOX 3.1 How Much Do You Need to Retire?

William Sharpe, a winner of the Nobel Prize in economics, once said that retirement planning is one of the nastiest and most difficult of all calculations. It is always a struggle to make it simple for people because, in doing so, you have to wave away all the contingencies and choices that happen in people's lives. But I will provide a few rules of thumb. Save, invest, and work so that you have 10-11 times your target spending in retirement (usually the spending you did right before retirement) to fund about 23 years of retirement. I refer to standard advice that workers who begin saving 15 percent of their salary at age 25 will have ten times their annual salary in their sixties and be on track to retire. If you are fortunate enough to achieve that, you are likely also in a good position to aggressively bargain for better pay and working conditions at your job. It is rare that people can save 15 percent of their paycheck for over forty consecutive years. (My colleagues and I found that even people at the top of the income distribution have saved only five times their salary when they hit retirement age.)

Given the difficulty of meeting these targets, in a 2019 study, Mike Papadopoulos, Anthony Webb, and I shifted our definition of *need* to gauge how many Americans between the ages of 62 and 70 had retirement wealth equal to a very low poverty standard. Stunningly, retirement savings are so

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low that half of Americans between the ages of 62 and 74 don't have an income of at least $24,000 a year per person, which is 200 percent of the federal poverty level. There are two rough ways to plan for retirement—plan to maintain your current living standards in retirement and plan to keep above the de facto poverty level.

Target Number 1: Maintaining Current Living Standards

The amount of income one needs to maintain a pre-retirement standard of living varies by income level, given different tax rates and work-related expenses. Lower-income workers need about the same amount of annual income in retirement as they earned while working, whereas higher-income workers need less, about 78 percent of earnings in retirement. Most researchers and financial planners use the replacement rate targets developed by the Georgia State RETIRE project, which uses information from the Bureau of Labor Statistics Consumer Expenditure Survey. It's not surprising that many people aged 62–70 can't meet these income levels to retire. At age 62, a troubling 76 percent of married men and 86 percent of married women do not have enough money to retire. At age 70, 31 percent of married men and women do not reach the target, and 43 percent of single women fall short. Single men fall in between.

Target Number 2: Live Modestly in Retirement

Another option is to go low; set the target to double the official poverty line. Yet even at this lower target, 37 percent of married men and 86 percent of single women do not have enough to meet these humble standards. If these folks waited to retire at age 70 (less than 7 percent work until they are 70), 37 percent of married men would fall short of basic anti-poverty standards ($42,000 or more per year for a couple), while 61 percent of single women would fall short of $31,200 per year, which is near the expanded poverty level for elders.

Let's remember that we're talking about the poverty level here. I don't use the poverty standard as an absolute because having enough income to be just above the poverty level is still not a decent standard of living. The official poverty level is tied to the cheapest cost of 2000 calories a day, multiplied

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by three to cover basic shelter and clothing. The poverty level is meant to maintain life for a short period of time, not a desired or sustainable existence. In 2019 the federal poverty level was $12,140 for a single individual and $16,460 for a couple. As anyone who has lived on that can attest, it's tough to survive on this at any time of life, never mind old age, when health becomes more fragile and health-care and other costs only go up.

The perhaps well-intentioned advice from policy makers and financial planners to work longer is simply not relevant for 51 percent of the senior population and is cruel to the 28 percent who are desperate to work to maintain a standard of living that is still hovering around the poverty level. As we'll explore in the next chapter, for many older folks, work grinds them down and takes time away from leisure, self-care, and control of their time—something that becomes increasingly precious as people get older. So far, the working-longer consensus has treated this loss of time as cost-free. But there's a big price to pay.

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4

Working Longer Can Harm Your Health

A cheerful headline in 2018 in *Harvard Health News* reported working longer provides mental stimulation and staves off chronic disease.[1] Who doesn't want to stave off chronic disease? The supposed pathway between these better outcomes and working longer is that people who work at older ages can solve many of the problems of old age. It is believed, wrongly, that because an older person with a job reports being connected and socially engaged and feels useful that it is the job causing these good feelings.

It is common for the professor and the lawmaker to embrace this "work is healthy" view. In their comfortable positions, the narrative that working in old age is healthy is a convenient untruth. Indeed, it's convenient for lawmakers intent on cutting government spending and avoiding solving the retirement-income crisis to believe that people working longer will solve budget, social, and economic problems. Believing that working longer is good is a shortcut for avoiding difficult choices about Social Security and pension policies.

And I have another hunch. Because professors and lawmakers look forward to a healthy and engaged job in old age, they are not naturally motivated to research the beneficial effects of retirement on health. Instead, professors and lawmakers are oriented toward documenting the joys of working longer. But professors and lawmakers are oddballs: most people, and most older people, don't have high-paying jobs like theirs that allow autonomy and confer high recognition.

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This chapter weighs the evidence on the health effects of working longer. Briefly, the effects are complicated, but on balance, retirement is associated with greater health, control, and well-being. The belief that working longer is good for our health conflicts with a growing body of scholarship showing that older people experience work and retirement in a range of ways and that, for many people, working for pay in old age can bring illness and despair. Even the Harvard article noted that work in old age can be unhealthy for those with jobs characterized by stress, injury risks, and burnout. The question of how much work in old age degrades health is a matter of degree.

This chapter tempers the strong temptation to promote policies based on false hopes. People who want to retire and could benefit from a promise of adequate retirement income are not listened to and are shamed into working longer. The deep inequalities caused by the belief that work is good for old people are unfair. Society needs to hear from people who want, need, and deserve to retire.

Conflicting Narratives about Retirement

The Nobel Prize winner Robert Shiller warns that narratives in economics are powerful stories that spread and infect policy and greatly affect behavior. Misguided working-longer narratives have and will make many older people miserable.[2]

To counter the idea that retirement is bad for you, consider this story about one person's retirement plan gone wrong. I met this person when I testified in Congress in 2002 about the role of 401(k) investments in the Enron scandal, which eventually brought about the Sarbanes-Oxley financial reforms but not the retirement policy reforms I was hoping for. The illegality and self-dealing surrounding Enron executives' manipulation of state legislatures and energy prices often obscured the damage they caused to their employees and their 401(k) plans.

I will never forget the witness beside me who was a laid-off Enron lab analyst who lost his job during the company's bankruptcy.[3] The value of his 401(k) pension, which the company stuffed with what

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became worthless Enron stock, had tanked. He told Congress that Enron's bankruptcy and the collapse of his pension meant he had to postpone his long-awaited retirement. He planned to run a respite day camp for caregivers of disabled children. He held up a bandaged hand showing the effects of surgery for carpel tunnel caused by his return to work. I met his wife in the bathroom as she was trying to pull herself together. She told me he also wanted to retire to be able to take care of her; she had recently been diagnosed with a serious medical condition. Retirement and a secure pension would have been a good trajectory for this family. The man's shame that he couldn't retire and support his family was palpable.

The opposite narrative about retirement—that work in old age is good—is likely shaped by the lived experiences of the lawmakers and professors who shape retirement policy and like their jobs very much. In 2021, the average age of the US Senate leadership was 74; the president was 78 years old. In the same year, among professors, 37 percent were over age 55, compared to 23 percent of the US labor force. Doing research, making laws, and listening to testimony can be enjoyable into one's 70s and 80s. There is no heavy lifting or standing on one's feet all day. People in these jobs control the pace and content of their work and, crucially, are not subordinate to a boss.

In his popular 2019 book *Successful Aging*, Professor Daniel Levitan wholeheartedly recommends work—and broccoli, as you could probably guess—in old age.[4] The book features stories like that of the remarkable 94-year-old psychology professor at Stanford who found that the greater a person's sense of efficacy—that is, the sense they have that they can control their lives—the lower their stress is and the happier they are.

Levitan also cites evidence that retiring well might be the ticket to well-being, but he doesn't profile retirees. His bestseller tells stories about older workers. He emphasizes noncontroversial evidence that people are happier when they are involved with meaningful activities—this doesn't mean necessarily learning a new language at age 80—just that being engaged can have meaning. And here is where the faulty connection lies between what is obvious and the assumption work is good.

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Much of the literature wrongly equates paid work with engagement. But this might be a major misstep. Assuming that paid work is synonymous with meaningful engagement helps strengthen the belief that work makes us happy and supports the working-longer consensus.

Sometimes it seems people think retirees are unhappy. A 2019 personal finance article on the twelve reasons work is good in old age listed "leisure is boring."[5] But retirement can be a great period of renewal. Unfortunately, this view is not so common in popular culture (except in ads featuring people in their 50s meeting with money managers). People want to retire. Years ago, while on a bus at the end of a long workday, I heard words I will never forget. A passenger said, "I have 380 days and 3 hours until I can retire." His friend chuckled, "I hear you." Lawmakers and executives don't generally take buses.

Retirement Can Be Good for You

In 2008, three young economists researching health concluded that retirement could make things worse for people—this coincided with a mountain of research, some showing the opposite and some confirming the results.[6] The study showed that retired people had more difficulties with mobility and daily activities, more illness, and more erosion of mental health over a six-year retirement period than workers of the same age. Retirees in the sample reported less physical activity and social interactions than people who were working at their same age.

This finding looked bad for the pro-retirement case. But it was their conclusions and policy recommendations that stretched too far. The study argued that public policy should structure public and private pension plans to discourage retirement by reducing benefits, because working longer made people healthier. That leap in thinking is a big part of the misguided working-longer consensus.

Over the years, we have gathered more detailed data from larger samples. We can control for health status before retirement and distinguish voluntary planned retirement from being pushed out of the

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labor market for life, which makes all the difference in studies. Some older studies concluded that retiring is bad for health because the methodology did not distinguish who was sick before retirement, what their jobs were like, and whether their retirement was involuntary.[7] Being miserable because you were pushed out of your job, laid off, or in poor health does not mean that retirement makes you miserable.

In 2019, PBS broadcasted a story on forced retirement about Gary, age 63, who was forced to retire at age 61 because the media industry didn't need as many photojournalists; they get photos from internet-based services. Also, the print news business had begun to contract, so Gary "lost his full-time position and began freelance work. Over time, he was getting fewer assignments and was required to work terrible hours for less pay. Gary found the work demoralizing and felt rejected. He hadn't wanted to retire—rather, Gary felt the industry retired him."[8] It is important to compare older people who are working under various conditions to retired people who retired in various circumstances. Selection bias—in this case, that means that people who retire early are more likely to have bad health than others—was finally fixed.

BOX 4.1 Don't Confuse Sick Retirees with Workers Who Retired Sick

Imagine a researcher who is comparing a group of retirees with a group similar in every way, except the group members are still in the paid workforce. The researcher might find that the retired group is sicker and dies sooner.

Researchers can show that a 68-year-old who is working is healthier than someone of the same age who is not working, but it is wrong to conclude that it is the work that has made the person healthier. The reason is that people who experience declines in their health and mental capacity retire earlier than people who do not experience these. Therefore, the healthiest segment of the older population is employed. Would they be even healthier if they weren't working?

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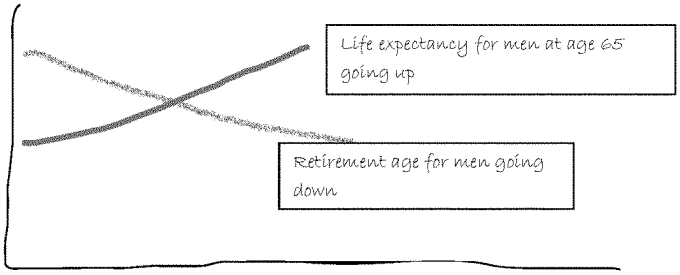


FIGURE 4.1 Napkin Graph of Retirement Ages and Life Expectancy

Better evidence turned on its head the commonplace notion that older people are living longer so they can work longer. A truer statement might be that older people are living longer *because* they are retiring more. Think about it like a graph. On the horizontal axis, place a hundred years of US history. On the vertical axis, chart men's life expectancy and retirement age (for decades women didn't retire because they didn't generally work for pay). Now draw the happy line going upward to indicate that men's life expectancy has increased over time. Next, draw the line indicating that men's age of retirement has fallen. Step back and realize the two trends could be independent phenomena or causal (fig. 4.1). I read the evidence as suggesting they are causal: being able to retire improved health and lengthened life expectancy.

Figure 4.1 is a classic Rorschach test. On the one hand, we see a yawning gap between retirement age and life expectancy, which begs the question: What are those people doing? Shouldn't they be working? Look at that! People are dying in their late 70s and retiring in their mid-60s.[9] Are older people enjoying too much retirement? The political question is this: are life expectancy and retirement misaligned because back in the day a 50-year-old man was expected to die just a few years after retiring?

Now, look at this with a different eye. Is life expectancy increasing because people can retire? Has older people's life expectancy increased because they can retire from the stresses and pressures of working for someone else?[10] Is the growing gap between retirement

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age and life expectancy related and causal rather than two independent trends? A 2021 review of nineteen studies found no evidence that working longer enhanced health, but it did find evidence that raising the statutory retirement age—the same thing as cutting pension benefits—did make people work longer.[11] The cuts in benefits were pro-work and not pro-health.

HAVING A GOOD JOB AFFECTS YOUR HEALTH

A 2008 study suggesting retirement could make people worse off spurred a mountain of research, some showing the opposite and some confirming the results.[12] The study's data consisted of people who are as alike in as many ways as possible, except one group was retired and the other working. Compared to workers, retired people experienced more difficulties with mobility and daily activities, more illness, and more erosion of mental health over a six-year retirement period. Retired people had decreased physical activity and fewer social interactions than workers. This finding looks bad for the retirement case. And it boosts the case for the working-longer consensus. And I maintain that the study's policy recommendations to cut benefits in public and private pension plans were a stretch. In contrast, more recent data from Europe—where voluntary retirement is much more common than in the United States—shows that retiring from jobs with heavy physical demands improves health, while retiring from psychologically demanding jobs reduces depressive symptoms.[13]

Increasingly, evidence, mostly from Europe—where voluntary retirement is much more common than in the United States—reveals that retiring can be good. For example, in 2018, the social scientists Levi van den Bogaard and Kène Henkens found that "escaping" work and retiring has a beneficial effect on health and well-being, especially but not exclusively for those whose jobs have high physical demands.[14] And a person who retires from a psychologically demanding job is associated with fewer depressive symptoms.[15] A 2019 study on Swedish workers and retirees teased out the effects of working longer on a range of outcomes, including well-being, and found

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that working longer was not an important independent factor, meaning that other factors had a greater effect in determining health and well-being in old age.[16]

Other studies explain that retirement's effect on health depends on not just a person's last job but also their whole job history. A 2009 European study found that people who hold poorer-quality jobs (those with a low reward-to-effort ratio, such as low-paid jobs that require physical labor or mental tedium) throughout their lives want to retire earlier than do those with better-quality jobs. The United States has one of the highest shares of all jobs that are low paying, and Norway has one of the lowest shares of low-paying jobs. Because the abundance of low-paying jobs differs widely by nation, the cross-national differences in the desirability of retirement may help explain differences in retirement health outcomes.[17] This research helps explain why workers in the United States, with its high proportion of low-paid jobs, are likely to have ill health in old age. The upshot of the research is that if the job you had before you retired was poor quality and you retired "on time," then retirement is beneficial to health.[18] Being forced to wait until you can retire is bad for well-being.

A 2013 follow-up study confirmed that not having control at work, not having effort rewarded, and not receiving significant recognition for one's work create a stressful psychosocial work environment. Retiring from that psychosocial situation improves health. But the timing of the job stress mattered. Being disadvantaged in one's work role or having suffered job insecurity and involuntary job loss in midlife meant that the negative effects of low-quality jobs were more likely to follow a person into old age. Also, retiring might help older people get healthy, especially those who have a higher propensity for depression because they experienced psychosocial stress at work or had low-status jobs. For them, working in old age is not good for them, and retirement is a relief. Men who had unstable working careers and involuntary job loss were at especially greater risk of depression in old age.[19] But note that doesn't mean that retirement causes depression; rather, depression follows certain kinds of workers into retirement.

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Another 2018 paper overcame the healthy-worker-survivor effect using the retirement researchers' all-time favorite data set—the University of Michigan Study—the Health and Retirement Study. Using this gold standard enabled controlling for a person's pre-retirement health status. Compelling evidence emerged that retirement—compared to working—improves health, mental health, and life satisfaction, and eventually, retirement reduces functional limitations. Life satisfaction improves within the first four years of retirement, while health improvements show up four or more years later. This study found no evidence that retirees improve their health because they use more health care; in fact, results indicate that retirees may use fewer medical services.[20] Somewhat related, the economist Michael Insler found in 2014 that retirement boosts health significantly because retirees are more likely to stop smoking and exercise more. It seems that maybe habits are harder to break and form while working.[21]

A study published in the aptly named *Journal of Happiness Studies* surveyed the connection between happiness, "subjective well-being," and retirement in sixteen Western European nations and the US. It concluded that retirement had a large, independent positive effect on happiness. As people aged, the effect of retirement on happiness tapered off, so that in their early 70s, workers and retirees had about the same level of happiness. But the overall effect of retirement was more lifetime happiness. People who retired had more years feeling good than their counterparts who were working. In short, the study found that working longer reduces the well-being of 60- to 70-year-olds.[22]

A final health indicator—often studied and much admired—is resilience. Resilience is the ability to bounce back from adversity or "go with the flow," or "flourish despite adversity." So, does work in old age help an older person be resilient? The answer derived from psychological studies is a flat-out no.[23] Although resilient elderly people have good-quality relationships and are integrated into the community, work in and of itself is not connected to those good social and psychological outcomes in old age.

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CLASS, GENDER, AND HEALTH IN RETIREMENT

Studies of retirement's effects on health show that they vary by class and gender (studies on how those effects vary by race are underdeveloped because researchers had not focused on those populations, and surveys did not survey enough people in these categories to make statistically reliable conclusions). Women are less likely to be bosses and more likely to have bosses at work, more likely to experience sex discrimination, and more likely be paid less for the same work as men. For women, working in old age is more likely to have low reward-to-effort ratio.[24] And low reward for high-effort jobs is a classic definition of a bad job.

Pension policy has made gender and class disparities worse. So not only do women have worse jobs than men; women with lower incomes and fewer college degrees are more likely to have even worse jobs. It used to be that in many European Union countries, women could retire earlier than men at full or slightly reduced pensions. But in a move toward gender neutrality—a laudable goal, to be sure—the modern European Union closed the gender gap in retirement ages. Unfortunately, and ironically—for the measure was supposed to promote worker well-being—instead of lowering the age for retirement for men, the nations raised the retirement age for women. For example, in Germany, women born after 1957 had to work three additional years before collecting a pension. The result was that women at the higher end of the income distribution continued to work at older ages, but women with less education became nonemployed and found themselves without pensions. The upshot is that aspiration for equality did not match reality. Women were penalized for leaving work, but little was done to help women, especially those with lower socioeconomic status, stay working. In Germany, the socioeconomic gap in wealth and well-being among older women increased.[25] Another study found insignificant effects of paid work on older women's happiness (after the state of their financial security was controlled for).[26] A similar study has not been conducted for US workers, but I have a good hunch the results would be the same.

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And paid work in old age can make health worse. In a study called "Quit Your Job to Get Healthier," the American economist Kevin Neuman found that older women workers suffer accelerated declines in health if they work longer.[27] Economist Lauren Schmitz found that older women in service jobs would become healthier if they retired.[28] Schmitz also found that older workers who have less control over their jobs suffer worse health outcomes. Continuing to work in jobs that lack the basic characteristics of good jobs—high degrees of reward to effort and the ability to control the pace and content of one's time and work—shortens life spans and hastens illness. Work can kill.

For many people, the only way to get the control they need and to get away from stress is to retire with a decent pension so they can control the pace and content of their time.

Retirement is particularly healthful for Americans. A comprehensive study of workers and retirees aged 55–75 in Japan, the US, Denmark, Germany, Switzerland, France, and England found that, on average, retirees and workers aren't much different from workers, except in the US, where the well-being gap between workers and retirees is large! For example, non-US retirees have as many bad habits as workers in those nations. Retirees smoke, drink, and exercise as little as workers do.[29] But American retirees have fewer bad habits than European retirees. Retirees in the US smoke less and exercise more than workers of the same age. And the healthful effect of retirement is stronger for male retirees. Take 68-year-old retired Max from Ohio and his friend Tom, who still works in the same plant. According to the study's findings, Max is likely to drink less alcohol, smoke less, and exercise more than Tom. American female retirees, however, drink more alcohol than their working counterparts. The study also found, to no surprise, that Americans engage in less physical exercise, likely because of car dependency and suburban living, than their counterparts in Japan, the UK, Denmark, Germany, Switzerland, France, and England.[30] German female retirees were a little like American female retirees in terms of bad habits: German female retirees and low-income retirees exercised less than they did while working.[31] And another study piles on the evidence that retirement

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is good for your health. Among eleven European nations found retirement (at about age 65) was good for a person's health. Retirement any later, the researchers noted, could make men especially sicker and more depressed than they would be had they retired earlier.[32]

Retirement is especially helpful for people who have the worst jobs, are in worse health, and have the lowest status in society and the labor market. A Norwegian study found that when individuals retired, they experienced a boost in physical health and fewer hospital stays and that the effect was much larger for people with low socioeconomic status. The main reason for the extra positive effects of retirement on those with lower socioeconomic status is that retiring reduces pain. And relief from pain gives a person more capacity to engage in daily activities of living.[33] This finding on pain was a bit of a gut punch. Pain is a big part of an older worker's life.

The disparities persist in part because people with higher socioeconomic status make retirement policy and study retirement realities. I gainsay that elites with good jobs and health advocate working longer because work has been very good to them; however, raising the retirement age is a very unpopular issue among the public.

The thing I worry most about is the relentless increase in inequality caused by policies that force people to work longer. It is true that, on average, people are living longer. But if lawmakers and analysts focus on only the average experience, too many people are hidden from view. On average, Americans are living longer and healthier, but there are such large crucial differences by class, race, and gender that policies guided by the average will certainly hurt the least advantaged the most.

For example, let's say the US Congress cuts Social Security benefits by raising the retirement age based on the conviction that, on average, everyone lives longer so they can work longer. But the evidence shows that the 67-year-old nursing home worker's physical and mental state is worse and failing faster because she works more than her retired counterparts do. The 67-year-old retiree controls the pace and content of her own time; she can avoid heavy lifting, crushing work schedules, arbitrary changes in work duties, and the fear of being laid off.

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Consider the disparity in working conditions another way. Over half of college-educated men aged 66–69 work, compared to 27 percent of those with a high school education. The more educated you are, the more likely your job is high quality, meaning it has a high reward-to-effort ratio. That means older workers, workers over the age of 65, for instance, may show up in the data as healthier than retirees, but the mediating force behind these workers' good health is class, not work. People in higher socioeconomic classes work longer and are in better health. But the work did not make them healthier. They might be even happier if they stopped working.[34]

Moreover, many people retire to escape bad jobs. Studies show retiring from highly physical jobs improves health, and retiring from mentally demanding jobs reduces depressive symptoms.[35] So, paid work for people with bad jobs makes them sick and causes pain. Retirement is their way to protect themselves against pain and wear and tear on the body and mind. If people in lower socioeconomic classes are forced to work, the disparity in health and well-being will only increase.

This recalls the credibility of the bon mot "where you were determines where you are going." If older people's jobs are getting worse, then retirement is becoming more beneficial. And if retirement is shrinking, then it is those in subaltern, lower-status groups who will be hurt the most. Unfortunately, job quality for older people is getting worse in some places and has stopped improving altogether in others.[36]

The physical demands placed on older workers today are no different from what they were in the 1990s. In 1992, 17 percent of older workers said their jobs required lifting heavy loads. That rate remained high, at 15 percent in 2014. Older Black men were more likely to do physical labor in 2010 than they were in the 1990s. Moreover, the share of workers reporting frequent stooping, kneeling, and crouching in 2014 was equal to that in 1992, at 27 percent. One in three older workers said their job required "lots of physical effort" in 2014.[37] And if you think computers save people from toil on the job, it is the opposite. Because of the computer, more older people have jobs demanding keen eyesight and intense concentration.

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Older workers are increasingly employed in low-wage traditional jobs and in alternative work arrangements. For example, by 2035, the occupation with the most job growth will be personal and home health-care aides, with more than 1 million jobs. Government data projects that three-fourths of those new jobs will go to women older than age 55—older women will be taking care of even older women (and men). Just 7 percent of personal and home health-care aides are union members, and 24 percent earn less than $15 per hour. More than 85 percent of them are women. All signs point to the largest source of jobs for older workers being important jobs for society that require high levels of physical, mental, and emotional effort for low levels of monetary reward.

Older people working longer could reverse previous gains in longevity and worsen the class and race gaps in longevity. Employers are part of that story.[38] Next time you get an Amazon package from a fulfillment center, thank a granny. The writer Jessica Bruder embedded herself with older people living in their cars and traveling the nation working various jobs. Amazon recruited these people, hiring them from their vans in Walmart parking lots. These recruits were "workampers" who commuted to rural warehouses.[39] Bruder's book went on to win the Academy Award for Best Picture in 2020.

A NOTE ABOUT SHAME AND RETIREMENT

A key negative aspect of the working-longer consensus needs attention: shame. When I congratulated a successful colleague in her early 60s on her retirement, she averted her eyes and insisted that she wouldn't be idle: "I'm not going to do nothing!" I heard about her travel, planting, reading, and consulting plans. She added evidence about why she deserved it: "If you must know, I saved for retirement and worked fifteen-hour days as a lawyer." Every time I congratulate someone on retirement, I hear this bundle of shame-tinged explanations.

Due in part to the working-longer consensus, there is widespread shame about retiring in America and not having enough money to

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do so. In America's do-it-yourself retirement system, people are expected to be prepared for retirement from their own grit, long-term plan making, and investment acumen. They are expected to control their own destiny. Not being financially prepared for retirement can induce a sense of personal failure. If someone is working in old age to make up for a perceived character deficit for not saving for retirement, shame is a shadow on their work.

Our system of retirement savings requires people to do something people can't do well, manage their money to earn a return on their investments over their lifetime that is great enough to allow them to generate income in retirement. If they fail, it is their fault, which leads to shame and depression. The system sets them up.

Elders are especially sensitive about the state of their wealth (or lack thereof), and that feeling corresponds with their feelings about their own mortality. Recent research supports this idea. The economist Hannes Schwandt found that losses of wealth cause mental and physical health to deteriorate.[40] Also, poor people are more likely to be depressed and richer people to be happier, all other things held equal.[41] People who go into debt have sharp increases in mortality. Debt has an independent negative effect on life span.[42] Participants with the same wealth differed in health depending on the trajectory of their wealth. Those with negative wealth shocks during a twenty-year period had a significantly increased risk of mortality compared to those with steady increases in wealth.

I look forward to more research with better data to ferret out the hunch that older workers who don't have enough retirement income to retire (i.e., about two-thirds of all older workers) are more depressed, are more frustrated they can't spend more time doing what they like to do, and feel more shame because they were not able to save enough to retire.

Policy makers aiming to cut Social Security and not make any moves to improve pensions are warned that hoping people work longer to make up for the inadequacy of our retirement systems may not work. Evidence is mounting that work makes older workers sick and that retirement is good for almost everyone.

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The Opposing View

So, despite ample evidence of voluntary retirement's salutary effects, why does retirement get such a bad rap among economists? There is some older evidence that suggests retirement is bad for health and working in old age is good for health. In 2011, Coe and Zamarro examined broad measures of health and found retirement has a significant negative effect on health for retired construction workers who stopped exercising but kept up a high calorie intake.[43]

And popular media has an opposing view that retirement is good for health. The media message that "70 is the new 50" supposedly sells financial products, cruise vacations, and vitamins. This message, though, promotes the wrongheaded belief that everyone can work longer because, on average, people are living longer. But life expectancy isn't health expectancy. A longer life does not mean better health at every age. A 2017 study compared the health and vitality of older people in the twenty-first century, say 70-year-olds, to 50-year-olds in the 1970s and found similarities.[44] Comparing the health and workability of today's 70-year-old with yesteryear's 50-year-old is typical of studies arguing for working longer. The methodology is the front line for advocates of working longer and raising the retirement age. They are wrong.

Hear me out. This study concluded if Americans today worked as much as those with the same mortality worked in the past, the retirement age would be much higher than today's average retirement age of 63. For instance, the article argued that because in 2017 a 69-year-old had the same expected life span as a 62-year-old in 1977, that person should work five more years to get as sick as their counterpart 62-year-old was in 1977. I put up my red flag here and reject the authors' blithe assumption that how long people in their 60s worked in 1977 is the appropriate benchmark for an economy that is forty years older and richer. The study assumes that all life expectancy gains should be translated into additional years of work and that leisure or retirement time has no value. If back in 1950 people got to retire for twelve years, that does not mean that twelve years of retirement is today's target. No other aspect of living standards

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is benchmarked to 1950. Today Americans expect indoor plumbing, paid vacations, clear air, auto safety, and civil rights. These were not widespread reality in 1950.

As I mentioned earlier, the 70-year-olds in 2022 may be as healthy as the 50-year-olds in 1960 because the 70-year-olds retired when they were 60. Today's older American may be healthier than a younger American in the past *because* more people were able to retire. Turning causation on its head and backward means that many of the cheerleader studies for working longer neglected a significant factor that improved population health: retirement. From the 1940s through the 1980s, older people were working less and retiring more. And as we have seen, mounting evidence suggests that working less causes health to improve. Making older people with the same expected number of years to live work as much as their counterparts did decades ago could reverse health gains. The working-longer consensus also challenges the social legitimacy of workplace victories. As the nation got richer, workers gained rest, recreation, self-growth, and control over the content of their time, which comes about in many forms of paid time off—paid holidays, vacations, sick leave, and retirement.

KEEPING BRAINS SHARP

Another area of vibrant research is scholarship on the effect of paid work at older ages and brain health. Any conversation about brain health and aging is electric. People panic about losing their cognition. So many of us were moved by the book or movie based on John Bayley's *Elegy for Iris* about his wife Iris Murdoch's failing brain, or Julianne Moore's Academy Award–winning performance in *Still Alice*. Many of us bristle or laugh nervously, or do both, at the endless self-deprecating and ageist jokes about "senior moments."

A 2014 French study concluded that elevated levels of cognitive and social stimulation boost brain health. Dementia risk was lower among more than 400,000 French people who became self-employed after age 60 or who had been self-employed their entire career, compared to those who stopped working at 60.[45] This brain-health effect of work was explained through "coherence theory." Coherence theory

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holds that controlling what you do and how fast you do it supports cognitive health and that independent, self-controlled work can help older people age successfully. However, another French study of work among the elderly failed to find retirement from paid work had any negative effect on brain health. (In fact, having a job requiring extreme physical and mental effort damaged health, confirming the evidence presented earlier and also common sense.) The workers, the researchers concluded, would likely be healthier had they retired sooner from their arduous job.[46]

A leading study in the pro-retirement case was a well-circulated and somewhat sensational 2010 study called "Mental Retirement," which compared Americans with Europeans. It concluded that working longer improves mental acuity (after careful accounting for acuity before working longer).[47] The supposed causal pathway from work to greater brain health was inferred because the researchers presumed that paid work keeps people mentally sharp through physical activity and social connection. And how the authors arrived at that conclusion may have explained the paper's popularity! They speculated that American elders' memory test scores were higher than Europeans' because in the US a greater share of older adults works than in Europe. They concluded that the pathway to a better memory is mental stimulation from work. They further presumed retirement from work causes "mental retirement," and therefore that retirement contributes to cognitive decline. However, cognitive decline in Europe could be caused by shrinking social networks or the despair caused by being pushed out of a job into retirement—many European nations allow mandatory retirement.[48] Subsequent studies find its involuntary retirement that hurts mental health in old age, rather than paid work helping people be healthier. Evidence from a 2016 study of older British men is consistent with the "use it or lose it" argument.[49] The results were not as strong for women who retired from rote jobs. No wonder people are afraid of retirement. But the jury is out on this cognitive effect on retirement, and more research is needed that examines the class aspects.

As we might imagine, the conclusion that Europeans experience more mental decline than Americans produced an immense amount

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of backlash research. One European study cautioned that the fact blue-collar, manual labor workers in Europe can retire earlier than Americans and have less education and score lower on cognitive tests may have led to the spurious conclusion that Americans are smarter because they don't retire as much as Europeans do.[50] In any event, the more we probe the link between paid work and cognitive health, the more nuanced and complex it looks. A 2019 study found that women's cognition (not men's) improves with working compared to their retired counterparts.[51] Another study reported that having a part-time job can alleviate some symptoms of depression but part-time jobs erode physical health.[52] A 2020 study concluded that UK pension reforms that equalized retirement ages between men and women by cutting women's pensions led to substantial increases in women's probability of depression, especially among women in poorer-quality jobs with lower socioeconomic status, what the study called "lower occupational grades."[53] Being in a high-strain job characterized by high demands and low control is a pathway from working longer to bad health.

Beyond all these variations, the research shows a pattern: retirees who are married, engaged in physical activity, and who voluntarily retired generally do well in retirement. People in unstable, controlling, and insecure jobs also benefited from retirement. People who retire and don't exercise and stop seeing people are likely to deteriorate quickly. And even if work is good for many people and retirement can be problematic, the leap between evidence that retirees do less exercise and have fewer human interactions to the policy recommendations retirement ages should be raised and pension benefits cut is illogical and a ridiculous lack of attention to what pension systems are built for.

ANTICIPATED PSYCHOLOGICAL LOSSES FROM RETIREMENT

Only a few people have the privilege to decide to retire or not. Some of these fortunate people may not retire for a compelling reason, but a compelling reason doesn't mean it is a good, noble, or particularly

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salubrious one. People may work longer when they have the means not to purely to avoid the fear of the unknown. Staying in paid work is the status quo, it is known. Work, without our conscious thought or intention, provides many psychosocial benefits: easy time boundaries; ritual use of time; self-identification; meaning; and emotional support. However, staying on the job to avoid losing these benefits achieved with no effort means forfeiting a personal growth opportunity to create one's own structure and meaning. Avoiding psychosocial losses is something "to work through," say therapists. The few people who have the choice to retire or not, therapists say, need to intentionally consider how to manage what is lost when they stop paid work.

Therapist Kate Schroeder describes the emotional side of retirement in terms of people losing valuable emotional supports that the workplace provides: claims on your time, structure, and identity.[54] In this light, the feared psychological losses from retirement can make working longer more attractive. This therapist points to a choice. One can avoid these losses by keeping the status quo and working longer. The second choice is to embrace personal growth and take on the emotional tasks and benefits of retirement.

The "tasks" of retirement involve finding ways to make up for what's lost by no longer working. I use a mnemonic device for emotional retirement losses—PRIME, for *protection, routine, identity, meaning,* and *emotional regulation*. Each of these is a loss that must be replaced or mourned before people are ready for retirement, assuming, of course, that they have the financial means to retire.

The first thing we lose at retirement is protection, in the sense of protecting time from others' needs. When you are on the job, you always have the excuse that you can't do something because you are working. You may use work to protect yourself against being overwhelmed by an elderly relative or spouse's needs. People sometimes use work to protect themselves from their real selves. Work's demands, Schroeder argues, help us avoid setting our own boundaries.[55] Thus, the task of retirement is to protect yourself and create boundaries—to create time for yourself that your paid work once filled up.

When I took a friend to lunch to celebrate his retirement, I asked

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which loss troubled him most. By the time our meal arrived, he had confessed that his main loss was protection. Saying "I can't, I have to work" saved him from many family chores. He spent the first week of his retirement taking a relative to four medical appointments. He later told that relative a trivial lie that he went back to part-time work. That's protection.

The second thing we lose in retirement is routine. Ever since kindergarten our days have been highly structured. First, we go to school, then we go to work. Our psychological task in retirement is to give ourselves some structure.

The third thing we lose in retirement is identity. Many professionals are reluctant to say they are retired. One day an article appeared in my daily news feed that argued that we shouldn't even say the word *retirement*.[56] Euphemisms for retirement include things like "third act" and "consulting"; the best thing this article came up with is the Spanish word *jubilación*, which means retirement but to English-speaking eyes looks like *jubilation*.

The next loss is meaning. Many workers, particularly in white-collar professions and skilled blue-collar trades and crafts, derive meaning from their work; the completion of tasks, projects, and products was valued by their peers and sometimes by their employer or society. The work may have been challenging, and conquering it produced added meaning.

The last loss is emotional regulation. In a good job, one can get daily (or many times a day) microdoses of dopamine when someone says, "Good job." Even with lousy supervisors, the satisfaction and accomplishment of analyzing and complaining about those supervisors is an important social experience at lunch. Retirees' task is to find that same kind of emotional regulation and social connection on their own.

There are powerful reasons to keep working beyond money. How much one loses at retirement depends very much on the job and employer. These psychological factors make involuntary retirement so devastating.

Over decades of studying workers and retirees, I've learned that to know the mental health outcome of a retired person, the first thing

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I want to know is not whether they're rich or poor, Black or white, female or male, but if they were pushed out, involuntarily retired. Mental health instability, including depression and anxiety, can come from suddenly losing protection, routine, identity, meaning, and emotional regulation.

If money is not an issue, a person contemplating retirement needs to weigh the psychological benefits against the psychological costs of leaving paid work. This is difficult when the known costs of leaving work are felt in the moment and the benefits of retirement are in the future and unknown. This asymmetry of certainty and time helps explain why someone who is financially able to retire would decide to keep working. People need time to assess who they are and how to replace the boundaries, structure, meaning, identity, and socializing they lost in retirement. People who must retire involuntarily or work out of financial necessity don't have this privilege of self-paced introspection and deliberation. The monetary losses when a person is forced to retire are difficult to manage and compounded by psychosocial losses. These psychosocial losses are relevant for everyone and need replacing. But just because paid work provides some of them, it doesn't mean that boundaries, structure, meaning, identity, and emotional support can't be found outside of paid work.

Remember from an earlier chapter that only 11 percent of seniors aged 62–70 are working even though they can afford to retire. Twenty-eight percent of seniors (aged 62–70) are working and can't afford to retire. These eleven out of one hundred are the small group with special positive factors on their side: they have enough money to retire on—so they can walk away from a bad boss and bad job whenever they want—and they are still wanted in the labor market. It's safe to conclude that these folks are apt to get meaning, identity, emotional satisfaction, and other benefits from working for pay.

THE WORK-HEALTH CONNECTION IS COMPLICATED

You might have an uncle who had a heart attack as soon as he retired. Or you have some friends who retired and feel depressed and lost without structure to their day. Change is hard, and these sto-

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ries might loom large when you contemplate your own retirement, worrying that retirement will be boring and may cause mental decline and isolation. You might avoid retiring. And if you do not have a steady pension or do not have access to sophisticated financial knowledge, you may continue to work just to make ends meet. Take heart, the research on health and working longer is ongoing and, in general, shows that voluntary retirement yields superior results at all income levels. But working because you need to, under the conditions your employer dictates, may be bad for your health. In effect, the research indicates controlling the pace and content of one's own time is beneficial.

The impression that retirement is bad for health might loom large over lawmakers as they restructure pension systems in hopes that longer work lives will save the government budget. If you are a policy maker trying to balance the budget by cutting pensions, then stories and research about unhealthy retirement may make you feel better about not attending to the retirement-income crisis and pursuing pro-older-worker policies. This chapter has reviewed the literature on how retirement and work in old age affect health and well-being. Scholars agree that older studies tended to wrongly conclude (because of selection bias) that retirement was bad for health because older workers were healthier than people of the same age who were retired. The research that controls for the fact that people in poor health tend to retire sooner than healthy people shows that retirement has a neutral to positive effect on health. The big exceptions to those who benefit from retirement are those who retired because they were forced out of their jobs. Involuntary retirees tend to have more physical and mental problems and would be better off if they retired when they planned to retire.

This chapter also draws out the equity implications of pushing older people to work longer. If more people are working longer or are forced to work longer, older workers who are in subordinated groups—those with lower socioeconomic status, women, and nonwhites—will more likely be in lower-paid, lower-status jobs. I have established that being in those kinds of bad jobs when you are old has a measurable negative effect on health and longevity. Working longer

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could reverse historical longevity gains among subaltern groups and those in jobs with low ratios of reward to effort.

Elders forced to work longer will likely experience a deterioration in their health and well-being. At the same time, those with good retirement income will continue in enjoyable jobs or enjoy their income-secure retirements. The consequences are bad for equity. The longevity for the underdog group falls as it improves for older well-off individuals who can structure their time to their liking.

Public policy aimed at lengthening work lives and not improving pensions has two effects: it widens socioeconomic gaps in longevity and morbidity, and it creates an even more unequal distribution of healthy retirement time. Retiring before age 65 is a way some people can make their retirement time longer and more equal than people with higher incomes and status.

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5

Working Longer Creates Unequal Retirement Time

Time away from work is like water or the sun—a vital resource for human beings. As societies grow wealthier, their residents typically clamor for more time for leisure, more family and friends, sometimes education, and more self-care. In advanced market economies, government policy, trade union demands, and employers' human resource management practices all play a role in permitting most workers to retire.

Retirement is conceptually akin to any kind of paid time off, such as paid vacation, sick leave, and, for salaried workers, the conventional weekend and an evening off. If we want an equitable society, we need to know if everyone gets this paid time off equally—presently, they don't. To understand these inequities, we need to measure the amount and distribution of time off work. Who gets to retire and for how long? Only by measuring can we assess our nation's progress toward equality of this important little-heralded resource, paid time off for life.[1]

Wealth is associated with more time off. Nations and households consume more time away from sweat and yoke as they grow richer. The postwar growth in pensions and the expansion of Social Security, Medicare, and Medicaid diminished gaps between rich and poor. Stark differences in wealth, access to health care, and time off shrunk. The rich and the poor were confirmed social entitlement to a special kind of time—time that grows in value as it becomes scarcer when people approach their death.

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I fear that American workers are approaching the end of their lives with more inequality than when they were working. For the first time in modern American history, gains in retirement time are concentrated at the economic top. Let's set aside for now the political and philosophical questions of who deserves a healthy retirement, and what does it matter if only the rich can have it?[2] This chapter measures the distribution of healthy retirement years—who gets how much paid time off in their final years.

People Have Very Different Retirement Lengths

There is considerable research on working time, but I've yet to see any on the duration of people's retirement time.[3] Few scholars even try. Luckily, Alicia Munnell, director of the Center for Retirement Research at Boston College, is trying. I am highlighting her work because I trust her numbers and her compassion for the human side of retirement and work.

But Munnell stresses the financial benefits of working past age 65. I get it: I didn't protest when my mother stayed in her job selling classified ads until age 72. But now, I cringe when I think of her getting up so early to beat a grueling commute and the several car accidents she had. Her pay was less than $32,000 per year (in 2007), and she collected Social Security as soon as she could. As I first wrote this chapter, my mother was 83 and a bit sick; I hoped she would get twenty years of retirement life. She died at 84, with just twelve years of it. Was that too much?

In Alicia's eagerness to sell the idea of working a few more years, she insists that today's normal life cycle is to work forty years and retire for twenty. She hints that one retired year for every two working years is unacceptably generous given historical ratios of three years to one. If people were to push back their retirement age by four years, Munnell argues, they would work forty-four years and retire for sixteen, presumably more acceptable because this mirrors historical ratios.[4] Put that way, it may sound logical to trim the ratio, meaning work longer. On its own, this assertion about the ratios may seem

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obvious. After all, many of us know people who worked for thirty years and lived another thirty years in retirement. But new data just don't bear this out as common—in fact, quite the contrary.

Munnell, in making her moral argument, proposes that in the name of moving forward, we go back to the past, when we all worked for a greater proportion of our adult years. Back in the 1940s, Munnell implies, the US achieved the "right" ratio of work to retirement years, four to one. As the US and other developed nations grew, richer workers demanded and received more paid time off: vacations, holidays, sick leave, family care, and retirement. But there is no precedent in social policy making to argue for conditions that were in place when a nation was poorer, so why go back to that era's retirement levels. Munnell's assertion overlooks inequalities set in place by working-longer policies: better-off folks who live longer may not lose retirement time, but lower-income people who did not benefit from longevity gains most certainly do.

Facts about retirement length are hard to come by, inspiring me to open a new path of research, the results of which are in this chapter. I unfortunately have found much shorter averages than the twenty years Munnell found. It's also important to move beyond those averages and glean the distribution of retirement—this is the equity question of who gets the precious resource of time for their own actualization before they die and who does not.

The inequality of retirement time is caused by the crossing of two swords: growing inequality in retirement wealth and growing inequality in longevity. These inequalities are deeply connected. If people who died sooner had retired earlier than those with longer and healthier lives, then retirement time could be distributed more equally. Retirement trends depend on trends in retirement ages and length of life. But simply subtracting average longevity from average retirement age gives a distorted impression because both are unequally distributed, so we must go deeper and look at retirement ages and longevity by race, class, and gender.

As far as I can tell, my study of retirement time is the first of its kind, which is surprising: time is precious and universal. This is likely

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because no data was previously available on this. To really get at this question, researchers need to know a lot about people when they retire—jobs, health, wealth—and when people died and how sick they were when they retired. The state-of-the-art Health and Retirement Study (HRS) from the University of Michigan has that data, but collection started only in the 1990s. In the past few decades, there were not enough people who had retired and died (ghoulish but a research reality) to get a large enough sample to determine the characteristics of who and who did not get a healthy and fair amount of retirement time.

By 2018, enough people in the HRS database had died that we could begin exploring and learning. My coauthor Anthony Webb and I constructed a sample of people to figure out who had lived for how long and how healthy they were after they withdrew from the labor force.

Here are a few kernels from our findings: Men are more likely than women to die without retiring. Black women spend the most time in retirement sick. If men have a defined-benefit (DB) plan, they catch up with women in retirement time. Higher educational attainment helps women obtain more retirement, although men with higher socioeconomic status have more retirement time than do women with less education.

One significant reason men have less retirement time than women is straightforward: over time, private employers have replaced DB pensions—the usual ones we think of, the kind that pay out benefits for life—with 401(k)-type plans. Among men with low levels of formal education, not having a DB plan makes them more likely to delay retirement, especially while they are still healthy.

With so many different types of retirement plans out there, Social Security options, and flexible retirement dates, policy makers and academics hoped that people with shorter life spans could compensate by being able to retire earlier. Increasingly, they can't, because they lack secure DB pensions. Given current patterns and trends, access to retirement time (and healthy retirement time) is likely to become more unequal as pension wealth and longevity inequalities increase.

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Retirement Ages Are Unequal

The story of Americans working longer at older ages is one of vastly divergent realities. Alongside the happy, healthy 75-year-old pediatrician who chooses to work is the 75-year-old janitor with ailing joints who must work for money to survive. The Black construction worker with a chronic sore back leaves work at age 61 and struggles until he can collect Social Security, while the college-educated white woman came late to accountancy at an auto parts firm, loves it, and retires happily at 75. The average retirement age—64.4 years for men and 64.2 years for women—doesn't give that rich detail. The real story of retirement and the quality of elder life lies in the distribution of retirement ages.

The economist Courtney Coile's effort and others to discover why Americans are, on average, retiring at later ages is a good place to start telling the story of American retirement behavior.[5] Coile analyzes all the imaginable push and pull factors that encourage older workers to work longer. Better health had a negligible impact on whether Americans work longer, which surprised most of us in the field. Being able to work longer did not pull people into longer work lives. One reason health does not appear in the data to be a crucial factor driving people to work is that healthy people like to retire—health makes retirement more fun. Push factors, such as workers having risky types of retirement accounts—more 401(k)s and fewer defined-benefit pensions—and many workers not even having a pension or 401(k) account, are significant factors in Americans' later retirements. Pull factors such as the elderly being more educated and having a spouse who works also helped explain the increasing average retirement age.

The problem is that attempts to reckon with why people retire at the age they do tend to assume that individuals have control over when they retire. The methodology of these studies is such that employers' priorities—their needs, habits, and power—are not considered by the model, although what employers want is germane to a person's retirement decision. This is a huge oversight. But many

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noneconomists are discovering something that may seem obvious: the quality of the job a person has when they decide to retire or when their employer decides they should retire is a key factor explaining the age at which that person retires. Employer actions, including outright age discrimination, workplace speed-ups—efforts to make workers work faster—and pressuring older workers to retire, must be part of the retirement picture. Most retirees tell researchers they are directly or indirectly pushed out of work because of a lack of training or microaggressions around age discrimination, or they are laid off.[6] This complex, contested terrain of employers' priorities is a major factor driving who retires, when, and how.

Let's shift our retirement lens away from averages to focus on inequalities by race, gender, and class. How do these inequalities shape who gets to retire and when? Analyzing who identifies as men and women separately (the existing data set requires people to identify as male or female, or the surveyor does it for them; these binary categories are clearly a limitation that must be rectified in modern research). To discern people's class status, we use their highest level of educational attainment.[7] We use non-Black and Black because there are too few people in the other categories who have retired and died for us to be able to make meaningful inferences about class and health impacts.

Since people retire at about age 64, gender on its own does not explain differences in retirement time. However, when we dig into some nuances, we find subtle yet significant differences. For instance, even though they live longer on average, women do not automatically get more retirement time. Many men retire early, and upper-class men have the same life expectancy as women. Don't ever be fooled that class can overcome many other differences.

People in the lowest third of educational attainment for their age group retire earlier, at about age 63. Men and women in the highest third of educational attainment retire later—close to 66 for men and 65 for women. As a rule of thumb, those in higher socioeconomic classes work longer. In other words, while gender affects some layers of the retirement picture, class makes a bigger difference.

The Health and Retirement Survey, with its extensive information

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TABLE 5.1 Retirement ages for individuals who have survived to age 52

	Men	Women
Average	64.4	64.2
Lowest third of educational attainment	63.3	63.1
Middle third of educational attainment	64.1	64.6
Highest third of educational attainment	65.6	64.7
Black	62.5	63.5
Non-Black	64.7	64.3

Source: Health and Retirement Study (HRS), Institute for Social Research, University of Michigan, https://hrs.isr.umich.edu/about.

on life and work histories and age of death, allows me to limit my analysis to those who worked most of their adult life and lived until age 52. This older worker sample lets me examine the effects of class, race, and gender on retirement time.[8]

What did I find? Race, independent of class, significantly affects the age at which someone retires. Black men retire earlier. Non-Black people—controlling for education attainment—retire at older ages than Black people. The average retirement age for Black men is about 63, and for Black women it's a year older.[9] Non-Black men work more than two years longer than Black men; meanwhile, non-Black women retire at almost one year older than Black women (table 5.1). But I don't really care about retirement ages by themselves; I'm interested in retirement time. I hope to live in a nation where people who die earlier get to retire sooner.

Longevity Is Unequal

A central yet often ignored part of the retirement picture involves how long people get to live. Despite some other progress in racial disparities, race-based longevity gaps have grown over the past half century. In 1950, postretirement life expectancy for Black and white

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men at age 65 was equal, about thirteen years. Now there is a two-year difference in longevity for older men by race, and the probability of their even surviving to age 65 is widely disparate. While 81 percent of white men make it to age 65, just 70 percent of Black men do. Meantime, class-based longevity gaps have also widened. In the past twenty years, all our longevity gains as a society went to those in the upper half of the income distribution.[10]

The COVID-19 pandemic widened racial longevity gaps. Although US life expectancy is projected to fall by 1.13 years after 2021, declines for Black and Latino people are three to four times higher than for whites.[11] And nonwhites were much more likely to have had COVID—nonwhite people will suffer disproportionately from long COVID, making working longer even more difficult.

Life expectancy calculations by socioeconomic class are more complicated. Looking beyond the COVID-19 nightmare, the deeper we delve into the data, the more visible is the potent role of class in determining longevity. In looking at these numbers, we found that what everyone thinks is true is not true.

People think women live longer than men, but that's only in crude average terms. Bring in class-related factors, and the picture changes: men with the greatest educational attainment live longer than women with the least education and longer than Black women. That may sound sadly unsurprising, but what it shows us is that more than gender is at work, and class differences significantly sway longevity differences.

Once a person makes it to age 52, women in the highest education category live the longest at slightly older than 84 years, while men in the bottom education category live six years less just about 76 years. But as we might expect, high-income men live longer than low-income women. We shouldn't overestimate the role of gender in determining life expectancy—class matters greatly.

Class is a significant factor explaining an individual's predicted longevity. Brookings Institution economists Burtless, Bosworth, and Gianttasio found that women born in 1940 in the top 10 percent of household earnings who lived to age 50 were expected to live another 28.5 years.[12] Women in the bottom 10 percent who lived to age 50

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TABLE 5.2 Longevity for individuals who survived to age 52 and worked for pay during their adult lives

	Death Age	
	MEN	WOMEN
Average	78.1	81.9
Lowest third of educational attainment	75.9	79.0
Middle third of educational attainment	78.4	82.1
Highest third of educational attainment	79.9	84.4
Black	75.3	79.4
Non-Black	78.6	82.5

Source: Health and Retirement Study (HRS), Institute for Social Research, University of Michigan, https://hrs.isr.umich.edu/about.

were expected to live only another 22.2 years. Rich people have more of everything, including life span.

But these are group statistics; none of us knows when we will die. As I have emphasized throughout the book, to behave optimally, American retirement policy requires that individuals play the longevity guessing game. And individuals will certainly get it wrong. I knew one couple, married for forty years, who worked skilled professional jobs longer than necessary to be sure they'd have enough. Two months after they left their cold Northern city to spend their golden years in the sunny Southwest, the wife was diagnosed with terminal cancer. Before her diagnosis, longevity tables predicted she would live another twenty years (table 5.2). Instead, she died three years later. They'd followed expert advice to a *T*. An early death was possible, just not probable or predictable.

Retirement Age + Death Age = Unequal Retirement Time

The longevity findings from the University of Michigan data corroborate previous research, including a 2015 study coauthored by Anthony Webb,[13] showing that for all those baby boomers born in 1946,

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the predicted retirement time for the highest educated man is 20 percent higher than for men with the least education (19.9 years compared to 16.6 years). Using more up-to-date data, we find the same pattern. In other words, the socioeconomic class divide in retirement has expanded for this prolific generation that's now older than 75 and well into what could be their retirement years.

Now that we have the two key ingredients that determine retirement time, we can put the inequality in longevity and differences in retirement ages together and estimate the unequal distribution of retirement time.[14] Here are our key findings:[15]

- Retirements are shorter than people might think—typically about fifteen years.
- Class matters more than gender. (High-socioeconomic-status men live longer than low-socioeconomic-status women.)
- Low-socioeconomic-status women have sixteen years of retirement time, but they spend a third of that time ill or disabled. Women with the most education get nineteen years of retirement and spend 20 percent of it sick and impaired.
- Black women have a 6 percent increased chance of being sick or impaired in retirement.
- Men with a traditional defined-benefit pension plan have a whopping advantage in retirement time—2.7 more years than people with a 401(k)-type plan. And men with DB plans are less likely to die while working or to be sick in retirement.

THE WELL-OFF LIVE LONGER IN RETIREMENT

The beauty of statistical analysis is that we can control other factors to isolate what independently affects people's retirement time. Controlling data in several ways can illuminate fascinating nuances that explain who gets to retire and when and how.

What the research tells us is that higher socioeconomic status helps people attain longer retirements.[16] But socioeconomic status matters more for women than for men, so gender does sway older

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workers' experiences in addition to class. As we've seen, educational attainment is not correlated with men's retirement time—but why? One reason is that people with higher levels of education retire and die at older ages. We find another class indicator: women with the highest levels of education secure the most retirement, at nearly twenty years on average.[17]

But when we controlled for what kind of pension plan men had, differences in socioeconomic status melted away. Men with no pension or retirement plan get the least retirement, just 10.4 years on average. Below, let's slice the data further to show the rich layers affecting retirement time, proving adages old and new: it's complicated, and intersectionality matters.

WOMEN LIVE LONGER BUT UNHEALTHIER

Because gender shapes the distribution of work and home responsibilities, it helps explain differences in retirement time. Paid work, compared to home responsibilities, remains a task highly delegated to men, so men may be more commonly discouraged from retiring and more likely to take on paid work as their responsibility, and thus they are more likely to die on the job.

The main reason women get more retirement time is because they live longer. On average, women get about eighteen years of retirement and men just under fourteen years; this is because women live almost 4 years longer and retire 0.2 years earlier than men. This idea of withdrawal from work is complicated by much of women's work being not paid.

Gender roles express themselves, of course, in heterosexual partnerships. Married and partnered women have about twenty years of retirement time compared to divorced or separated women, who have only a bit more than fifteen years. Partnered women probably have more support and are healthier. Married women live much longer than divorced or separated women—to about age 82 compared with 79. For men, the roles and retirement relationships are reversed. Married or partnered men work longer, perhaps because of pressure

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from their gendered role as workers—they have only slightly less than sixteen years of retirement time compared to divorced or separated men, who have more than sixteen years.

BLACK PEOPLE HAVE A SHORT RETIREMENT

Without isolating independent factors, we see stark differences in retirement time by race, especially among women. Black women get significantly less retirement time than non-Black women, about sixteen years compared to over eighteen. Black women retire nearly a year (0.8) sooner than non-Black women, but not soon enough to compensate for dying more than three years earlier. Non-Black men have about fourteen years of retirement, and Black men have under thirteen years of retirement time. Adding to the disparities, while Black men retire more than two years earlier than non-Black men, they die more than three years sooner. Earlier retirement does not make up for early death.

Isolating race as an independent factor in making retirement time short and unhealthy is difficult because race is intertwined with other factors, including access to health care, whether one resides in what public health experts call "healthy communities," and workplace protections from injury and illness. Although research shows that being Black is associated with many discriminatory and cumulative disadvantages over a lifetime—lower pay, having a greater chance of living in poverty and in poor neighborhoods, and experiencing racism and a lifetime of macro- and microaggressions—race on its own does not produce a statistically significant effect on retirement duration when we control for socioeconomic status and type of pension plan.[18]

Black Americans may be able to get as much retirement time as non-Black people of the same socioeconomic status and retirement plan type—but only if they are able to retire early to make up for shorter life expectancies. Union defined-benefit plans in industries with disproportionate shares of Black workers—auto and steel workers—had substantial effects on racial retirement time equity. The data show that Black workers may retire earlier than whites, but it is not a good retirement if it isn't voluntary. There would be little

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solace in having retirement time equity if you were pushed out of the labor market by family responsibilities, racial discrimination, or other industry and occupational factors, such as having a poor-quality job.[19] Bottom line, race affects the quality of retirement, not just the quantity: being Black is independently correlated with the amount of retirement time spent sick or impaired.

DEFINED-BENEFIT PLANS LEAD TO THE LONGEST RETIREMENT

The amount and quality of people's retirement time depend significantly on the kind of pension or retirement plan they have—if any at all. Workers with traditional, annuity-based, guaranteed-for-life pensions—DB plans—experience longer and healthier retirements (i.e., without major health issues) than do people with 401(k)-type plans or no plan.

To understand why DB plans allow people to get more retirement time, we need to know how they work compared to 401(k)-type plans. First, employers are not required to provide retirement plans, and most do not (far more did until the 1980s). Employers can provide a DB plan, a 401(k)-type plan (defined contribution, or DC), or nothing. The DB plan pays a pension for life based on salary and length of employment. The benefit is defined.

In contrast, DC plans pay a lump sum equal to all employee and employer contributions plus or minus investment returns; workers manage these plans, often with significant distress. DB plans are more secure than DC—they pay a lifetime annuity, do not allow people to withdraw money before retirement, earn higher risk- and fee-adjusted returns (because of more diversification and DBs have lower fees), and do not allow eligible employees to opt out, thus strengthening the plan's pooled funds.

Given the quite big differences between these offerings, it's not a surprise that DB participants retire about two years earlier than otherwise similar workers covered by DC plans or uncovered workers. Two key differences may help explain why. DB plans are more generous—people do not invest their own money or withdraw it. DC

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plans create incentives to keep working because people accrue more money.[20] Because DC plan values are tied to financial markets, people may try to minimize their considerable risk by working longer.

These plan disparities also may explain why people with DB plans tend to live longer than those with DC plans or nothing. Men with DB plans live a larger share of their retirement time free of limitations from illness and disability and are less likely to die on the job than men who have no retirement plan or who have only a DC plan. Men with DB plans live until 80 on average and retire at the relatively young average age of 63.6, for a retirement duration of 16.9 years—compared to 14.5 years for those with a DC or 401(k)-type plan and just 10.4 years for men with no plan. Following a similar pattern,

TABLE 5.3 Differences in retirement time for individuals who survived to age 52 and worked for pay during their adult lives

	Retirement duration (years)			
	MEN	WOMEN	SHARE OF RETIREMENT TIME SPENT SICK	SHARE WHO DIED WITHOUT RETIRING
Average	13.7	17.7	26%	9%
Lowest third of educational attainment	12.6	15.9	35%	10%
Middle third of educational attainment	14.3	17.5	26%	10%
Highest third of educational attainment	14.3	19.7	20%	7%
No retirement plan	10.4	16.9	29%	13%
Defined-benefit plan	16.9	19.4	23%	4%
Defined-contribution plan	14.5	17.8	25%	6%
Black	12.8	15.9	38%	10%
Non-Black	13.9	18.2	24%	9%

Note: The distribution of educational attainment is relative to one's birth cohort.
Source: Health and Retirement Study (HRS), Institute for Social Research, University of Michigan, https://hrs.isr.umich.edu/about.

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female DB participants attain 19.4 retirement years, while women without retirement plans get only 16.9 years (table 5.3).

Having a secure pension for life—proxied here by a DB plan—significantly decreases the likelihood that men will die before retiring while increasing their retirement time. This is likely because DB plans are more prevalent among unionized workforces and are often designed to allow blue-collar, working-class men a way to retire before becoming eligible for Social Security.

The DB plan design enables some workers whose jobs are injurious to their health to retire earlier to compensate for their expected shorter life span, potentially equalizing retirement time. But that's just for union workers and some others who are fortunate enough to have such a plan. Equality of retirement should not be left to chance and luck. A nation's pension system should allow for disadvantaged groups to retire earlier than others to compensate for their shorter life expectancy and higher morbidity, as was often accomplished through union contracts in manufacturing, metalworking, and extractive industries. Disability insurance produces a similar equalizing effect.

Who Gets Healthy Retirement Time?

Although women have more retirement time than men, they spend a larger proportion of their retirement sick or impaired—26 percent of their time in retirement compared to 23 percent. Notably, Black women spend 38 percent of their retirement sick or impaired, while high-socioeconomic-status men and women spend only 20 percent that way. Working longer affects health differently depending on the type of work. Forcing elders to work to make up for eroding pensions could increase class- and race-based retirement quality gaps. The retirement health gap is particularly significant for women. Similarly, Black men and women have relatively less healthy retirement time than non-Black men and women do (when we don't control for other factors).

As with retirement time, the type of retirement plan has an

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impact on health in retirement. Starkly put, DB participants are healthier in retirement. Women with DB plans spend 23 percent of their retirement disabled, compared with 29 percent for women with no coverage and 25 percent for women with DC plans. Men with DBs and DCs each spend an average of 20 percent of their retirement disabled, compared with 28 percent of men without retirement plan coverage.

For all workers, lacking a workplace retirement plan causes a hefty 28 percent increase in length of retirement time spent with limitations on the activities of daily living (ADLs), a shortcut term used in health care and research to assess how well people can engage in their own daily care. ADLs are a big deal. Medical professionals and researchers often use a person's ability or inability to perform ADLs as a measurement of their functional status. The absolute number of ADLs someone needs assistance with reveals how functional they are: zero is the best, and ten means that one is, in practical terms, helpless. The type of pension or retirement plan (if any) makes a difference not only in how much retirement income one gets but also in how healthy people are in retirement.

In a parallel reality to who gets to retire, we probed the data to ask, Who doesn't ever get to retire? Who works until they drop, "dying in their boots"? The answer to this morbid yet important question is multilayered.

Men work longer and live shorter lives, which gives them a higher risk of dying without any retirement. Strictly along gender lines, 14 percent of men die without ever retiring, whereas 9 percent of women meet this grim fate.

Among men, DB plan participants experience the least risk; 6 percent die before retiring. Having a DB plan decreases a man's probability of dying in his boots by almost 8 percent. In contrast, having no retirement plan increases that likelihood by 10 percent.

Along class lines, 17 percent of men with the bottom third of educational attainment die without retiring, compared to 14 percent for those in the top third. Men with less education die on average at age 76, while more highly educated men live an average of about 80 years. Interestingly, the risk of not being able to retire does not vary by race among men.

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Among women, those who are widowed or lack a retirement plan face the highest risk of dying without retiring—15 percent and 13 percent, respectively. As with men, women with DB plans face the lowest risk of dying in their boots, at just 4 percent. High-socioeconomic-status women face a 7 percent chance of dying without retiring, whereas women with less education encounter a 10 percent risk.

BOX 5.1 Women and Precarity

Women study, earn, and work more than they did a hundred years ago—a sign of progress in the fight against sex discrimination—but women with equivalent skills and education still earn less than men, which adds up to much worse retirement security in old age.

The social construction of women's work and domestic life makes women dependent on the government or quixotic and unstable kin, charity, and the kindness of strangers, putting women in precarious situations as they grow older. Women are not paid for the domestic and generative care work they do at home, and that devaluation of women's labor carries over into the workplace. Since all retirement savings stem from deductions from a paycheck and Social Security credits stack up according to years in the paid labor force and earnings, women's subordinated earnings and uncompensated and uncredited care work suppresses retirement contributions and Social Security credits. In short, since a woman's labor is compensated less than a man's throughout her life cycle, her retirement is more fragile, and she faces a higher risk of poverty than men.

Here is what happens to women over the life cycle that makes women's retirement so precarious. Men and women take out similar college loans and pay the same tuition, but when they graduate and hit the labor market, women are paid less. In 2020, women only received a bit over 80 percent of men's median hourly earnings in the United States and were paid less in comparable jobs.

Adding injury to women's lower pay is that women in the US spend almost twice as much time as men doing unpaid domestic chores. And parenthood rewards men and penalizes women. Fathers increase their working hours, whereas mothers tend to reduce their time in paid work leading to a life with

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interrupted career paths, part-time work, or employment in more flexible low-wage occupations. Economists identify which relevant factors matter more to cause the gender pay gap—and the biggest ones are women's occupations pay less, women trim their hours to take care of family, and employers pay less to women because they think they are less valuable, and women will accept the lower pay.

The 401(k)-type plan design disadvantages women, who first drain their accounts for children's needs and to fund job transitions. Furthermore, because women retire earlier than men and their life expectancy is longer, women make do with their smaller savings over a longer period. The upshot is older women's poverty rates are higher than men's. The average old-age poverty rate for women in the OECD hovers around 16 percent (men's is about 11 percent). In the US, over one out of four women and one out of five men are poor in old age.

Retirement Time Is Bound to Become More Unequal

The equalization of healthy retirement times was an achievement Americans forgot to celebrate. The practical ability and social "right" to retire is becoming more contingent on whether a person is disabled or has saved enough money. Others, it seems, are not so deserving. A signature achievement of the postwar period—the democratization of who has control over the pace and content of their time after a lifetime of work—is being reversed.

This chapter has presented data never seen before.[21] I put together a unique data set from the Michigan survey and used a sophisticated methodology to reveal how retirement time goes to those at the top—to workers with higher socioeconomic status from their greater health and wealth. Another point to keep in mind: more highly educated workers are more likely to be appealing to employers. The top 20 percent have it both ways: they can retire, and they can work in jobs they like.

Making Americans work longer is especially harsh because people in the US already work more hours per day, more days per year, and more years per lifetime than their counterparts in any G7 nation—

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a subset of large nations in the OECD. As the title of an op-ed by *Financial Times* reporter Sarah O'Connor indicates: "Living longer does not mean we should all work longer."[22] And in the working-longer bastion of the United States, there is layer upon layer of inequality in obtaining time to rest and recreate in one's later years.

The growing gaps by race and class of longevity and retirement wealth lead mainstream economists to conclude that cutting retirement benefits like Social Security will make socioeconomic inequality worse.[23] Likewise, if the racial and class inequalities in longevity, morbidity, and retirement wealth continue to grow along with do-it-yourself DC retirement plans, then healthy retirement time will become even more unequally distributed.

How many years do we have to work? How much healthy retirement time do we deserve? If people work for forty years, then is ten years too few and fifteen years too much? What is fair, and who gets to decide? The answer is not an economic number, even though political and social debaters want economists to provide an answer and conjure a magic ratio of work time to retirement time. We can't. Too many variables matter. For instance, in sheer economic terms, people who are highly productive in their working years—and in general, the nation's workers are quite productive—can afford longer retirement times.

As we'll see in the next chapter, the prevailing advice on working longer does not work for people's lives. Real-life factors make working longer a poor gamble for obtaining retirement security. Many jobs in old age are lower paid. With low pay, older workers claim their Social Security earlier and do not get the reward for waiting—the delayed retirement credit—that maximizes Social Security benefits at age 70. Few workers wait that long, and so they pay the price, which is a precarious old age.

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6

Working Longer Does Little to Improve Retirement Security

A Morningstar personal finance column carried the fetching title, "Working Longer Can Be a Win-Win."[1] Typical of the genre, it contains seemingly good advice: work longer so you can "put off" that dreaded "dipping into savings" and delay Social Security to "improve your financial position once you do stop working." The advice is not altogether wrong—it's just irrelevant. Many older workers cannot and do not follow it, and for good reason: the advice parrots fifteen years of the working-longer consensus that's based on unreal assumptions.

Contrary to the column and to the reams of papers and pixels making a similar case, working longer does little to improve retirement security. But how can that be? Why does working longer not significantly help people become financially better off in retirement? Unfortunately, these are not easy questions to answer. Easier to find are advice columns and academic papers dispensing the sunny conclusion that there are many upsides and few downsides to working longer.

At a 2019 Brookings Institution conference on the benefits of working longer, Alicia Munnell again extolled the value of toiling a few extra years: "Many of today's workers face a serious income shortfall in retirement. . . . [A] few additional years in the labor force can make a significant difference. Extending our work life produces additional earnings; it can lead to a substantial increase in monthly Social Security benefits; it allows us to contribute more to our 401(k) and for

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our balances to earn additional investment income; and it shortens the length of retirement."[2]

Striking a sympathetic tone, Steven Sass, associate director of the Center for Retirement Research at Boston College, advises that many older workers "damaged by the recession" in 2007–2009 could "dramatically improve their retirement income by delaying retirement." The main reason these workers aren't doing this, he says, is it's "something they don't know."[3] But deeper inquiry reveals a more profound reason many elderly workers aren't dramatically improving their retirement security—because the advice just doesn't match up with people's realities.

To understand these realities better, my coauthor Anthony Webb and I analyzed a special survey that asks the same people questions over decades. This rich "panel" data set can tell us what people do over time. When people actually tell you what they are doing, you don't have to rely on spreadsheet simulations and guesses. Among other findings, our inquiry reveals that the key assumptions behind the advice—that older workers can save more and delay claiming Social Security benefits—are unrealistic. The only valid assumption is the grim one: working longer helps people afford retirement time precisely because it *reduces* the time one has in retirement. The logical policy extension of this bleak path is to "solve" the retirement funding problem by killing retirement altogether. That is a political choice—and one must wonder whether society will tolerate shrinking retirements in a wealthy nation full of hardworking people.

Again using the University of Michigan's HRS, my colleagues and I found that older workers work in jobs that often pay less than they earned in their "career" jobs. Also, older workers are much less likely to be actively participating in a retirement savings plan at work. In this reality, there is little chance that older workers will save more while working longer.

We found something surprising and unsettling for the working-longer policy architects and advocates. Our evidence makes the working-longer consensus case much weaker. Advocates for working longer stress that working longer enables older workers to delay

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claiming Social Security to get a higher benefit, to save more, and to not draw down any retirement savings so they will be better off in retirement. But examining how actual people live, we found that working longer barely improves people's retirement-income security when they do finally retire. Battling financial stresses, a sizable portion of workers over age 62 claim Social Security benefits while working and never get the large monthly benefit increases enjoyed by those who can afford to wait.[4] We found evidence that working longer did not improve financial preparedness for retirement as much as advocates said it would.[5]

Rethinking the Advice to Work Longer

The advice to work longer is meant to be practical and helpful. Working longer also has the magic of a free-lunch fix to inadequate retirement wealth and aging populations.

Back in the 1980s, when Reagan's deputy labor secretary Malcolm Lovell pushed policies coaxing older people to work longer, many hoped this extra labor would reduce the harm caused by Social Security benefit cuts and the increased risks from DC, or 401(k)-type plans, replacing traditional pensions. Lovell called for people to work more in old age to avoid falling short of retirement-income targets and plunging into poverty. Fifty years later, it's clear that Lovell's hope was not fulfilled. One major reason: the advice to work longer to boost retirement well-being is based on false information and assumptions.[6]

Despite the generous delayed retirement credit in Social Security, the pressure to supplement already-meager wages by collecting Social Security while working seems too great for low-paid older workers. One can imagine the relief of one such worker who can finally increase their pay with benefits. That allows them to work longer and collect Social Security in addition to wages![7] However, the penalty for claiming early is that the Social Security benefit is a lot smaller each month for the rest of one's life. That's a steep price to pay in old age.

Working longer was supposed to enable older workers to save more for retirement. But the added years of toil do not help as much

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as the consensus's architects wanted to believe. The data reveals that even if older working people refrain from collecting Social Security, they don't save money or stop withdrawing 401(k) money while they are working. In fact, when they finally do retire, they have less money saved up, not more, than before they were working longer, as our research shows. For example, at age 67, I knew someone who withdrew money from his 401(k) to buy a sturdier car to commute to work. Others undergo surgeries for chronic ailments such as carpel tunnel syndrome so they can keep working. When he was laid off at age 72, he was left with a nice three-year-old Honda that he barely drove and a much smaller 401(k).

The one way working longer makes retirement affordable is that it shrinks retirement time. Working longer means dying sooner after retiring; thus, a small amount of money covers a shorter retirement time. But this "reason" merely exposes the uncompromising and flawed vision of the working-longer consensus: solve the retirement crisis by killing retirement. As a rich nation, we can do better than that.

Most Workers Claim Social Security Benefits While Working

We tend to associate collecting Social Security with retirement, but it turns out that most people collect while they are working. Even college-educated older workers claim Social Security before age 70, when maximum benefits kick in. Over half (54 percent) of those claiming benefits while working do so to supplement low wages.[8] The other 46 percent are boosting their income, many times because their jobs pay less than what they once earned.[9] By age 66, not only do the 48 percent who claim Social Security earn less on the job than they would from benefits alone; they also have less than $20,000 in savings. For them, the decision to claim is both simple and reasonable—they need the money.

For other aging workers, multiple factors conspire to cause them to work longer and claim Social Security earlier. Foremost among these are cuts to Social Security benefits, the erosion of secure defined-benefit retirement plans, and most important, increased education levels of workers.

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Between 1993 and 2000, 24 percent of workers and 59 percent of retirees claimed benefits at age 62. Reflecting the working-longer trend, between 2005 and 2009, a smaller share (17 percent of workers and 48 percent of retirees) claimed benefits at age 62. But after attaining the so-called full retirement age (this varies for those born between 1943 and 1959 and reaches 67 for those born after 1960—for example, it is 66 years and 2 months for those born in 1955), almost all workers combine work with benefits.

In 2018, more than half of 65-year-olds who worked claimed Social Security, and by age 66, 89 percent had claimed it.[10] But claiming while working can damage one's retirement finances. People who claim and continue to work at older ages do not benefit from the generous delayed retirement credit.[11] Compounding inequities, the well-off are more insulated from this harm than others because they can wait to get the credit.

The disparities in who needs to tap benefits early mirror broader inequities in retirement security. Full-time and college-educated workers are less likely than part-time and non-college-educated workers to collect Social Security while working to supplement their wages. Between 2008 and 2012, 73 percent of economically disadvantaged workers aged 65 claimed benefits, compared with 23 percent of better-off full-time workers. A smaller share of college-educated workers (36 percent) claimed while working, compared with 54 percent of non-college-educated workers (table 6.1).

What's particularly perverse about incentives like the delayed retirement credit is that part-time and non-college-educated workers are less likely than full-timers and the college educated to delay claiming, but these lower-income folks would benefit more by delaying because they are less likely to meet their replacement rate targets because they have more debt and lower levels of wealth.

To truly understand which workers supplement their pay with Social Security benefits and how they can be helped, we need to know more than their income and wealth levels, their education, and their work status. Where are they working? What are their jobs like? The system never intended for most older workers to claim Social Secu-

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TABLE 6.1 Workers aged 60–64 who are receiving Social Security worker benefits

	Age					
	62	64	65	66	67	70
Full-time workers	9	15	23	85	91	100
Part-time workers	35	61	73	95	98	100
College-educated workers	15	22	36	84	98	100
Non-college-educated workers	23	40	54	93	95	100

Source: Ghilarducci, Papadopoulos, and Webb, "The Illusory Benefit of Working Longer on Retirement Financial Preparedness."

rity benefits while working. The grand design hatched in the Reagan era—which was based more on hope than on evidence—was that cutting benefits at earlier ages and raising them at older ages would mean that society, employers, and people would just behave differently and work more. But an entirely different economics took over. Employers benefited. Over half of older workers who claim Social Security while working, 3.8 million, earn less than $23,000 annually. Most older personal-care aides, cashiers, and office clerks, and half of all schoolteachers, collect Social Security while working (table 6.2). Workers' collection of Social Security surely helps employers because Social Security supplements their low wages, so employers don't have to. Incidentally, requiring older people to work to be eligible for food stamps also helps employers get access to an increased supply of workers willing to work for less.[12]

As we might expect, low-wage workers are three times more likely to claim benefits at age 62. However, by age 66, almost all members of both groups collect benefits (95 percent and 91 percent, respectively). Some higher-income workers also claim Social Security. Perhaps they want to be able to consume more. Of those higher-income workers, 6 percent claim at age 62, and 39 percent claim by age 66.

My coauthor, Anthony Webb, did this project with me to correct the mistake he made in his previous work. The old paper, using

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TABLE 6.2 Older workers in select low-wage occupations who received Social Security benefits while working (surveyed in 2020)

	Share collecting Social Security benefits	Number
Personal-care aides	60%	150,658
Cashiers	60%	136,096
Office clerks	55%	145,925
Receptionists and information clerks	53%	106,213
Teaching assistants	53%	85,614
Elementary and middle school teachers	50%	195,451
Janitors and building cleaners	49%	168,417
Retail sales clerks	47%	165,092
Home health aides	43%	60,770
Drivers and sales workers and truck drivers	41%	240,860
Secretaries and administrative staff	39%	149,790

Source: Annual Social and Economic Supplement, Current Population Survey, 2020.

heroic assumptions, concluded working longer induced more older workers to delay claiming Social Security. But our project, using real human behavior, found that the incentive induced an increase in claiming age by only 3.7 percent, while Anthony's older, widely cited paper predicted an increase of 21.4 percent in the age of claiming.

Workers claim Social Security before they retire for many reasons. But I fear they also claim in part because of poor communication from the Social Security Administration.[13] Social Security pamphlets often talk about claiming and retiring as if they were the same thing. I suspect many people think they will die sooner than they probably will, or they want to claim what they have earned. (One of my co-commissioners on a high-level federal commission examining Social Security and pension policy told me he heard a janitor in the Social

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Security waiting room tell an older woman not to claim too early—to no avail.) We need more research on communication, beliefs, and fears to understand why people claim Social Security when they do. But make no mistake, it is clear that most older workers claim Social Security before age 70 because they need the money.

Older Workers Likely Do Not Save Additional Funds for Retirement

Another crack in the working-longer consensus is the assumption that older people who stay in the workforce continue to save in their retirement accounts. In my research, I have yet to come across any good data on how many folks in this age group withdraw from their accounts. It seems that people withdraw from their retirement accounts before retirement for many reasons.[14] The assumption that all older workers continue to save while they are working is an assumption that makes working longer look good on paper. But because most older workers don't save for retirement while working, working longer is not so helpful to their retirement security.

Why don't older workers save for retirement after age 62? First, only about 43 percent of older workers between the ages of 62 and 64 participate in a retirement plan. As older workers age, their retirement savings rates decline. Among 65- to 66-year-old workers, the savings rate falls to 42 percent; for workers between the ages of 67 and 70, retirement plan participation falls to 37 percent (table 6.3). And remember, these low rates are for workers who are fortunate enough to have a retirement plan; most don't even have the option to participate.

As we can see, the evidence is stacked heavily against the notion that working longer into old age boosts retirement security. Not having a retirement plan at work or not participating in one bodes poorly for any kind of wealth accumulation. The harsh reality is that most older workers do not have jobs with 401(k)s or pensions—so they must draw on Social Security and savings while working—then they either tread water or sink. Moreover, older people are taking on more debt than ever before.[15]

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TABLE 6.3 Workers with retirement plans at work

	Age group	
	YOUNGER THAN AGE 62 (%)	AGE 62–70 (%)
Access to a plan at current job	46	49
Participating in a plan at current job	40	43

Source: Survey of Income and Program Participation, US Census Bureau, 2020.

Working after 62 Does Not Significantly Boost Retirement-Income Security

Basing our research on survey data instead of modeling activities, my colleagues and I found working longer, from age 62 to 70, increases monthly income during those work years, but crucially, that extra work does not boost retirement security nearly as much as overoptimistic financial models would have us believe.[16]

Work-longer advocates use models that predict people who act in certain ways and face favorable circumstances are better able to meet their retirement-income targets. These predictions are so favorable that one study says that the share of households able to meet retirement-income targets would increase from 23 percent at age 62 to an alluring 64 percent at age 70. If the circumstances these predictions assume were true, then financial retirement readiness could be solved simply by policy makers—through the clever design of Social Security benefits—coaxing people to work longer. We wish that were true. Even among those who work to age 70, households' preparedness for retirement grew from 23 percent to 41 percent—not even across the halfway mark. That means that more than half of folks who labored to age 70 still weren't financially ready to retire. Working longer does not solve the retirement crisis.[17] How do we explain this huge gap between models and real-life reports? Two-thirds of the disparity stems from the fact that most workers do not delay claiming Social Security.

Based on our statistical analysis, the big, shiny result is that working has no independent effect—positive or negative—on being finan-

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cially prepared for retirement.[18] This turns conventional wisdom on its head. Working at older ages does little to improve financial readiness for retirement—and working does *nothing* to increase people's income-replacement rates.

We found no difference in changes in retirement readiness because of working longer among those with college degrees and those with less than a college education, those married or not, white or nonwhite, healthy or sick. In another surprising result, we found that, regardless of education, most workers claim Social Security benefits by age 65.

The only significant factor on retirement finances and working longer we found is when people were born (which is sheer luck), because that determined their age at the time recession struck.

Workers born between 1937–1941 and 1942–1947 were aged 62–70 during the Great Recession and stock market plunge of 2007–2009. These unlucky people just happened to be born in the years that would make them about age 64—cue the Beatles' "When I'm Sixty-Four"—when the big recession hit in 2008. These folks experienced smaller increases (between 3 percent and about 5 percent) in their retirement-income replacement rates, even if they worked as long as their older counterparts (born between 1931 and 1936), who had surpassed age 70 before the Great Recession. Another factor weakens the "work longer" case. Even for households where a college-educated spouse works past age 62, working longer can make things worse for retirement preparedness. Why? These spouses are unlikely to earn more Social Security credits—they will not have any of their top-thirty-five earning years after age 62—and the increased consumption during working years only steepens the income decline after retirement.

Being Financially Ready for Retirement

We further clarify the work-longer or retirement-readiness picture by asking more questions: Which factors help predict who is and isn't ready for retirement? Under which circumstances does working longer help make retirement more affordable? How do larger

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socioeconomic inequities shape the retirement picture? And what does "readiness" mean when older folks are so often in or near poverty? It bears reminding that by age 66, only 31 percent of men and 35 percent of women have enough income to maintain their pre-retirement living standards and stay above the poverty line. In such precarity, are these people ready to retire?

The usual suspects—those with high earnings and wealth—are more likely to be headed for a comfortable retirement. But there are still some surprises: some low-income workers have solid and secure finances (those with DB pensions), while some high-income workers and surviving spouses face cruel downward mobility in their living standards when they retire.

BOX 6.1 For a Vast Majority of People, Working Longer Does Not Make Up for Low Retirement Savings

What can and should older folks do if they're stuck without a decent pension and retirement security? Can working longer make a difference to a person's retirement well-being? The answer is a little bit, but not as much as you think. Using reasonable assumptions about jobs and pay for people aged 62–70, we found that a college-educated person working full-time in a job with retirement benefits and paying more than $15 an hour could increase their retirement-income replacement rate by about 15 percent over eight years. Sounds good in theory—but in real life, this kind of person is usually retired! In other words, the folks who could benefit from working longer are the ones most likely to retire and be well off. So, we're back where we started.

Others who are financially unprepared for retirement may take on part-time work. But paradoxically, working part-time can make one less prepared for retirement. The share of older male workers in part-time jobs increases with age, from a little over one-fifth of men who are working at age 62 to over 40 percent at age 70. Older women workers show the same pattern. As you might guess, people who work part-time are less likely to be prepared for retirement. The best advice: do whatever you can to delay collecting Social Security early. Delaying Social Security by even one year increases the income-replacement rate by 3 percent per year, and that adds up.

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Keeping a job, taking on more work, and cutting spending are all good efforts to keep one's head above water. But these strategies won't do much to boost retirement security; individuals acting on their own have limited agency. What's needed is real federal assistance and policy leadership.

Using statistical techniques (and the best data) that isolate various independent effects on retirement readiness, we found no differences between two people who are statistically alike in every way except that one works between age 62 and age 70 and the other does not. Simply put, working longer does not help people be ready for retirement in any significant way. Except for one thing: Your economic situation at age 62 is the rare factor that can sway whether working longer affects your retirement preparedness. If you are a low-wage worker at 62, working longer can decrease your chances of reaching your target income-replacement rate. Although this does not guarantee you'll worsen your finances by working past age 62, it does mean that working for low wages beyond age 62 makes it more unlikely that you will be prepared for retirement. Equally worrisome, a whopping 53 percent of all 62-year-old workers earn less than $15 an hour.[19] This alone presents huge public policy and societal challenges that must be addressed. As we might expect, folks working past age 62 who earn more than $15 per hour have a better shot at retirement security.

Working for low wages hurts your chances of being financially prepared as much as being nonwhite and having lower educational attainment. At ages 66 and 70, workers making less than $15 an hour are 9 and 8 percentage points, respectively, less likely to be financially prepared for retirement than nonworkers.

The people most financially prepared for retirement are workers with the highest educational attainment. Among 66-year-olds who meet their retirement-income targets, 61 percent have a college degree.[20] At age 62, individuals with a college degree are 19 percentage points more likely to be financially prepared for retirement than those with high school education or less. Meanwhile, among the large group of retirees who are not ready, only 16 percent have a college degree. But a college degree does not give you immunity

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from financial disappointment in retirement. Among older workers who cannot meet their retirement-income targets, 30 percent have college degrees.

And it should be no surprise by now that the type of retirement plan one has is key to retirement financial readiness. The person with a DB plan, who is alike in every way to someone with no retirement plan or just a 401(k)-type plan, is much more likely to be ready for retirement.[21]

Beyond education and pay, the lifelong effect of structural racism also influences who is ready to retire. Black people are less likely to be prepared to maintain their living standards or stay out of poverty in retirement, as one might expect given racial discrimination and being treated with less regard in the labor market. At age 62, 13 percent of Black men are financially prepared to retire, compared to 25 percent of white men.

Working Longer Isn't Working

In conclusion, American workers financially unprepared for retirement are faced with the advice to work longer. This is not useful or relevant advice to most people approaching their early 60s. The reality is, working longer has a far smaller effect on retirement preparedness than predicted by numerical simulations, so-called spreadsheet models, and working-longer advocates. If seniors can find work, many must still supplement their low wages by claiming early reduced Social Security benefits and forgo the rewards for claiming Social Security at older ages.

Strengthening Social Security and expanding employer-sponsored retirement plan coverage would give those with poor labor-market options a real choice between work and retirement and would enable them to delay claiming Social Security. This would strengthen seniors' circumstances in their final years, allowing them to live in comfort and security.

Despite the significant rise in older workers, we still do not know enough about why they work, the jobs they have, and with whom they compete. In 2018, there were 43 million people over age 65 in

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the US labor market—and growing numbers of them cannot afford to retire. But there's a powerful labor-market dynamic at work here, too. Coaxing elders who do not have pensions to seek work and accept any job they're offered tilts bargaining power toward employers. The next chapter explores how this buyer's market affects older workers, examining how Social Security's implicit wage subsidy, which effectively raises employers' after-tax and transfer income, could be a boon for businesses.

BOX 6.2 Delayed Retirement Credit: A Gift to the Well-Off

The generous delayed retirement credit (DRC) increases benefits by 8 percent for each year a person waits to collect Security after full retirement age. The credit was intended as a modest inducement to work longer and delay claiming; the intention was not to penalize someone for working longer. But the reality is inequality.

In 2000, interest rates were a lot higher, so the 8 percent was set to mimic ordinary returns, and it assumed that everyone had the same chance to live a normal life span. But now returns on the typical retirement portfolio are between 3 percent and 5 percent, and the gap in morbidity by race and class is grotesque. The intention was that the 6 percent to 8 percent credit for delay claiming (and not taking an early retirement reduction) would be fair (actuarially speaking): the monthly benefit was only higher if one waited to claim because everyone had about the same longevity. Whether one collected sooner or later was not supposed to matter because the higher monthly benefit compensated for collecting for a shorter amount of time. But socioeconomic class and structural inequalities had their effect, and it turns out that people who have the money to wait are also the people who have jobs that induce health and who have better access to health care and healthy lifestyles—almost all the longevity gains are going to them.

The average claiming age rose, and some scholars believe the stick of Social Security benefit cuts and incentives of higher benefits by waiting are the main factors behind the rising labor-force participation among older people. Other scholars don't credit the incentives as much as the rise in work being a passive consequence of each cohort being more educated. The stick of

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eroding workplace retirement plans is another reason older people work longer.

My colleagues and I added more insight by finding retirement is not the worker-controlled event that policy makers and economists would have us think. Half of retirees say they retired because they were laid off or otherwise pushed out of their jobs—many seniors cannot work even if they want to. And we found many are working because they have no practical choice.

And the growing gap in longevity means that the juicy incentives to work longer are going to the well-off. People who can delay claiming Social Security until age 70—just under 9 percent—are in a swanky room all to themselves. Almost everyone else claims before age 65. The people who claim at 70 are those who not only can afford to wait and reap Social Security's generous delayed retirement credit (DRC) but also need the increased benefits the least. Quite an inequality paradox.

And that 9 percent is not timing retirement to the claim age of 70. Many have already retired; they just have enough money to wait to claim Social Security benefits and take advantage of the best financial deal on the planet—a guaranteed return between 6 percent and 8 percent for every year one waits to claim past 62. Waiting to claim from age 62 to 70 raises one's monthly lifetime benefits by more than 30 percent. The elite turned the claim decision into an investment decision rather than a work decision. The DRC is indeed a good deal for well-off people who can make optimal investment decisions. But there is no evidence that the DRC is doing what it was intended to do: incenting ordinary people to work longer and delay claiming to be better off when they retire.

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7

When Older Workers Lose, All Workers Lose

In 2020, the movie industry served up a compelling illustration of how older workers are losing bargaining power when a film about real-life and fragile senior citizens won the Academy Award for Best Picture. *Nomadland* featured Amazon's CamperForce program and the road-weary older "nomads" who work there and in low-paid seasonal jobs. Frances McDormand's character in her early 60s, Fern, lives out of a van and takes on low-paying Amazon warehouse jobs.

Fern's story is based loosely on the real-life accounts in Jessica Bruder's nonfiction book, *Nomadland: Surviving America in the Twenty-First Century*.[1] Most of the homeless older workers Bruder interviewed took to the road after the Great Recession wiped out what little retirement savings they had and could no longer afford their rent or mortgage. Since the average Social Security benefit at age 62 is only $1,130 a month, or just $13,560 a year, it's clear they still had to work.

There is no romance in the *Nomadland* road life, although there is community and humor. Older worker nomads are certainly a tiny share of the tens of millions of older workers close to dire economic straits who are working in any job they can. As the situations of older workers like Fern become more precarious, the workers lose their bargaining power to command or demand better wages, conditions, or pensions.

Good pensions are fading fast from the American economic landscape. And bad pensions—or no pensions, for many—have helped

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make older workers sitting ducks in the labor market. When this happens, the wages, hours, and working conditions of all workers are imperiled. Making the crucial connection between inadequate retirement savings and pensions and older workers' weak bargaining power is the point of the following.

Older workers who have wobbly and inadequate retirement plans have less leverage when looking for jobs and accepting offers. Bad pensions lead to lower bargaining power. Less bargaining power means less pressure on employers to improve hours, wages, and working conditions. And less pressure on employers means worse jobs for seniors and everyone else. But there are winners: weak pensions create a built-in advantage for employers who want to raise profits by lowering labor costs. The working-longer consensus—buoyed by legions of researchers declaring that the average person's workability extends to age 73—is nothing but a win for employers.

The COVID-19 economic crisis, like the 2008 recession, pushed out older workers.[2] They may have told government surveyors they retired, but the truth is that millions of older workers were forced out of work earlier than planned. They had to stop contributing to their retirement plans earlier than they planned and to raid their retirement savings earlier than they planned. And for the older workers who kept their jobs, their retirement plan was still not safe. Many employers halted matching 401(k) contributions (including my own).[3] But 50- to 70-year-olds with inadequate savings have weak fallback positions to a current job or a lousy job offer. The upshot is that over 70 percent of workers aged 62 and older are working out of economic necessity.

Ten factors compel older people to accept terms favoring the employer:

1. Eroding pension income and more debt weaken older people's "fallback" position.
2. Fewer unions mean older workers have less workplace protection.
3. The decline in stable, long-term employment relationships means employers devalue older, experienced workers. Older

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workers are the fastest group in contingent (i.e., part-time, contracted, and temporary) work.

4. Perennial age discrimination disadvantages older workers at work and in seeking work.
5. Older workers' tendency to not move as much as younger workers means that their lower geographical mobility increases employers' monopsony power.
6. The Earned Income Tax Credit is not available to older workers, which increases their desperation to work and causes income inequalities between workers with the same job and work effort.
7. The sheer size of the boomer cohort suppresses wages for everyone in the US labor market.
8. Older workers are more likely to work for low-profit, relatively lower-wage, small employers.
9. Industry business strategy models cultivate a dependency on low-paid and desperate older workers.
10. Low-paid older workers don't have employee benefits, easy work schedules, and other perks and rewards to compensate for their relatively lower wages.

These long-developing structural issues undercut older workers' bargaining power. And as we might imagine, the working-longer consensus leaps over these power issues, ignores the increasing inequality between workers and between workers and firms, and celebrates all forces increasing labor-force participation.

And because the labor market is one big market, when one especially large group loses bargaining power and becomes a ready and reserve source of labor, all workers lose. As a giant boomer cohort becomes a reserve army of labor—36 million out of 160 million US workers are over 55—wages, hours, and working conditions are suppressed for everyone.

Some older workers have held some ground, to be sure, because they are healthier and have more marketable skills, but on balance, power has shifted to employers.

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Ten Reasons for Older Workers' Weaker Bargaining Power

Bargaining power is central to every worker-employer relationship. In nearly every treatise on the subject, the worker comes out worse. In 1942, unions were central—a strike could halt the war effort—yet Harvard economist John Dunlop warned the worker relative to an employer was weak and "lacked waiting power."[4] The worker did not have enough power to "withhold" from entering the relationship. Likewise, in the literature on domestic abuse, the spouse who faces the highest cost of leaving the marriage has the least bargaining power. Each party needs to assess their best alternative to a negotiated agreement to weigh whether it's worth giving in. Your best alternative to a negotiated agreement is your best fallback position if negotiations fail. Having a good fallback position can help anyone get the best deal in all types of negotiations, including the constant back-and-forth negotiations between employers and workers.

It's a commonsense concept that helps older workers know when they should accept a certain set of pay and working conditions, when they should fight for better pay and conditions, and when they should quit. A worker with pensions and wealth has a comfortable retirement as a fallback position, so the employer will likely raise pay and improve conditions to keep the older worker. A worker without a good fallback position is likely to settle for less. An employer has a great fallback position if the pool of willing workers is similar to their current workers.

People without good fallback positions do not have bargaining leverage. Insecure pensions keep older workers on the dip side of an unbalanced scale.

Before presenting the preponderance of evidence for declining bargaining power, I define power with a fascinating detour into the heart of labor economics theory—the reservation wage.

Worker vulnerability is measured by a simple concept that economists call the "reservation wage." The reservation wage is the lowest wage a person will accept to work (on a macro level, because clearly individual choices and contexts vary). This minimal reservation wage is what a person considers enough, influenced by how much money a

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person has without working. For example, having a working spouse, income from a trust fund, a universal basic income, or a pension allows a person to demand a higher wage and better working conditions. A personal fallback position is a personal bargaining position. With nonlabor income, a person has a better fallback position and more bargaining power.

The reservation wage explains why Brookings Institution economist Henry Aaron called older workers who do not have good pensions "the mugged."[5] These older people work because they have no practical choice. This group, the economically mugged or coerced, has had persistently lower reservation wages since 2008 and even earlier; it is these folks who populate *Nomadland*. Reservation wages and fallback positions—everyone has two!

The most potent sign of older workers' weaker bargaining power is their shrinking relative wages. Older men's wages started to fall dramatically relative to younger workers' wages in 1990 and have lagged ever since. Older women's wages have increased slightly, but due to the persistent gender gap, they still haven't caught up with men's. Take men with bachelor's degrees. In the twenty-nine years since 1990, their wages decreased by 3 percent, but wages for younger men aged 35–54 increased by 9 percent.[6] And male and female older workers have experienced almost no real wage growth since 2007.

1. PENSION INSECURITY

Topping our list of reasons older workers have lost bargaining power is the erosion of retirement-income security and rising elderly debt. Worsening economic fortunes suppress older folks' reservation wages, making them more likely to accept work under worse pay and conditions.

Yet over the past three decades, even as boomers have aged and have become more and more concerned about financing retirement, employers, Congress, and market forces did not serve up work-based retirement plans. Work-placed retirement plan coverage did not budge over 50 percent in forty years. In 2020, fewer than half of workers participated in a pension plan, about the same level as in

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the 1980s.[7] Folks are headed into old age without a fallback position, vulnerable to the labor market's worst offers.

Along with this pension erosion, the widening inequality of retirement wealth means that bargaining power among older workers is also more unequal. Of the 73 million boomers who reached retirement age right after the financial crash of 2008, the bottom 80 percent were not prepared for retirement. Sit with that for a moment: nearly an entire generation—and one vaunted for its labor successes—was not financially secure enough to retire. By 2019, the mean retirement account balance for people nearing retirement age was wholly inadequate at just $10,000, because 44.5 percent have nothing.[8] Sometimes the average account balance is reported as higher, at $222,000, but this is because a few households with large savings accounts push up the average. Worse, those in the bottom half have nothing but Social Security. Today, those with the top fifth in lifetime earnings hold half of all retirement wealth; the bottom quintile has just 1 percent. And these gaps are only deepening: the top fifth fared better in 2010 than in 1992, and those in the bottom fifth had less.[9]

Making inequalities, lower-income and middle-class Americans are likely to experience downward pressure on their reservation wage because their retirement assets have been hit the hardest. Yet we find that in the statistical midpoint, older workers at all income levels face some pressure on their reservation wage and working conditions. On average, middle-class households need $600,000 in financial assets to maintain their pre-retirement living standards in retirement, yet the median retirement account balance for families reaching retirement age is $0, and the average is just $15,000.[10] In other words, tons of older middle-income folks will need to either dramatically reduce their costs of living or take a job that may not pay or treat them very well. Many will have to do both. Eroding pensions and shriveling savings mean that 55 percent of older households must rely on Social Security for almost all their income in retirement.[11] That is, to put it bluntly, a recipe for disaster.

Declining nonlabor income for older workers—a primary feature of a weak fallback position and thus a low reservation wage—stems from the current system's failure to boost retirement plan coverage at work.

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In 1980, 46 percent of workers over age 55 reported being covered by a workplace retirement plan. By 2013 that rate fell to just 41 percent, roughly what it was in 2020. That means that nearly six in ten workers nearing retirement age do not have a job-based pension of any sort. Another recipe for disaster. After the flashy 401(k) plan came on the scene in the 1980s, firms that offered pensions quickly switched away from providing defined-benefit to defined-contribution plans. But firms were less likely to offer any kind of pension at all. Employers' growing reluctance to offer good pension plans for their workers meant that while workers born from 1946 to 1950 could expect an average of $6,375 annually (in 2018 dollars) from pension benefits, people born between 1961 and 1965 would get only $3,750 a year. Although income from defined-contribution plans increased for the latter group, expected retirement income from sources other than Social Security is still $1,000 lower for late boomers.[12]

Unless we change current trends and policies, the combined effects of declining pension coverage, inadequate pension savings, and Social Security benefit cuts could well lead to large-scale downward mobility of middle-class near-retirement households into poverty.

2. FEWER UNIONS

Before we dive into the many ways that unions help older workers, we need a quick detour to economic theory. If the concepts of reservation wages and fallback positions help us better understand the labor market and our place in it, then consider the inelegant concept range of indeterminacy. Has quite a ring to it, eh? The phrase means that employers do not have just one predetermined compensation package they can pay workers before they must lay them off or go out of business. In fact, employers have a range of compensation levels they can offer, and what they eventually pay is not predictable merely from a perspective of supply and demand. Employers can still stay in business and earn profits at various levels of pay and benefits. That employers can pay within a range of compensation levels—according to what they decide they can spare, not only what they can "afford"

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to pay workers—is astonishing, as it changes the ways we consider what employers really can or can't do.

The textbook economist and business lobbyist would have you believe that the impersonal forces of supply and demand determine what employers can pay and that that's the end of the matter. But as labor economists have known for over a hundred years, many other factors, especially institutional and psychological aspects, determine what (and how much more) employers can pay workers before they go out of business or must lay anyone off. Pay is the outcome of a form of regulated or bargained prices.[13]

The union provides a structure for administered wages and a channel of give-and-take between employers and workers over productivity and pay. The bargaining process itself means that what they settle on will be indeterminate and exists within a range of possibilities. Unions are an effective force for raising wages when employers can pay higher wages but instead offer less. The John Deere strike settlement is a good example. In October and November 2021, the United Auto Workers went on strike at the company for over a month, the first strike at John Deere in thirty-five years, after union members rejected a wage contract proposal that offered a two-tier wage boost—5 percent raises to some workers and 6 percent to others. The final-year agreement included a 10 percent increase in wages in 2021 and a total increase of 20 percent over the life of the contract.

When employers have advantages of time (they don't need to hire immediately) or of having many applicants for one job (which is almost always true), they have monopsony power, which creates a "buyer's market," the opposite of worker power. As unions have waned, monopsony conditions have become especially acute in older workers' labor markets. According to Urban Institute economist Kate Bahn, "the decades-long decline in private-sector union membership presents . . . the strong possibility that more and more employers will be able to exercise monopsony power over the wages of their workers."[14] Union membership losses are especially acute for workers older than 55. In the sixteen years between 2004 and 2020, older workers suffered a sharper decline in their union membership (from 17 percent in 2004 to 13 percent in 2017) compared to prime-age workers.[15]

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This ongoing union erosion spells weaker bargaining power for all workers. And as older workers' union membership sinks, they have even less ability to negotiate the pay and conditions they deserve. This dynamic further depresses older workers' fallback position and reservation wages.

3. INSECURE JOBS

When workers find themselves in "contingent" jobs—such as independent contracting, on-call positions, temporary agency, and gig work—they typically have less bargaining power. And it should be no surprise by now that older workers are the fastest-growing group in alternative employment arrangements. A 2017 study found that 15 percent of workers aged 55 to 75 worked in an alternative work arrangement, and a 2021 study found 24 percent of older workers did.[16]

Except for independent contractors, workers in alternative employment arrive at those jobs with much less bargaining power than their full-time employee colleagues. Whereas 6 percent of all older workers report losing their previous job involuntarily, 17 percent of older workers in on-call, temp agency, contract firm, or gig work were much more likely to experience involuntary job loss. The median older worker reported personal wealth of 171 percent of earnings, while older workers in alternative arrangements held assets that were just 77 percent of earnings. Less wealth means a much lower ability to retire, less fallback bargaining power, and thus a smaller reservation wage. Alternative arrangements also remove workers from a firm's job ladder, meaning little or no opportunity for promotion.

Economist Michael Papadopoulos found while some researchers assume older workers actively choose alternative work schedules—many workers in alternative arrangements would prefer traditional jobs. Nearly half (46 percent) of workers in temporary agency jobs and 40 percent in on-call positions in 2017 said they would prefer a traditional arrangement (12 percent and 10 percent, respectively, said "it depends"). And no wonder: that year, median earnings for full-time workers in traditional jobs was $32,500, while those in

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alternative work (excepting independent contractors) earned just $14,000.[17] Meanwhile, only 21 percent of workers in alternative arrangements believed that they could find an equivalent job if they lost their current one, compared to 35 percent for workers in traditional forms of employment.[18]

Labor economists love results from surveys that ask workers how easy it would be to find a comparable job if they lost their current one. The answer is a good measure of the fear factor in the labor market. Suppose the answer is high—"I have a 99 percent chance of finding an equivalent job if I lost the one I have now"—then the worker is not too afraid of losing that job. If the confidence number is low, it usually means a worker is stuck.[19] This confidence-fear dynamic factors into people's decision-making and influences the wages and conditions these workers will accept.

Another trend alongside the rise of alternative work demonstrating that employers are less committed to workers is the fall in job tenure, or the number of years and months a worker has been with their current employer. In the past three decades, average job tenure has fallen in the US. The proportion of workers who have been with their employer for more than ten years is down, and the share who have moved jobs in the last year is up. Interestingly, the group affected most by this erosion has been men with a lot of job market experience.[20]

The slippage in job tenure is significant. Back in 1987, the median US male aged 45–54 had been with his current employer for thirteen years; by 2018, he had been with his employer for just eight years. For older men, the erosion is less but notable. In 1987, the median older man ages 55–64 had been with his employer for seventeen years, and that dropped to fourteen years by 2018.[21] The less job tenure one has or can expect, the more they are at the precarious mercies of the labor market, with less fallback negotiating power.

The shortening of employment relationships has occurred predominantly at large firms, mostly because of declining unionization. There is little evidence that foreign competition or technological change causes people to leave their employers more frequently.[22] On a human level, declining job tenure means that people are with their employers for less time; there are fewer thirty-year anniver-

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sary watches and forty-years-with-the-company celebration dinners; shorter periods of employment at the end of a career to accumulate money for retirement; and more wealth-draining job changes.

Displaced older workers are more likely to job hop, to suffer further involuntary job losses, and to experience subsequent unemployment than are those who continue working for the same employer.[23] Older workers must confront this reemployment disadvantage even in good times. The growing turbulence of the labor market over many decades has hurt older workers.[24] After becoming unemployed, older workers face substantially longer periods of unemployment than younger workers. In 2015, the average duration of unemployment was thirty-five weeks for workers aged 45–54 years and twenty-seven weeks for prime-age workers 24–34.[25] We see the same aftereffects from the COVID-19 recession of 2020. In October 2021, the average duration of unemployment was thirty-two weeks for workers aged 45–54 and a long thirty-six weeks for those aged 55–64. That is in comparison to the shorter search times for younger workers—twenty-nine weeks for those aged 24–34.[26]

After a partial economic recovery, older workers' labor-force participation fell continuously, reaching its lowest point in January 2021. During this time, roughly 1.1 million older workers exited the workforce between August 2020 and January 2020—and past practices mean they may never come back.[27] The cost of job loss is higher for older workers, and the risk of never finding another job means older workers feel more pressure to keep their current job, even if it doesn't pay or treat them right—yet another way elderly workers are pushed to the labor market's margins, with meager fallback options.

This evidence punctuates the fear that every older worker feels when they're pushed out of a job at the tender ages beyond 55—the fear that they will never get back into the labor pool. OK, you might ask, what does this higher cost of unemployment have to do with bargaining power? When a worker's cost of job loss increases, the worker has less power to negotiate a good next job. The key factor here is that people in their 50s who separate from their employer—for whatever reason—risk missing their peak earning and savings years. Not saving in your 50s increases the risk of not being adequately prepared

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for retirement. Do you know what happens then? You have a weaker fallback position, which means you have less bargaining power.

4. AGE DISCRIMINATION

Another way older workers lose bargaining power in the workplace is through age discrimination. Note that the distinction between employers discerning and being discriminating because they want the best worker for a job is not illegal or untoward. Being discriminated against for factors unrelated to your productivity is the classic definition of market discrimination. *Discrimination* is a term used to refer to treating people according to factors not related to worker productivity. Sexism, racism, and ageism involve employers assessing and treating applicants and employees on the basis of their gender, skin color, or age and not on their talents, skills, and productivity.

BOX 7.1 Explaining Age Discrimination, Ageism, and Bigotry

Ageism is a set of beliefs—usually negative, but not always—attitudes, assumptions, and stereotypes about age and older people. The positive feelings associated with ageism are, for example, the assumption that older people are always wiser. The negative feelings, and many of them are implicit, aid and support legal and illegal discriminatory behaviors that marginalize older adults. In the labor market, ageism informs the false view that older workers are less trainable, flexible, and efficient and are weak and less technologically proficient. Older people can internalize ageism by viewing themselves with stereotypes that erode their confidence and impede their job search.

When employers treat—pay, promote, hire—employees differently on the basis of age, it is age discrimination, which is illegal. Age bigotry is strong attachment and devotion to one's own opinions and prejudgments about a person's value (in a variety of realms, such as sex and work) because of their age. When the term *age bigotry* is used, it is almost always negative.

Ageism, age discrimination, and age bigotry are complicated by the truth that as we age, human capacity diminishes.

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If age discrimination is widespread, then older workers will have fewer job offers that pay appropriately for their productivity. Proving which factor an employer uses to decide hiring, firing, pay, and promotions is tricky. The preferred methodology to discover discrimination is "audit studies." In audit studies, employers are given résumés of fake candidates with equal qualifications. One résumé indicates the candidate is older. You probably guessed what the outcome is. Audit studies reveal that applicants perceived as older are less likely to be called for an interview.[28]

A Transamerica Center for Retirement Studies survey found a gap between what age employers and workers feel is too old to work. Employers perceived age 64 as too old to be considered for employment, and workers responding to the same study said age 75 was too old to work.[29] This gap suggests older people are looking for work in markets that aren't looking for elderly employees—a situation that favors employers and weakens senior workers' bargaining power.

Workforce rationalization can also disproportionately affect older workers, and age discrimination plays a part in that. The pioneering work of Pro Publica journalist Peter Gosselin estimated that, in its 2010 downsizing, IBM eliminated more than twenty thousand American employees age 40 and over, who accounted for about 60 percent of the company's estimated US job cuts during that period.[30] Reviewing internal company documents, legal filings, and public records, Gosselin concluded that IBM "flouted or outflanked US laws and regulations intended to protect later-career workers from age discrimination."

In another survey, 40 percent of employers said older workers were a positive asset to their firms, and 20 percent viewed older workers as a liability that may increase costs or reduce productivity.[31] That is sobering. One in five employers thought that older workers were a liability to their organization. This perception doesn't exactly put elderly workers in the employment driving seat.

5. LESS MOBILITY

As people get older, they are less likely to leave a job, less likely to move to a new job, and less likely to move somewhere new for a job.[32]

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This shrinking mobility erodes older workers' bargaining power. In this sense, we might say the labor market discriminates against older folks who are less mobile.

Being able and willing to bounce from Toledo to San Jose is a crucial factor in securing higher pay and a better job.[33] Employees can pose a credible threat to leave as one way to pressure an employer to treat them better and provide a counteroffer. Even the impression of employees leaving can boost job position and negotiating power. I knew a fierce lawyer who told his law firm before he was partner that he was a renter: He wanted to make clear they couldn't exploit him. Moving from a rental would be a lot easier than having to sell a house. He wanted to signal that he was footloose and ready to run if he didn't get a promotion.

In America, being able and ready to move is the way workers leverage promotions and garner higher wages. In 2017, about half of interstate moves were for work.[34] But older workers face higher indirect costs of moving because they have family and roots in a community—positive stuff that shouldn't be an economic penalty. However, older workers are also more likely to be stranded in more economically stagnant regions with falling home values and low wages. Distressingly, the one way in which older workers experience "mobility" is downward: from 2008 to 2014, at least 52 percent of retirees over 55 had left their last job involuntarily, the result of job loss or deteriorating health.[35]

6. THE EARNED INCOME TAX CREDIT

The Earned Income Tax Credit (EITC) is a "work bonus" plan supported by Republicans and Democrats. The government supplements the wages of low-wage workers and, by extension, helps boost employer profits by allowing employers to keep wages low because their workers will get the EITC subsidy.

The EITC is highest for parents and lowest (or nonexistent) for those over age 65 or under age 25. Compare the maximum of $538 for childless workers with over $6,000 for low-income workers with three or more dependent children. The EITC has raised living stand-

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ards for single mothers by supplementing low wages and has encouraged more single mothers to work for pay but at a cost.[36]

The low-priority, low-wage workers—those too young, too old, or too childless—are exposed to wage suppression in the sectors with high concentrations of low-wage EITC recipients but don't get the subsidy.[37]

Let me explain. Employers can pay EITC recipients lower wages for the same work because the government essentially pays for some of their wages; thus, the EITC lowers employers' wage offer for all low-wage workers, whether or not they are eligible for the EITC.[38] In this way, the EITC keeps wages low for older workers working with EITC recipients. More than one-third (34 percent) of personal and home health aides are over age 55, and many are not eligible for substantial (if any) EITC subsidies. They work alongside low-income younger women who are paid the same lower wage but have higher annual incomes because they get an EITC. The older worker, most likely a woman, is stuck with the low wage but gets no EITC tax refund to boost her income.

7. OVERCROWDED BOOMER COHORT

The forces of market supply and demand can also explain older workers' declining status. Older workers are in an overcrowded age group. Older workers are doing worse than in the past partly because there is such a large cohort of older workers. In fact, there is plenty of evidence that the sheer size of the boomer age cohort has suppressed their cohort's wages throughout their entire work lives. This unlucky demographic reason is not anyone's fault; it simply means that boomers compete with one another (I should know: I am a boomer).

The sheer scale of aging boomers exerts an outsized impact on labor markets. In 2017, 35 million older workers (boomers) constituted 24 percent of the labor force, up from 12 percent in 1990. By 2026, 40 million older workers will make up 25 percent of the workforce.[39] Seventeen million older workers have been newly employed since 2000, and the US economy's total net increase in jobs since then is also 17 million. In that period, older workers were predicted to account

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for all the employment growth. The estimates vary year to year, but older workers are always the largest share of predicted new jobs.

Because of their generation's size, boomers have "suppressed" their own wages since they were teenage workers. Of course, "they" didn't suppress their wages; their sheer scale did. As a late boomer myself, I recall overcrowded schools and fierce competition for jobs—my fourth-grade classroom was a temporary trailer, and in college I couldn't even get a job cleaning hotel rooms. My personal story is not evidence, to be sure, but the scholarly evidence tells me that my personal story was caused by a larger phenomenon I couldn't see. I remember things being extremely hard because I couldn't find work as a teenager, and now I know some of the reasons why. Past research confirms that birth cohort size affects wages throughout your working life. Between the years 1946 and 1964, 77 million baby boomers were born. In comparison, 65 million people were born into Generation X. People born into larger cohorts earn a significantly lower wage than do members of smaller cohorts at all stages of their careers (even when other significant things—like war and famine—are considered).[40]

The large boomer cohort slowed wage growth when they were young; it grew by just 4 percent a year before age 55 compared to 5 percent for the silent generation and 6 percent for Generation X. In their prime working age, boomers' wages grew only about 1 percent a year, less than any generation in the past seventy years.[41] These stark facts reveal common sense: the larger a group that is looking for work at the same time, the less bargaining power that group has.

8. LACK OF WORK IN LARGE FIRMS

Another reason for older workers' falling relative compensation is that large firms pay more, but older workers are more likely to work for smaller firms. Smaller firms have fewer economic rents and profits to share with employees.[42] Older workers are less likely to be employed by highly productive and profitable firms, which is too bad for older workers, because so-called superstar firms capture greater market share and are in a better position to share rents and profits.[43]

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Thirty-two percent of workers in large firms are over 50 years old; 35 percent of employees in very small firms (fewer than 100 employees) are over 50 years old. This amounts to a 3 percent negative likelihood of being over 50 and working for a large firm, which contributes to wage stagnation and lowers bargaining power for older workers.

9. FAST-GROWING, LOW-WAGE INDUSTRIES

Another reason for falling wage premiums paid for workers' experience is that older workers are in sectors and jobs that are in more demand. Indeed, if an industry shrinks, employers don't hire anyone new, including younger people, so the average age naturally increases—think bank tellers and watch repairers (readers under 40 might not even know what I am talking about). And while it is true that younger workers are relatively more desired in tech and finance—"hot" fields where pay is high—my research teams found not a speck of evidence that falling demand for older workers is an independent factor explaining wage declines for older workers. There is little evidence that older workers are disproportionately employed in high-unemployment occupations. In fact, you'll find older workers in the hottest fields of care work and janitorial services. And the firms in the fastest-growing and largest occupations—home health and personal care—seem to be using low-paid (desperate) older workers as part of their business strategy. Walmart, in rural labor markets, also sought older workers desperate to work—good at the time for older workers but bad for the broader public.

Care work offers a poignant illustration of this. From 2019 to 2029, jobs in nursing, psychiatric care, home health aides, and personal aides will increase by nearly 2 million (out of a projected increase of 6 million jobs for the entire US economy). These low-paid jobs—earnings average about $24,000 a year—are filled overwhelmingly (85 percent) by women. While the portion of the US labor force earning low wages is 12 percent, the share of low paid in these care occupations is a bit over 30 percent. A disproportionate share of workers in this massive occupation is older, and much of the most robust job growth is among low-wage jobs that employ older workers (table 7.1).

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TABLE 7.1 Low-paid occupations with the most job growth

	Employment 2019 (in thousands)	Employment 2029 (projected)	Median annual wage (2019)	Workers older than 55	Share of workers receiving the EITC	Female workers
Total, all occupations	162,795	168,835	$39,810	24%	10%	47%
Low-wage occupations	21,715	24,447	$29,746	19%	19%	51%
Home health and personal-care aides	3,439	4,599	$25,280	34%	25%	86%
Fast-food and counter	4,047	4,509	$22,740	8%	14%	65%
Cooks	1,417	1,745	$27,790	15%	19%	36%
Medical assistants	725	864	$34,800	11%	17%	93%
Laborers and freight	2,986	3,112	$29,510	16%	15%	19%
Landscaping and groundskeeping	1,188	1,308	$30,440	23%	22%	6%
Nursing assistants	1,528	1,646	$29,660	19%	25%	89%
Janitors and cleaners	2,374	2,480	$27,430	34%	18%	40%
Waiters and waitresses	2,613	2,711	$22,890	8%	16%	70%
Construction laborers	1,398	1,473	$36,860	19%	15%	4%

Note: For total employment, 45% of workers are in low-wage jobs.

I looked for any smidgen of evidence that older workers are low paid because they happen to be caught in declining sectors by correlating the median age of workers by occupation ranked by their respective unemployment rate in 2017. Industries with shrinking employment have older median ages because employers in shrinking sectors are not hiring—especially not younger workers—so most remaining workers are older. Using the March 2017 supplement of the Current Population Survey, we found that older workers are not disproportionately employed in occupations with high relative unemployment rates.[44] In fact, some of the occupations adding the most job growth are disproportionately filled with older workers.

10. NO COMPENSATING BENEFITS OR PERKS

I am being persnickety about including this compensating wage factor in the already-extensive list of reasons older workers are losing bargaining power. I am anticipating someone saying, "Maybe older workers are taking lower wages because they have flexible schedules and great benefits." The answer is, unfortunately, that there is no evidence that older workers' pay is eroding because older workers are accepting lower wages as a trade-off for another desirable job characteristic like health insurance or scheduling flexibility or something ineffable like "meaning." An economist might raise the possibility that the bad jobs low-wage older workers have just "appear" to be bad. The idea is that a low-paying job may be better or just as good as a high-paying job if it has desirable job qualities. Economists have a wonky name for this—*compensating wage differentials*. If older workers are compensated for their work in some other desirable way, then it only seems like older workers are paid less when, in fact, their lower wages are compensated for by desirable fringe benefits and working conditions. Is it possible that older workers' low pay is offset by desirable job characteristics—like flexibility, high degrees of social engagement, and so on?

The answer is no. Older workers' nonmonetary benefits, schedules, and ease of work are not improving. In fact, older workers have increasingly dangerous jobs, less paid sick leave, and less pension security.

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Let's zero in on retirement plans and health insurance—in case you still think most older workers are working for retirement benefits and health insurance. From 1990 to 2017, among full-time, non-self-employed workers over 55, the rate of employer-provided health insurance coverage fell from 90 percent to 87 percent, and retirement plan coverage decreased from 56 percent to 44 percent.[45]

To add injury to insult, older workers' jobs are not getting easier, despite the rise of computers and the decline of manufacturing, mining, and farming in the economy. Since 1992, the share of workers aged 55–62 reporting difficult physical demands at work decreased only slightly. In 1992, 40 percent of older workers reported that their jobs required "lots of physical effort." In 2014, this decreased to 34 percent. However, other dimensions of physical work, including "lifting heavy loads" and "stooping/kneeling/crouching," saw no improvement—so much for the working-longer consensus insisting we can work until our 70s.

Over 30 percent of workers near retirement (ages 55–64) and over 40 percent of non-college-educated workers in this age group had jobs that required "lots of physical effort" most or all the time. And jobs don't get that much easier with age. The share of non-college-educated workers aged 65 and older with physically demanding jobs is high, at 32 percent.[46]

Education and Banning Mandatory Retirement Boost Bargaining Power

Amid all this gloom, there are some glimmers of progress. Older workers, on average, are doing a bit better than their counterparts in the past because the cohort has more education, as each subsequent generation of Americans is going to college and graduating from high school. Typically, more education enables more job choice and thus bargaining power. One study shows the fact that older workers are more educated over time accounts for almost half of the increase in their labor-force participation. In 1985, fewer than 20 percent of workers between age 60 and 64 had college degrees; thirty-five years later, in 2013, over 36 percent did. (In a remarkable testament to

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aggressive public policy to improve K-12 education—including desegregation and keeping girls in high school—the share of older workers without high school degrees fell from over 26 percent in 1985 to about 7 percent in 2013.)[47]

More education is also associated with better health. Workers with college degrees are not only healthier than those with less education; they are more likely to say that their work is satisfying and to have some autonomy on the job.[48]

Legal Bans on Mandatory Retirement

The United States is among the few rich countries that ban mandatory retirement as a form of age discrimination, so America's older workers can sue for age discrimination. With few exceptions, Americans cannot be banned from work—or from being paid, promoted, or trained less—because of their age. Despite these legal protections, worker advocates and labor unions were not at barricades demanding the end of mandatory retirement. Many workers want to retire, witness the more than two thousand readers pushing back in the comments to a 2023 *New York Times* article arguing that increased life expectancy should mean higher retirement ages. Instead, consider this; "Working until you pass away at your desk or assembly line is cruel. The goal of your life is to get back some time to express yourself, the way you want and when you decide so. Retirement should be considered the start of a new life not the graveyard waiting room."[49]

Worker advocates used the existence of mandatory retirement to justify higher Social Security benefits, better pensions, and retiree health care.

That older women workers are more enfranchised into mainstream economic life is progress. In 1980, the headlines screamed that over half of mothers with young children were working and more likely to work than women without young children. It's hard to balance work and family, but forty years later, those working mothers are still working. Labor income gives women some independence and more equal footing with men, and that's good news for men and women.

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Telescoping Policy Recommendations

No single policy on its own will strengthen older workers' bargaining power. Boosting the minimum wage would help increase compensation for older workers in low-paying food service, retail, and care work. More unions would help improve service work where split shifts, job fissuring (branded companies outsource functions to small firms or independent contractors), and other erosions to job quality occur.[50] Aggressively tackling age discrimination would give older workers more bargaining power. If employers (and older workers themselves) falsely perceive older workers to have less value because of the prevalence of age discrimination, then employers would be less likely to promote and train older workers. Older workers' having a good fallback position will help them negotiate better pay and working conditions. A strong negotiator must have a suitable alternative to a negotiated agreement.

Older workers' bargaining power would be improved by policies such as higher Social Security benefits, expanded and improved pensions (e.g., a guaranteed retirement account), and the establishment of an Older Workers' Bureau at the Department of Labor.

Five key policy reforms will help older workers: (1) raising older workers' reservation wage by improving retirement security; (2) protecting workers' union rights, raising the minimum wage, and improving the conditions of alternative work schedules by enforcing labor laws against wage theft and employee misclassifications; (3) strictly enforcing age discrimination laws; (4) creating an Older Workers Bureau at the Department of Labor to formulate standards and policies that promote the welfare of older workers, to improve their working conditions and advance their opportunities for profitable employment; and (5) correcting the unintended consequences of the EITC that suppress wages for ineligible workers.

Older Workers Need More Bargaining Power

Work is good, and many Americans like it. Anyone who wants to work should be able to. But finding and keeping work that is satisfying is

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no simple task—particularly as an older worker. And much of what makes a job gratifying derives from workers' economic security and bargaining power in the labor market. Securing an adequate nest egg and having a small (or no) mortgage are among the best ways older people can help ensure that if they work, they will like the job. Having a good fallback position strengthens their hand in the labor market. As we've seen throughout this chapter, bad pensions are a big reason for bad jobs.

This power dynamic is a constant struggle. Older workers are in a weak position if public policies entice labor substitutes who will take a lower wage; everybody suffers, an injury to all. For instance, older workers and EITC-eligible workers work side by side in all industries, especially in nursing, and among psychiatric and home health aides and personal aides. Whenever older workers work alongside low-paid workers eligible for the EITC, they compete against younger mothers who are eligible for EITC income subsidies and will accept a lower wage than they otherwise would. This effect puts downward pressure on wages. Further research will help illuminate how these impacts vary among different workers. Older personal-care workers, for example, are more affected by EITC wage suppression, while older male workers in higher-paid jobs are hit harder by the loss of unions. Our nation has allowed (and enabled) older people's bargaining power to fall in ten distinct ways. Chief among these is the erosion of retirement-income security. But other factors loom large—fewer unions; more contingent and "alternative" work arrangements; fewer long-term employment relationships; more monopsony power by firms; persistent age discrimination; and EITC policies that suppress wages. We've also seen that the large size of the boomer generation cohort suppresses wages, as does older workers' tendency to work for small firms.

Without secure pensions, more older people must work, and more older people will accept wages, hours, and working conditions that prioritize employers' terms. If nothing else happens, an increase in the supply of labor invariably redistributes income away from workers' wages and toward employer profits. The working-longer consensus contributes to older workers' weakened bargaining power.

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8

The High Cost of Bad Pensions

Economic security for elders is not free, but the high cost of bad pensions makes good pensions a necessary national expense. Bad pensions can turn around and bite the government if it is trying to save money.

BOX 8.1 Good and Bad Pensions

How do you know if you have a good or bad pension? Examine its size, composition, and control. First, if your 401(k) when you are 65 is less than, say, $600,000 (assuming you earn the median of $60,000 per year), and you don't have a traditional pension, you probably have a bad pension profile. For most older workers, household retirement savings fall far short of adequate.

Although experts disagree about what is adequate or what people need in retirement (see box 3.1), rule-of-thumb advising targets about ten to eleven times your annual salary by age 67, which can happen if you save roughly 15 percent to 20 percent of your gross pay for forty-two years in a diversified, balanced portfolio. So how far off are Americans?

Very.

The median older household has retirement savings of about $43,000. Say a household has two workers in it; the median retirement savings per member is $21,500. Based on standard advice, each member needs about ten times their pre-retirement spending to fund a twenty-three-year retirement. Median earnings are about $60,000, so they need about $600,000,

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but each worker only has $21,500. Woe to the single-person older household who can't share expenses.

Even if the median retirement savings were even close to $600,000, the composition is not good. (A $600,000 lump sum could be turned into a guaranteed stream of lifetime income of about $40,000 per year at age 67, in theory, but going out in the for-profit marketplace to buy an annuity from an insurance company is ill-advised, fees are too high, and you won't get that much.) Only people in defined-benefit plans, where the fees are low and the annuities are bought on a group basis, have a practical way to turn a lump sum into a guaranteed income flow for life. The second reason people have a bad pension is that they pay high retail fees for an amateurly constructed portfolio. (That is why I support legislation that helps people pool their lump sums in a professionally managed, low-fee annuity fund.)

The third reason most people have a bad pension is because the do-it-yourself pension system means you are on your own. You are responsible for investing and deciding how much to take out each year to ensure you don't outlive your assets. Most people would prefer less control and more guarantees. Managing hundreds of thousands of dollars to last your lifetime right at the age when cognitive decline and financial predation is at the highest risk is a bad structure that creates bad pensions. On balance, Americans have too little retirement savings, the savings are in the form of a lump sum, and an individual—an elderly person—has complete control of the investment and drawdown decisions. In short, most Americans have bad pensions. See box 10.2 for advice about how to handle your pension money.

Bad pensions can create high political costs as populations age and wealth gaps grow. Making Americans work longer and causing them to retire without enough income costs cities, states, and the federal government extra in Medicaid and social service expenses. Bad pensions can lower economic productivity and make it hard for employers to renew their labor force. Bad pensions can hurt children, but surveys of younger people signal that they would support increases in Social Security and mandatory pension savings.

Being stingy on retirement benefits seems like it would save the government money, but the cost of good pensions can easily outweigh the excessive costs of a bad pension system. Doubling the

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retirement wealth of the bottom half of the income distribution costs about 5 percent of the gross domestic product. Is another 5 percent of gross domestic product too much to equalize retirement wealth, raise productivity, stabilize a political system, make it easier for employers to promote younger workers, and help stabilize household finances? That is a political and social question, not math.

Bad Pensions Hurt National Unity and Political Stability

Far too few Americans have a direct stake in the rewards of national economic growth. Markets reached historic highs during the COVID-19 recovery, but many hardworking people have few reliable pathways to build wealth and achieve retirement security. And they noticed. Mildly worded surveys are finding that 82 percent of American voters are concerned that retirement security is a problem for the country.[1] An August 2020 poll of Americans between the ages of 50 and 75 with a net household income of at least $100,000 by Kiplinger–Alliance for Lifetime Income found a great deal of concern about retirement security, with older women more attuned to retirement insecurity.[2] Fifty-six percent of women are less confident about retirement income (compared with 43 percent of men).

Also, if we do nothing, elder poverty will skyrocket, and workers could find themselves in the labor market well into their 70s. Or if they are unable to work, they will try to survive on Social Security alone.

The political consequences of not paying attention to the growing retirement crisis are huge: 65 percent of voters are over 45, and 27 percent are over 65 years old. Older voters are more likely to sway elections, not just because older voters vote more but also because there are more of them. Near retirees, aged 45–64, were the largest segment of the voter population in 2018, at 38 percent. Voters over age 65 had the next-highest share, 27 percent. That means voters over age 45 are 65 percent of all voters. In contrast, only 7 percent of voters are the much-discussed youth vote—voters between the ages of 18 and 28. And older voters vote about twice as much as younger voters: Voter turnout for age 65 and over is 66 percent; for those aged 18–34, it is 34 percent.

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What kinds of older voters are more likely to get out and vote? (The voter registration files from the US Census Department help identify the characteristics of states with the highest older-voter turnout, which infers what kinds of older people vote.[3]) More highly educated older workers with retirement plans offered at work are more likely to vote. It seems that economic engagement and security lead to voting. Voting behavior is complex and involves more than just age, but the stark fact that older people vote almost twice as much as younger people is vital to candidates.

In the nail-biter states in the 2000 presidential election—Arizona, Georgia, Pennsylvania, North Carolina, and Florida, only Georgia had a younger voter base than the national average. In contrast, consider Joe Manchin, from West Virginia, which has the oldest average age of voters in the nation. There, 36 percent of voters in West Virginia are over 65, compared to, say, 33 percent of voters in Florida. This analysis raises the question, Why aren't politicians more concerned about older workers and older people in financial trouble? I think I have the answer. Older-voter rates lag in states with high rates of elder poverty, where elder earnings are low, and where there are higher shares of nonwhite voters in the ranks of older voters. Older-voter turnout is also lower where workplace pensions are fewer. Where older voters face these precarious circumstances, they also exhibit less political power. 'Twas ever thus. Groups left behind are marginalized in the political arena.

Votes in these impoverished places could have significance. The fragility of older workers and impoverished elders in a community can bring down the entire community. As more older workers face downward economic mobility, more communities could feel the tug. Not attending to retirement security could hurt incumbent politicians, for example, if millennials start to vote in larger numbers or if their vote increases as they age. Millennials and Gen Xers are most pessimistic about their retirement. When asked by the National Institute for Retirement in July 2021, a whopping 72 percent of millennials said they were concerned they wouldn't be able to achieve a financially secure retirement; most baby boomers—46 percent—said they would not have adequate retirement (they are probably too

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optimistic).[4] I don't know when financial anxiety turns to resentment and backlash. But there are signs that the economic fallout from the pandemic and the long-standing erosion of retirement security has created substantial uncertainty about retirement that could trigger Americans to work longer or rethink retirement altogether.[5]

The National Institute for Retirement survey also reveals the endurance of hope and not reality. People say they will work longer because of their shaky faith in their retirement finances. Over half of boomers and Gen Xers say they will work past retirement age, and 76 percent of Generation Y say they'll have to work past retirement age because of their financial insecurity. But of course, what I call the plan B response does two things—it fuels the working-longer consensus, and it ignores the fact that most people don't choose when to retire: economic conditions, their employer, or a loved one's health makes the retirement decision.

Another sensible economic reason to have good pensions is to let older people, who may be in their waning years of productivity, leave the labor market. It is a simple mathematical fact that if the least productive leave a group, the average productivity increases. As the smallest strawberries in a bowl are eaten, the average size of the strawberries increases. The Brookings economist Gary Burtless found between 1985 and 2010 (and especially in the 1980s) that older workers came to retirement with defined-benefit plans and Social Security, which allowed the least productive workers to retire.[6] The higher-paid older workers delayed retirement.

Economist Owen Davis also found that in the COVID-19 recession, those with higher education levels stayed in the labor market, and those with less education retired from the labor market at higher rates. This pattern is good for the economy, he concluded. If the least able can't retire, that would be bad for the economy. But that result is good only from a productivity perspective. Most of these older workers without college degrees pushed out of the labor market were in their late 50s and will seek any kind of work because they will have next to nothing to live on except Social Security, which can be collected only starting at age 62. I fear that as pensions erode and the population ages, the failing retirement system could lead

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to less productivity as less productive workers stay attached to the labor market.

The math is easy: overall productivity will fall if a significant share of workers with waning productivity (relative to when they were younger and relative to younger workers) are clinging to their jobs because their pensions are inadequate. The point is pure math. If everyone retired right when their productivity started to decline, then the average productivity of a nation's economy would stay high and even increase. When productivity increases, every priority is more affordable, including longer retirements. It is sad to see people struggling because of their age to stay in a job because they can't afford to retire. The sadness partially explains the GoFundMe accounts created by charitable and helpful people for tired old workers. The trend isn't "feel good," though; it is sad for the person and sad for the nation. I reported on the GoFundMe for an 81-year-old retiree at the beginning of the book. One year later, in 2023, an even older GoFundMe-retiree, Betty Glover, a 91-year-old Oregon grocery store clerk, retired after an online campaign raised $80,000 for her.[7] The result is really not OK for Betty; all the evidence suggested that her well-being and health would have been higher and better if she shopped at rather than worked at the store. A GoFundMe retirement system indicates a severely broken national retirement system. The story also helps explain sluggish productivity. I don't have direct evidence, but it is safe to say that a 91-year-old cashier is likely not the highest producer in the store. A nation depending on desperate old workers does not have the "pep in its step" to raise national productivity numbers.

Further benefits from providing an adequate pension system are indirect economic and productivity knockoffs—a secure pension base ensures that those working at older ages find employer matches that add to national productivity rather than subtracting from it. There are two parts to that argument. National productivity is given a boost if workers with higher-than-average productivity work longer. The opposite is true.

Not having a convenient way to help workers retire after their "time" will raise some employers' costs. A considerable number of employers want a decent national retirement policy. Not all

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employers are able to use cheaper older workers profitably. Some employers have the opposite problem: they will face an aging workforce that won't leave after their "time" because they can't afford to retire. Most employers say a good retirement age is below 64.

Here is another big cost to working longer. Millions of elders staying in or entering the labor market will lower wages for everyone. If older workers are used as substitutes for younger workers or compete with each other—as baby boomers have their entire lives—wages and productivity will fall, and profits will increase. Having workers compete with younger workers will lower pay and blunt job opportunities. More hidden elderly unemployment will lower wages for all workers, too, because older workers often compete with prime-age workers. How does this work? An increased supply of desperate older workers may tempt employers to use part-time staffing—we already see that older workers are the fastest-growing group among gig workers—and continue the erosion of full-time work for everyone.

If older workers lack bargaining power because they can't afford to retire, the ratio of capital to labor (physical capital and technology per worker) will remain high and productivity sluggish.

Taxpayers and the economy benefit from good pensions. If workers do not have good pensions, then aggregate demand can fall and pressing needs for spending on impoverished elders will increase. If workers who have lost skills have lower-than-average individual productivity and less ability to adjust to new demands at work, and are not up to date at work, then average national productivity could fall. Thus, national productivity will suffer as millions of elders stay in or enter the labor market.

Bottom line: four groups have a stake in retirement: workers, children, employers, and taxpayers. All of us need a robust national economy, and a robust pension system is necessary for an economy to keep productivity and aggregate demand high.

Bad Pensions Hurt Young Workers and Children

There are three reasons young workers have a stake in retirement security: first, they want a secure financial future; second, they want

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their aging parents to be financially independent; and third, older people working longer (especially those who are working because they cannot afford to retire) could "spoil" the labor market for younger workers. Evidence shows that older workers are substitutes for younger workers.

Why should a 33-year-old care about the Social Security system and whether elders have retirement-income security? Despite the romance about multigenerational households, most elders do not want to live with their adult children, and adult children with needy parents are not the ones likely to have an extra bedroom. Millennials and Generation X workers are quite concerned about their prospects for a secure retirement. Young people are concerned that the increased labor-force participation of older people—who either can or cannot afford to retire—may be spoiling the labor market.

This chapter drives home these dangers of large supplies of labor without bargaining power by comparing the entrance of older workers to other labor supply shocks in the US: the Mariel boatlift of tens of thousands of Cuban emigrants to Miami, the Great Migration, and the labor-market entrance of educated women in the 1970s. This is not a lump-of-labor argument that there is a fixed number of jobs, and if one group has jobs, the other won't. The argument is about job quality, not job quantity. Each of those events lowered the wages of other workers.

Similarly, older workers will spoil the labor market for younger workers and for the wages, hours, and working conditions of the elderly. The boomer generation has always put downward pressure on their own wages and the quality of working conditions because it is a large cohort. Therefore, it may be no surprise that, since 1990, older workers face more intense concentration; more lifting, kneeling, and stooping; and more tasks requiring keen eyesight than in the past twenty years. Older workers have difficult and demanding jobs.[8]

The standard case for reducing retirement benefits is that more older people will work, which would at first create a "migration" bonus: more output at lower prices as marginal employers—those who otherwise could not afford to pay the going rate—come to market and produce with the lower costs and charge lower prices. As

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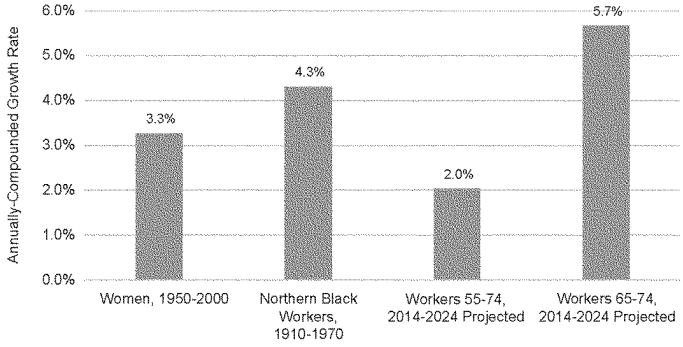


FIGURE 8.1 The Impact of Older Workers Entering the Labor Force

Source: Author's calculations using labor-force data from Bureau of Labor Statistics and Current Population Survey annual income and demographic supplement to the March Current Population Survey (CPS) for 2016; Burtless (2013); Census Bureau, Decennial Census, 1910, 1950, 1970, 2000.

labor supply increases, consumer and producer surplus increases, profits increase, and wages fall. Employers and consumers win, and younger and older workers lose. From the perspective of younger workers, wages and benefits are lower than what they would otherwise be if older workers had more bargaining power and left the labor market.

Let us now turn to the myth of the greedy geezer.

There is no evidence "the old eat the young." In 63 nations over forty years, nations with high education spending generosity—that is, GDP spent per child on education—also spend more per old person on pensions.

As nations become richer, the ability to retire becomes accepted by society. At the same time, economic prosperity causes aging populations. It might look like pension generosity is increasing because the old are getting politically stronger, but pension generosity is increasing because a nation is getting richer. When we control for aging populations, there is a 10 percent increase in education spending that accompanies a 7 percent increase in pension generosity.

Among the G-7, Canada has the highest spending per child on education and among the highest rates of spending per elderly. The US

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is the lowest in both. But the positive correlation between education and pension spending still holds up in the US.

American children receive a substantial amount of Social Security income. In 2017, over 8 percent of American children lived in families that received Social Security income. Social Security income lifted 1 million children out of poverty, which is about one-third of how many children received payments from the program aimed at poor children, Temporary Aid for Needy Families. In 2018, Social Security Survivors and Disability benefits paid $21 billion to children, compared to the Earned Income Tax Credit, which paid out $58 billion. Although old-age programs are not means tested, disability and early death are more common among lower-income groups, so Social Security disproportionately helps low-income children.[9]

Axel Börsch-Supan examined sixteen countries and concluded social expenditures for programs targeting the elderly do not reduce the share of total social expenditures for programs targeting youth. Bommier and colleagues' 2004 study of US education, Social Security, and Medicare concluded that people continually get higher returns on their taxes paid than do cohorts before them. There are detractors. Robert Novy-Marx and Josh Rauh argue that state and local government pension underfunding will increase debt burdens for future taxpayers. But in the late 1990s, New Jersey underfunded state pensions to increase education spending. Those future taxpayers had more human capital. In 2019 Charles Steindel in the New Jersey Department of the Treasury found that pension debt had no association with state economic growth.

There is little evidence in the labor market for a gerontocracy, a greedy geezer effect. Education and pension spending go together because of what political scientists John Williamson and Frank Pampel call the social democratic effect: "pensions are the outcome of a struggle between organizations and political parties representing the interests of capital and those representing the interests of labor."[10] Political coalitions to boost workers' pensions are political coalitions that boost public education.

The evidence points to solidarity among generations of working-class people, not strong-armed generational politics.

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Bad Pensions Hurt Some Employers

Some employers have a stake in workers not delaying retirement. And some employers may have a stake in an orderly retirement process, as I wrote in the *Harvard Business Review*.[11] According to research by the University of Connecticut and Prudential Insurance, every year that an older worker delays retirement, the company bears an extra cost of $50,000 above the productivity of that older worker who stayed beyond his or her time. This is a bold assertion and serves in part as an advertisement to encourage companies to buy Prudential retirement plan services. After all, it's designed to scare companies into having workers whose pay doesn't match their productivity on the job but who can't afford to retire. This would induce an employer to create a generous pension plan, the assets in which might include some Prudential products.

The advertisement strategy is a little dubious. Plenty of research shows that older workers are sometimes quite productive. But employers that provide health insurance do face higher costs of employing older workers, everything else held constant. And sometimes older workers are the highest paid in an organization. Older workers must be even more productive than their younger counterparts just to pay for their higher pay and higher health insurance costs. That's hard for employers and for older workers. That older workers are both more expensive in some circumstances and represent a loss to employers does not conflict with the notion that desperate older workers cost less in other circumstances. Both can be true.

Out of concern for cutting spending in 2013, executives of the largest American corporations called on Congress to raise the eligibility age for Medicare and full Social Security to age 70. In 2017, some companies began second-guessing themselves. Because many older workers will have to be retrained, and jobs and workplaces would need to be adjusted to older workers' needs and abilities, raising the retirement age could get employers to reverse their erosion in training and start valuing older workers. Although employers (in surveys, at least) praise older workers' sagaciousness and experience, few employers accommodate older workers' preferences for phased retire-

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ment or improved conditions, training, and pay. Similarly, workers tell researchers they plan to work, but workers with more pension wealth retire sooner because they can.

Bad Pensions Create Poorly Functioning Labor Markets

Importantly, employers try to attract and retain the best workers and ease out those whose productivity has fallen. Additionally, each middle-class retiree at age 65 provides a potential $1.5 million in lifelong spending and, because of their income security, becomes an anchor in a stable community. A community filled or sprinkled with stable retirees makes for a desirable neighborhood.

The large economic benefits of providing pensions are indirect but real. A solid, adequate pension system allows people to take risks, which aids society and helps employers and workers to find a good match. A secure pension base ensures that those older workers don't just work in any job they find because they are desperate—older workers with a pension work for employers that provide the best fit. That is a win-win for employers and workers.

Without adequate pensions, we do not have prosperity. Americans already work more hours per day, more days per week, more weeks per year, and more years per lifetime than their counterparts in other rich nations. So, Americans working more in old age may signal a basic problem in the US economy—it produces low-quality jobs. Adding millions more workers desperate for jobs into the labor force will make the economy less robust. There is likely a link between low pensions and elders desperate to work, which causes the US to be the OECD leader in the rates of elderly labor-force participation, elderly poverty, and share of jobs that pay less than two-thirds of the median wage.

Forcing older people without a safety net to seek paid work can create significant costs for all workers. Low-paid, low-status work deteriorates health and well-being and will widen socioeconomic gaps in longevity and morbidity. Working longer has macro consequences, as well. Making people work because they would otherwise be poor in old age will cause average productivity to fall as employers face

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less pressure to make workers more productive. Productivity drives wage growth and government revenues. Last, a supply of precarious older labor may put downward pressure on job quality for all workers.

We Can Afford Good Pensions

The maximalist solution to the savings gap—the amount that would instantly make every household secure in retirement—estimates that every married couple facing retirement needs about $40,000, and single women about $76,000, for a total of $4 trillion or $14 trillion, respectively.

Doubling the retirement wealth of the bottom half of the income distribution costs a lot less and relieves the tension from wealth inequality. Social Security pays about 5 percent of GDP in benefits every year. Doubling the benefits for the bottom 80 percent would cost much less. Would we pay less than 2 percent, 3 percent, or 6 percent of GDP to equalize retirement wealth, raise productivity, stabilize the political system, make it easier for employers to promote younger workers, and help stabilize household finances?

DOES WORK IN OLD AGE REDUCE PENSION COSTS?

The case for older people working longer is founded on budget reasons, not human well-being. If both young workers and their employers, with assistance from a government-refundable tax credit, paid about 6.02 percent more of payroll—about 3 percent of payroll tax for Social Security to maintain current benefits, 0.02 percent for a boost in Social Security aimed at raising benefits for the lowest Social Security recipients to end elder poverty; and 3 percent in a well-managed and invested retirement account—they would be secure from poverty and near poverty in retirement. Workers approaching retirement without adequate savings would have to increase their savings by considerably more than 3 percent because they don't have a long work life to contribute and accumulate investment earnings. Still, these workers would be better off than they are today with universal access to a low-cost retirement savings program.

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The case for pro-work policies comes from Gruber and Wise, who argue that generous pensions cause more retirements.[12] The availability of pensions at, say, age 62 enables retirement. But weak labor markets, which increase the risk of older workers being pushed out of employment into retirement, are significant drivers of early retirements. Chronic unemployment and volatility in the labor market could cause nations to implement, and employers and unions to demand, better pensions. The coincidence would cause a spurious interpretation of the correlations between high unemployment, expanded pension benefits, and low labor-force participation by older people. In other words, unlike the common interpretation of the data, generous pension benefits may not be driving people to retire. Instead, what is happening is that lower demand for older workers drives legislators to make pensions more generous. Gruber and Wise emphasize the supply side—older workers decrease their work effort when they get better pensions. I emphasize the demand side—nations with chronically high rates of unemployment may adopt early pension ages and generous pension benefits.

If Gruber and Wise were right, pension generosity would be correlated with more time in retirement. I found no such relationship. Among forty-two OECD nations, the correlation coefficient between pension generosity—the amount of money spent per old person and the average time a person spends in retirement—was a small and insignificant .12 in 2005 and .16 in 2015. That people with wealth in the form of generous benefits are more likely to retire does not explain macroeconomic dynamics.

High-unemployment nations that have the right soup of unions and political movements to increase social insurance spending bargain and push for generous pensions to alleviate the suffering caused by unemployment.[13] I find weak support for Gruber and Wise's supply-side argument.

A difficult direct but real calculation to make is that the morale and productivity of the workforce may drop if less educated older people work longer because of financial insecurity. The gerontologist Scott-Marshall found that work-related insecurity negatively affected the health of all groups, but the effects were greater at older ages and

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for those with visible minority status—those who are visibly distinct from those of the predominant ethnic or racial group in society.[14]

Policy options to promote an equitable distribution of secure healthy retirement time include expanding retirement plan coverage, which supplements Social Security, including a universal workplace pension system, and encouraging or mandating retirement plans to have some defined-benefit features: continual employer contributions and annuities.

OUR FAILED RETIREMENT SYSTEM IMPOSES COSTS ON SOCIETY

A national pension system works when workers can consistently over their working lives accumulate claims to income when they retire. But our national pension system has fallen short for most people because coverage is spotty and uneven; most workers in the bottom 80 percent of the income distribution do not have employers that contribute to or sponsor a plan.

Because of the poor design of our system, most workers don't voluntarily save for retirement because it is simply not feasible. Another source of inequality stems from the lavish government subsidies given to the very top earners by way of the tax favoritism for contributions to 401(k)s, IRAs, Roth IRAs, 403(b)s, employee stock ownership plans, and so on—all aimed to encourage at retirement contributions. The top earners receive at least 60 percent of the tax subsidies directed toward retirement savings. Different methodologies change the exact number but don't change the conclusion that the rich get most of the tax breaks for retirement savings.[15]

We have moved away from the vision that working in old age should be a genuine choice. The working-longer consensus may have started from good motives about active aging. But instead of giving people more opportunities, US old-age policy evolved to tell working people to construct a "do-it-yourself $600,000-plus pension account" or work longer. These policies have been widening the already-large gap in Americans' well-being.

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We need the Gray New Deal: job and pension improvements for older Americans.

The shame of our system is that we think good retirement comes about because of decisions made around the kitchen table, but the fact is that most people cannot retire well without government coordination. Coordinating a public option for a universal supplement to Social Security will not harm the government financially, and the new system could raise wages and productivity. A public-option pension system will plug gaps in the voluntary, commercial, individually directed, do-it-yourself system we currently have.

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PART III

The Gray New Deal

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9

Good Jobs for Older Workers

We have a choice. We can flit, nick, and tuck around the edges of Social Security until it can't pay full benefits in 2035, keep hoping elders work longer, and nudge workers into commercial, market-driven inadequate retirement accounts to avoid making hard choices about the precariousness of our aging population. Or we can face reality and create policies to spur better jobs for older workers and good pensions. In short, we can choose to replace the working-longer consensus with the Gray New Deal.

There are two parts to the Gray New Deal: improving jobs for older workers and improving pensions. I can already hear the concerns: Can we afford it? What kind of public investment are we talking about? How big? As we saw in the previous chapter, we cannot afford not to make a big, bold reinvestment in older workers and retirement security. Creating conditions improving older workers' jobs and improving pensions does not cost as much as we might think. Creating better jobs and stronger pensions mutually reinforces the other.

First, let's look at policy opportunities to improve the labor market for older workers. The next chapter turns to pension reforms that can secure and stabilize people in their later years. Improving the labor market for older workers requires two sticks and carrots. First, firms need carrots to improve pay and conditions for older workers and to profit from using older people's skills, abilities, and experience. Profitable employers who treat their employees well need to be protected against those employers that bring down labor standards.

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Enforcement sticks from unions and government, including wage and hour protections, occupational safety and health rules, and antidiscrimination policies, protect high-quality, high-road employers.

How do we get there? Here is an eight-step path to improve jobs for older workers. The eighth task, to improve pensions, will ensure we don't create an economy of desperate older workers and make someone's grandma your new barista:

1. Establish an Older Workers' Bureau in the US Department of Labor.
2. Lower the cost of employing older workers. Expand health insurance to help older workers pushed out of the labor market afford medical insurance and make it cheaper for employers to employ older workers before they reach Medicare age. Lower the Medicare qualifying age and make it first-payer insurance.
3. Push employers to create better jobs through federal and state policies to create jobs by eliminating barriers to labor unions, increasing minimum wages, and reforming the EITC to include older workers.
4. Revamp worker training and job programs to make them worker-friendly.
5. Ensure that volunteering is a dignified experience for older people.
6. Enforce antidiscrimination policies and campaign to end stereotypes of elderly people.
7. Remove any unintentional barriers that discourage older people from working if they want to.
8. Ensure better pensions.

1. Establish an Older Workers' Bureau

The entire labor force is expected to grow between 2021 and 2031 by 7.7 million workers, and over 3.6 million of them will be older than 55.[1] The aging of the workforce presents a challenge to the well-being of the nation and power struggles between workers and employers. National leaders must turn the spotlight on older workers and the

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quality, pay, and conditions of their jobs. Many college-educated older workers can command decent salaries, but many still face sudden involuntary retirement. The myth of the happy, healthy older worker obscures a glaring reality: millions of Americans must toil through their elder years just to stay afloat.

Despite older workers' increasingly central role—famously holding down jobs in the Oval Office, Congress, and the Supreme Court—millions of senior workers toil in dangerous conditions for meager pay, and there is little reality-based policy making to fix that.[2]

Akin to what the Women's Bureau has accomplished since its creation in 1920, an Older Workers' Bureau at the Department of Labor—charged with researching, coordinating, educating, and advocating for America's growing elderly workforce—can bring older workers' needs to light and spur reform.[3] Representative Don Beyer (whose economist grandmother Clara Beyer ran the Women's Bureau) introduced a bill in Congress to form this bureau in 2022.[4] What jobs do older workers have and need? Who among the elderly workforce is economically precarious? Which state and federal programs work against each other, and which complement efforts to provide high-quality jobs for older workers and secure, stable retirements for those ready to leave the world of work?

The need for older workers and better pension advocates is urgent, vast, and complex. That most retirements really aren't—most "retirees" say they are retired after being pushed out, laid off, or forced out by bad health—is one of the most outstanding findings in my career. Premature retirement is a problem, too. Millions more elderly workers are being pushed out of the labor force into an early retirement marked by economic insecurity. The COVID-19 pandemic and ensuing recession hit older workers hard. Amid the era of "essential workers," research at the New School's Retirement Equity Lab found nearly 2 million more older workers than expected had retired due to the pandemic recession.[5]

Contributing to this compelled early retirement (which is often not a retirement at all), older workers are less likely to have paid sick leave, which is hard anytime, as older people go to the doctor more, but the lack of paid leave proved especially harmful in pandemic

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times.[6] These trends are exacerbating inequality: at earlier ages, vulnerable older workers are being pushed to retire sooner while more privileged workers can delay retirement and pile up more savings.

2. Lower the Cost of Employing Older Workers

I am not against elders working. A functioning, human-centered economy should provide decent jobs to every adult who wants to work. By bringing down the Medicare qualifying age to below 65 and making it the primary insurance for employed older workers, we can simultaneously improve elder health and enable employers to provide older workers with decent pay and conditions. And that is the whole point of reform. Helping employers close the age-price gap in health insurance could help increase pay and save money. Making Medicare the first payer can put $10,000 a year on the table for every full-time older employee, some of which could increase pay.[7] Creating this cost advantage could help overcome employers' distaste and avoidance of older workers and help prevent forced early retirement for those who still want or need to work. (This is not to be confused with the working-longer agenda; these reforms are about enabling older workers to work if they need or want, with better preventive health-care coverage.)

There is some political momentum for lowering the Medicare age; President Biden has called for lowering the Medicare age to 60.[8] That's a good start, but 50 is even better. Think of it as economic and health insurance. Bringing down the Medicare age, especially to 50, protects older workers from being sidelined in the economy way before they planned and losing their health care along with their jobs.

These losses are harsh and cruel. Take the case of 52-year-old Suzie Davis, who until 2021 worked as a concierge supervisor at the Hampton Inn near the Pennsylvania Convention Center. She had given her whole life to the hotel, she told the *Philadelphia Inquirer*, working nearly every role during her twenty-three years for the company: housekeeper, bell clerk, front desk, breakfast bar. "We're losing our jobs," Davis said. "That's a big thing. And to turn around and you can't go to the clinic because you don't have health insurance? It's just like we're a piece of garbage. They just threw us to the curb."[9]

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Congress has the power to prevent this suffering. Bringing in more people into the Medicare insurance pool increases public costs in the short term, but as younger people enter the pool, the average age of people in the Medicare insurance pool falls, so Medicare costs per person will fall. Overall costs may decline over time. Here is the logic: if people in their 50s and early 60s don't have health insurance, they cost more when they eventually join Medicare at age 65.[10] Among the most vulnerable are adults over 50 without health insurance, especially those with cardiovascular disease or diabetes. Going without medical care for years means that once they reach Medicare eligibility, they will use more health services than Medicare beneficiaries who were insured before they came in. Because chronic diseases are prevalent and insurance coverage is often unaffordable for older uninsured adults, the Medicare system is more costly per person than it would be if people were continually insured before age 65. Lowering the Medicare age will bring down the average cost of Medicare participants aged 50–64, evidence shows.[11]

There's nothing radical about Biden's call to make 60 the new Medicare qualifying age; many lawmakers had proposed this even before the COVID-19 recession created a greater urgency for this reform. In 2019, Senator Debbie Stabenow launched the "Medicare at 55 Act," which would enable those aged 55–64 to buy into Medicare. In many cases, Medicare premiums would be cheaper than what is offered through the Affordable Care Act. Decreasing the Medicare age is also good politics—bipartisan and popular. Polls tell us that 77 percent of Americans support the move, including 69 percent of Republicans.[12]

In 2019, New Jersey's representative Tom Malinowski, a Democrat who won a Republican district, introduced incremental legislation allowing retired first responders aged 50–65 to join Medicare.[13] This may not be a big group, but even extending Medicare to these much-celebrated workers was too much for the Republicans, and the bill never had a chance. Despite his pronouncements, Biden didn't propose this popular and vital reform in either the infrastructure or Build Back Better bills of 2021.

Despite nearly 2 million older workers being pushed out of the labor market due to the pandemic recession, there was just one paltry

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proposal to alleviate the situation—a meager effort to encourage hiring and retaining older employees during the pandemic by allowing employers not to pay their share of Federal Insurance Contributions Act, or FICA, taxes for older workers. It was like robbing Peter to pay Paul: those taxes fund Medicare and Social Security.[14] Depriving Social Security and Medicare of revenue in the name of helping older workers? Surely, we can do better.

3. Push Employers to Create Better Jobs

We regularly hear from workers from all walks of life that work is vital, meaningful, and fulfilling, that it provides more income and wealth.[15] And for some, it's true. But America's profound wealth gap only deepens as people grow older. Nearly 21.5 percent of 34 million Americans over 55 are in the working poor,[16] earning less than two-thirds of the US median hourly wage for all workers—just $15.96 an hour. Reflecting other gender inequities, an even higher share of older working women—26 percent—are working poor.

Older workers are commonly stuck in the kinds of jobs that break down their physical health, steal their free time, and provide little in the way of retirement or health benefits. Personal and home healthcare jobs—among the occupations adding the most jobs in the next ten years—pay low wages, offer few benefits, are physically taxing, and are disproportionately performed by older workers (31 percent of home health and personal-care workers are over 55). Likewise, in an occupation filled largely by men, 34 percent of janitors are over 55. By comparison, workers over 55 make up 23 percent of the overall labor force.

As another measure of elder working poverty, in 2021, nearly 1.5 million low-income older workers would have benefited from an expansion of the popular Earned Income Tax Credit because they earn wages so low that they qualify for federal subsidy. This is a key policy lever to improve work and pay for older Americans. As it is now, the EITC functions as a partial subsidy that enables employers to continue paying low wages, as this extra income supplement to low-paid workers relieves pressure on employers to raise wages.

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The popular EITC is lauded for raising the income of lower-wage workers, but it also lowers the wages paid by employers. Thus, childless and older workers who get reduced or no EITC benefit work alongside workers who are eligible for the subsidy, meaning they are doing the same jobs for lower pay. The older worker is paid a lower wage but is not eligible for the EITC subsidy.[17]

In the next decade, the share of older workers over age 65 will increase by a whopping 50 percent, translating to an additional 250,000 workers becoming eligible for the expanded EITC.[18] And here is a big warning—without proper reforms, the problem of low pay could be made worse by the EITC. Even if we expand the EITC, employers are still incentivized to create low-paying jobs because of the wage subsidy. The way to counteract the EITC's negative side effects is to raise minimum wages and reduce the barriers faced by workers to form unions. This key twin boost of raising the minimum wage and empowering unions is backed by some fellow scholars.[19]

4. Revamp Worker Training and Job Programs

Rising economic productivity and innovation pose significant challenges for workers. Industrial restructuring and downsizing propelled by technology and automation especially threaten older workers because workforce development and training programs are incentivized to avoid older workers.[20] Worker training programs are evaluated on how fast their trainees get work and whether the pay exceeds that of the previous job. But older workers take longer to find work, and the pay in their new job is usually lower, so having more older workers in a training program makes the program look like a failure.

At the same time, research shows that societies that provide secure and voluntary retirements boost their productivity. In a 2017 paper, Europe's leading retirement researcher, Axel Börsch-Supan, and his coauthors anticipated that employers would automate as populations age. When older people stop "commodifying" their time by selling it—employers will adopt more labor-saving technologies. And that is (or can be) a good thing. Employers will have to work more efficiently as wages increase because labor becomes scarcer than capital. And

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workers everywhere, even the ones who stay on the job, benefit from more retirements. I'll go back to this economic point over and over again: it is good for society when people retire.

What is their evidence? They found that three relatively "older" nations in demographic terms—Italy, France, and Germany—tended to boost education and training while they cut pension benefits (by increasing the retirement age). Training older workers was a significant factor in getting people to work a little longer, thereby increasing their economic growth.[21] But the US, at its economic peril, is not creating activist employment programs for older workers.

The US economy's success in producing good-paying jobs and increasing productivity will depend on how the country oversees the aging population and trains older workers. The federal-state workforce development system is the main vehicle for helping displaced and unemployed workers find new jobs. But while older workers face an elevated risk of displacement and unemployment, these training agencies famously avoid older clients. The US has a vigorous system in place for jobless young people, perhaps because youth unemployment is deemed especially wasteful and unemployed young men tend to scare societies. But no special programs exist to serve older job seekers in need of retraining. Meanwhile, the metrics the US Department of Labor uses to evaluate workforce agencies' performance penalize programs if they don't place workers in jobs that pay close to what the worker earned in their previous job. Yet older workers typically take longer to find a job and most often take a job that pays less. So, a workforce program with older workers is already disadvantaged in getting a good score from the evaluators.

In 2020, the economists Katherine Abraham and Susan Houseman proposed ways for workforce development services to help older workers: hiring specialists focused on older workers, promoting self-employment among older adults, and most importantly, avoiding placement incentives (like those penalties for not placing people in jobs that pay at least as much as their last one) that bias a program against serving older workers. Policy makers could also help by expanding the Senior Community Service Employment Program, which serves disadvantaged older adults. Currently, these meagerly

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funded programs serve only about 67,000 older workers, compared with the 35 million younger workers benefiting from job-training and workforce development programs.

5. Make Volunteering Dignified

While the psychological and social literature on aging and work is beyond the scope of this book, I've kept Erik Erikson's book *The Life Cycle Completed* in my sights while writing.[22] Erikson and other scholars teach us that, particularly in our older years, people seek and need meaningful work that fosters connection and generativity. We seek ways to create meaningful contributions that will outlive us. In old age, we are concerned with establishing and guiding the next generation and understanding the meaning of our lives. If paid work helps this function, we should seek it. But others may find the activity that enhances connection and generativity is volunteer work.

Recognizing the glorious supply of people freed from career and paid work, the nation's policy makers could help create structures to raise up the dignity and recognition of volunteer work. As one example, my mother was in a program funded by the Older Americans Act, the Senior Community Service Employment Program, which paid minimal stipends for low-income seniors volunteering in schools and a few other venues. Her stipend amounted to $1.50 per hour. Many have called for increasing the range of work options as well as the stipend. For my mother to qualify, a social worker came to her house to verify her income and then helped her deduct the cost of Band-Aids and aspirin so she would qualify as low income. I was grateful for the attention to my mother, but the process was time intensive and not dignified.

Many of the psychological and social benefits of work can be achieved through various volunteer, mentoring, and/or part-time paid work that retirees choose to do. The desire for workers to achieve a healthy balance between paid work, leisure, and volunteering could show up in union negotiations for part-time work or enlightened employers adding phased retirement to attract and retain the best workforce.

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Without a policy to secure pensions, the working-longer consensus persists, and the pressure diminishes for government to create dignified volunteer opportunities for older people. Government policies can be a good place to create reinforcing mechanisms to lift up meaningful activities for older people. Social provision of goods and services to the elderly also produces jobs for the elderly. In my own life, I know an 87-year-old man who is healthy enough to work and wants to. He drives for Meals on Wheels for fellow seniors in his neighborhood. At 87, he could easily be receiving meals from the program himself.

6. Enforce Antidiscrimination Policies

Google "jokes about older people," and you'll find demeaning sentiment disguised as good humor. A website promises the jokes are provided because "getting old doesn't have to be sad. Make fun of those gray hairs with these old people jokes and jokes for seniors."[23] Some may privately chuckle at these jabs, but they're part of a broader ageism proliferating throughout our culture.

As those online "jokes" attest, ageism is one of the few types of bigotry still considered socially acceptable. Like all bigotries, ageism is based on falsehoods. My college students frequently forget their earbuds, appointments, and just about everything else and never attribute it to their age. And when society perpetuates ageism, this prevents full use of older people's potential, pervading every part of the labor market.

On the surface, the working-longer consensus seems to attack ageism and put forward a liberating view that older people can work forever because they are just as good as young people. Indeed, paid work has many noneconomic benefits for the elderly and for younger people, but working after a certain age should be a choice.

At a minimum, age discrimination laws, including protection against discrimination in training and retraining, should be stepped up. Comparing states with strong age discrimination laws and those with weaker or no protections, economists Song and Neumark found that stronger age discrimination laws help older people work longer.[24]

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Neumark argues that Congress needs to strengthen enforcement of age discrimination in hiring because workers need "bridge" jobs because pensions aren't secure or adequate. Providing teeth to our age discrimination laws means making the penalties bigger. It means amending the Age Discrimination in Employment Act of 1967 to clarify that disparate-impact claims are allowed in cases of hiring discrimination. And it means encouraging federal contractors to hire and retain older workers.[25]

The economic literature is clear. Older workers face considerable obstacles to work in the form of ageism, age discrimination, lack of training, and contingent and fragile work status. Because the US does not have the activist, pro-older-workers systems of some European countries, such as incentives for phased retirement, older workers are often trapped and struggling in the labor market, with or without the skills employers are demanding, and doing their best to pretend they're not old. By the way, until Congress acts and you actually have to work when you are old, never make reference to your age or jokes about senior moments.

7. Remove Unintentional Barriers to Working Longer

A big part of the working-longer consensus is composed of "sticks" to prod people to work longer—such as eroding pensions and cutting Social Security. Sticks do work, but they also cause hardship. Most retirees say they retired sooner than planned because they were pushed out or could no longer work.[26] Carrots, another tool deployed by the working-longer consensus, include well-meaning policy recommendations to encourage older people to keep working, such as reducing taxes on older workers and eliminating the Social Security earnings test.

Some of this is perception; some is policy. Currently, if someone claims Social Security and continues working and earns above a certain amount, benefits and payment are delayed, and the worker gets credit for working. This really isn't a penalty, but some people think it discourages work. The earnings test is often fingered as a culprit in causing people to retire too early and to their detriment.

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A 2016 economic study inferred that since older workers' earnings clustered around the level above which Social Security benefits are reduced, older workers hesitated to earn more.[27] The economists assume that workers both cluelessly misperceive the earnings test as a tax when it is not and are so sophisticated that they can calculate how tax rules, requirements for food stamps and housing assistance, and so on, interact to change their take-home pay. But that is illogical and contradictory. And the study assumes that employers want to hire older workers, and the only thing holding older people back from working is food stamps, housing assistance, and earnings tests (which, taken together, on paper create high marginal tax rates for working). Maybe that is what workers are deciding, but I don't believe it.

My takeaway? Sure, it can't hurt to better inform people about how the earnings test operates, and that might increase labor supply a bit. But the real problem with low-income elders not working is likely mental and physical limitations to work, bad job quality, and age discrimination.

8. Ensure Better Pensions

The idea that workers simply need food stamps and other assistance has a big effect on policy makers, who blame the worker and ignore structural inequalities and challenges. In 2000, following the logic that the earnings test was discouraging work, policy makers devised the carrot of eliminating the test past age 67 for those born after 1960. But this hasn't been shown to help; in fact, it may have hurt. I have noted repeatedly that raising the retirement age cuts benefits at every age a person collects Social Security, and most older workers collect Social Security while they are working, presumably to supplement low wages. The earning test is not a significant factor in a person's decision about work and claiming.

Another carrot to encourage older people to look for work is to engineer a way for workers to accumulate more Social Security credits beyond their highest-paid thirty-five years. But this would benefit

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only workers with more education, who get wage increases at older ages, helping the top more than those at the bottom.[28]

Some hoped that educating people about the rewards for delaying their Social Security claims, for not drawing down their financial assets, and for working longer would save the day. But being financially informed does not change the reality that when older workers are paid poorly, they will claim Social Security while working and draw down their assets rather than save for retirement.

Other carrots to induce working longer include shifting economic risks even more heavily onto workers by restructuring retirement plans. For instance, secure defined-benefit plans give confidence to retirees—the ability to accrue benefits after, say, age 65 is limited and the benefits are guaranteed—but 401(k)-type plans keep people uncertain and worried, compelling them to keep working for fear of not having enough.

Eliminating mandatory retirement may not have persuaded many Americans to work longer. It may have helped workers and employers view age discrimination more negatively, and that is good, but tight labor markets and more educated older workers have been the main drivers of longer lifetime careers. And women working at older ages has also boosted retirement ages. That trend has more to do with women's economic emergence over the past forty years—reproductive rights and more education—which has also boosted overall labor supply.

Why am I bothering to add up all the policy attempts to "encourage" working longer, including cutting Social Security benefits? Because I want to emphasize that large systemic issues pertaining to profit taking and policy making create labor-market challenges faced by workers over 50. The following list summarizes much of what is documented in most of the book: age discrimination, forced retirement, and bad jobs for older workers raise profits, and having health insurance at work ends up hurting older workers.

1. Employers' age biases and stereotypes lead employers to underappreciate older workers' skills and experience. The result? Pay

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does not increase after about age 45, and there is a documented trend of older workers not getting the same compensation premium for their work experience and skills as they had in the past. And when older workers are displaced from sectors that are shrinking, their skills and experience are often not as valued in emerging new sectors. Take, for instance, the welder having to find work as a home health-care worker. This leads to downward mobility for older workers through no fault of their own.

2. Most retirement is involuntary. In surveys, most people over age 55 who say they are retired report being pushed out of their jobs or leaving the labor market earlier than planned due to health issues. We should substitute *forced retirement* for *retirement* because the first is closer to the truth; *retirement* implies that the worker had the choice and agency to decide to leave the labor force. Older workers are less likely to have paid sick leave than younger workers, even though they may need it more often, which forces them to retire. Once they are displaced or unemployed, older workers typically take much longer to find a new job. Policy makers may need to extend long-term unemployment insurance for these folks.
3. Bad jobs for older workers are profitable for many industries. Older workers are disproportionately represented in many low-wage jobs, like janitorial services, warehouse work, and personal home and health care—yet they do not qualify for income supports like the Earned Income Tax Credit. This leads them to collect Social Security while they are still working, permanently reducing their benefits.
4. The US system of having employers pay for health insurance is very disadvantageous for older workers. Older workers may cost more to their employers because medical insurance premiums are higher for an older workforce. The Medicare age should be lower—to age 50—and Medicare should be the first payer.
5. Better pensions and secure health insurance would give older workers a stronger fallback position. Better pensions are secure and adequate, and good health insurance is decoupled from employment.

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Conclusion: Make Jobs and Pensions So Good That Elderly Workers Work by Choice

It is easy to see that having bad jobs in one's life leads to bad retirement financial readiness. What is less well-recognized is the reverse causality between bad retirement financial readiness and bad jobs for older workers. In the presence of widespread retirement insecurity, older workers' earnings are lower than if employers had to lure and entice experienced workers who could otherwise comfortably retire. Older workers with fewer options have less leverage to bargain for raises, benefits, or improved working conditions; their ability to negotiate higher pay depends partly on their options, whether it's other employment or retirement.

With far too much optimism, the Department of Labor noted in 2021 that "the economic downturn, shifting perceptions of retirement, increased workplace flexibility, and the aging of the 'baby boom' generation are all contributing to people working longer."[29] The list is overly upbeat and incomplete—eroding pensions are a major force compelling older folks to work longer. The department could well have added that "eroding pensions are a major force reducing older folks' ability to ask for better pay, hours, and working conditions."

The Gray New Deal aims to solve two problems at once: to strengthen pensions to raise the bargaining power of older workers and to create better jobs for older workers to improve the living standards of America's elders. It's simple—we do everything we can to improve the labor market for older workers, and we improve pensions and help people secure retirement and economic stability in their final years of life.

To fill these and other key gaps in policy and awareness, the last chapter focuses on how we can secure and afford better pensions as a society.

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10

Creating Better Pensions

Fixing our broken retirement system is not that hard. The framework for reform is simple, but the entrenched interests of retail money managers stand in the way of change. A dollar saved for retirement must be saved consistently, invested early and well, and structured as a payout that lasts a lifetime.

Almost all experts agree that if we could start from scratch, we would have required universal advance-funded pensions in addition to Social Security. Some institutions did fund their pensions in advance, including state and local governments, large employers, and unionized companies. But because the US didn't require universal pension funding, huge gaps remain, leaving millions of older folks financially insecure.

A Better Pension System Is Doable

If I could wave a magic wand, I would set up a plan to require all employers to provide a platform for saving and investments with mandated employer and employee contributions; it would involve investments made by professionals with heavy federal oversight and most of it would be annuitized alongside Social Security. We would accumulate investment capital and have a hybrid system of advance-funded social insurance and that would be that. I could dedicate my life to something else besides producing policies to help workers have a dignified old age. But wand waving is not the way the world works.

Policy makers should have required every employer and worker

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covered by Social Security to also contribute to individual pensions. These accounts would be owned and controlled by each worker. Their accounts would be flexible and tailored to fit their lives and needs. After meeting the minimal contribution, workers and employers could add money to the account, further solidifying people's economic futures and retirements.

A MAXIMALIST PLAN FOR GUARANTEED RETIREMENT ACCOUNTS

In a different book, *Rescuing Retirement*, Tony James and I offer a detailed plan for Congress and the president to implement Guaranteed Retirement Accounts (GRAs), derived from a program I devised with the Economic Policy Institute in 2005.[1] This bold plan provides adequate and universal retirement-income security that would maintain older people's living standards into retirement.

In our plan, all workers and employers would contribute 3 percent of pay at the beginning of their career and for as long as they worked. (The self-employed would be required to have a GRA just like they must contribute to Social Security.) Over forty-five years, this money would accumulate to the point at which it replaces a worker's pre-retirement earnings, enabling people to retire and avoid poverty. The GRA would have to be invested well. This proposal for GRAs would pool investments to ensure that workers earn the highest risk-adjusted returns possible. The principal would be guaranteed, regardless of fluctuations in investments. Payouts would come in the form of annuities to ensure that retirees don't outlive their savings. The GRA also includes a tax credit—like the Earned Income Tax Credit but an earned wealth tax credit—so that the government pays the required contributions for low-income workers who don't have a dollar to spare for savings.

STATES IMPLEMENT AUTOMATIC INDIVIDUAL RETIREMENT PLANS

In the face of decades of minimalist and austerity-minded policies, the GRAs are a maximalist solution. Another important policy

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movement toward retirement security involves state and city initiatives to make pensions universal. This follows a long-standing pattern in American progress on social policy innovation: states and municipalities will move until the federal government acts. Famously, President Roosevelt enacted Social Security in 1935—but before that, in 1934, over twenty-five states had or were considering old-age income security legislation.

As of 2023, more than twenty-five states sponsored some version of an automatic IRA plan to help some workers save. There is talk of implementing a national automatic IRA plan. But IRA plans have structural problems that will always make them inferior to a national, universal retirement plan. IRAs are individual accounts, liquid, commercial, and self-directed plans.

In an automatic IRA plan, the employer automatically enrolls a worker into an individual retirement account. But after that, workers are on their own. The responsibility for contributing, managing, and maintaining the account lies with the worker. The worker decides how much to put in and where, the worker can withdraw the money whenever it is needed (even before retirement), and the worker doesn't have any negotiating power to lower fees on the investment vehicles offered in the account. Employers cannot contribute to the IRA with tax-favored accounts because IRA accounts are not protected by federal regulations. Savers in IRA plans pay retail fees and construct their own portfolios. Workers end up with an inferior, low-performing, and suboptimal account, paying high fees on amateur investment portfolios. In short, IRAs are inappropriate for long-term retirement savings.

A BIPARTISAN PLAN TO EXPAND THE THRIFT SAVINGS PLAN

When it became clear the state-by-state efforts for individual retirement plans weren't going to work, and neither would a national automatic IRA—and when protests, clamor, and political criticism of glaring national wealth disparities were mounting, I teamed up with

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an unusual partner for me. The economist Kevin Hassett—of Trump's Council of Economic Advisers—and I proposed a variation on the GRAs. Our plan—the Thrift Savings Plan (TSP) for Most Who Have None—invites Congress to give low- and moderate-income Americans access to a new retirement savings program modeled after the federal Thrift Savings Plan, a 401(k)-like program for federal employees. Key features of the TSP include automatic enrollment for eligible workers, low fees, simple plan options, and federal matching contributions to reward and encourage savings. Projections show that more wealth for half of workers, the lowest end of the wealth distribution—most have barely anything except debt—will make them more income secure at retirement.

Research shows that the right incentives can play a crucial role in helping people achieve their financial goals and attain self-sufficiency. The TSP is a proven program that draws from important findings in behavioral economics to deliver outstanding results for eligible workers, including those with low income and educational attainment.

These plans are close to what a good pension system looks like.

For most people, in a face-off between an automatic IRA and a GRA or TSP, the GRA plan wins hands down. Savers in a GRA-type plan pay wholesale fees, and professionals construct portfolios.

With help from a government-refundable tax credit, workers and employers would pay about 6 percent into a retirement account income. But wait, would those higher taxes hurt employment? No economic model has found that this payroll tax increase would significantly harm jobs by reducing workers' incentives to work or employers' incentives to hire people in robust economies. Higher labor costs often result in higher productivity.

Consider the treachery and damage of today's status quo. By not moving to bring more revenue to Social Security—for instance, by raising the cap on the amount of earnings taxed for Social Security—the system slips perilously closer to insolvency. If we do not change the Social Security status quo, 75 percent of benefits owed will be paid by around 2034; because the system is progressive, Social Security

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cuts will increase US elder poverty rates, which already are the highest among rich nations. Inaction in pumping new revenue into Social Security is a deadly action.

Promisingly, some political leaders are at least heeding and speaking about threats to Social Security and the need to act. During the 2020 presidential campaign, several Democratic candidates put forward plans to shore up and beef up the system.

When Pete Buttigieg, now transportation secretary, ran for president, his platform included plans to expand Social Security and create something similar to the GRAs.[2] Buttigieg would have made employers pay 3 percent into a workplace-portable pension (the GRA plan is a 1.5 percent shared cost between employers and employees, raising the same amount by different means).

Senator Elizabeth Warren proposed expanding Social Security and raising all benefits by $200 per month; Senator Bernie Sanders also campaigned on expanding Social Security; and on the campaign trail Joe Biden proposed expanding the employer pension system through a voluntary method.

Momentum is building to strengthen Social Security and other core elements of a Gray New Deal, which would expand the current system and layer on top of it an advance-funded retirement system like what workers have in public employment, unionized workplaces, and in large firms. Another sign the policy window for a Gray New Deal is opening is that—like the year before Social Security passed—over thirty-four states now require employers to offer (though, sadly, not to pay for) a retirement plan.

A Better Pension System Is Affordable

My vision constructs a politically sustainable and adequate pension system with fewer opportunities for financial predation, confusion, and self-dealing. I advocate a fully funded system of universal pensions, delivered through a GRA-like plan, which the TSP-for-All plan is. Similar to the Dutch system, the GRA supplements Social Security with advance-funded pensions, paid for by employee and employer contributions.

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How would this ambitious program operate? Workers would be completely or partly subsidized by a tax credit, and these credits would be paid for by eliminating tax breaks for higher-income earners. Depending on the size of the tax credit and how much tax deduction money is kept for existing 401(k) plans, the net cost to the US Treasury could be zero and still raise everyone above twice the poverty line in old age. Imagine that for a moment: we have the opportunity and the policy know-how to eliminate elder poverty. We can stabilize life and retirement for millions of older Americans. This is an opportunity we cannot afford to miss.

Unlike Social Security, income from the GRA accounts will rely on the actual balances in each person's individually owned retirement savings account. People could add more to their accounts to get an even higher benefit. The GRA plans function as both pensions and accounts, arrangements by which individuals have some influence over the size of their eventual benefits. For instance, union workers will sometimes accept lower pay to have more money poured into their pension plans. In 401(k)-type plans, workers can vary their contributions to get higher benefits in retirement, but these plans are not as professionally managed as GRAs would be.

Indeed, superior management is a distinct advantage GRAs have over individually directed commercial accounts. When real capital is pooled in large GRA accounts, highly regulated plan managers—as they do for big pension plans, endowments, and the like—would choose a portfolio of long- and medium-term, high-performing investments that yield a much higher risk-adjusted rate of return than the current system of 401(k) plans and IRAs, which tend to be held in short-term liquid assets, whose assets can be marked to the market daily. Getting a higher return for a dollar of savings would help close the retirement wealth gap without adding costs for anyone. Everyone would have the advantage of returns from a professionally managed account, such as the Harvard endowment or the teachers' pension funds.

Still, some may ask, why do we need a GRA plan—why not just strengthen Social Security? The short answer: We absolutely must do both. Social Security could be even more progressive and insure

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elders against poverty. It would take relatively small increases in premiums—garnered by raising the tax rate or expanding the revenue base—to lift benefits for the very poorest Social Security recipients. But on the current policy landscape, no practical and proposed expansion of Social Security does enough to replace the 70 percent of middle-class wages needed to sustain a pre-retirement lifestyle for these workers. By combining GRAs and Social Security, we can create a system of fully advance-funded accounts that would replace about 70 percent of workers' pre-retirement income in retirement—enough in most cases to maintain people's pre-retirement living standards into old age.

The Low Cost of Good Pensions

The fact is, we can afford good pensions and better jobs—and we really can't afford bad pensions and bad jobs. Most people want (or at least are willing) to pay for adequate retirement security. With an average of about 6 percent of our pay, as a society we can secure middle-class retirement and prevent poverty.[3] In fact, some versions of the pension plans are revenue neutral, meaning that the government doesn't pay any more than it is paying now but there are much better pensions for people.

Meanwhile, we pay exceedingly inflated costs when older workers are stuck in bad jobs with a meager (if any) pension—additional higher costs for elderly health care, economic assistance for the elderly poor, and much more. Any upfront costs for protecting and training our elders—remembering we will all be "old" one day, if we're lucky—is more than worth it.

But how we create and structure this system matters. A well-functioning and sustainable pension system provides pensions to high-income, middle-class, and low-income workers alike. Including disabled and low-income workers with high-income workers helps stabilize such programs in political terms.

In contrast, a pension system funded entirely from general revenues is neither stable nor equitable: depending entirely on pay-as-you-go systems to fund a pension system could be foolhardy and

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harmful. Variations in demographics and in the productivity of unfortunate workers who are in cohorts that experience an unlucky share of severe recessions can make pay-as-you-go systems unstable and unsustainable; through no fault of their own, the unlucky cohort's payroll tax rates could double to pay for existing pensions.

Paying for pensions involves taking resources from current consumption to ensure later consumption. This can be accomplished through government promises, through private arrangements that depend on returns from private bonds and stocks, through a mixed public and private system, or, as the pension economist Nicholas Barr noted, by burying things you will need in old age—drugs, canned goods, adult diapers—in the garden.

But politically, how pensions are arranged matters—and stability and predictability are key. In 2020, if Social Security was funded from general revenue, tax rates would have had to double to over 30 percent of pay as a small cohort pays for a big one. The required rate may fall or spike year to year. Politically negotiating those allocations each year is not feasible. The two-tier model—a layer of pay-as-you-go beneath a layer of advance-funded pensions—is the most stable one for funding for old age.

As an economist, I argue that it's possible to fund both an expansion of Social Security and mandatory individual retirement accounts. Ensuring a secure retirement for all workers and the end of elderly poverty would require an additional $500 billion in retirement contributions from workers, employers, and the government. While that's less than 3 percent of GDP, $500 billion is not a trivial sum. For comparison, it is similar in magnitude to the annual cost of the 2017 GOP tax cut ($5.5 trillion over ten years).

How does this work? Every worker and their employer would pay a total of about 6 percent more out of payroll toward their retirement security—about eighty cents per hour. This breaks down into three parts.

First, about 3 percent of payroll goes to secure Social Security. This ensures that workers receive their full and promised Social Security benefits and provides retirees with an average of 36 percent of their pre-retirement income.

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Second, according to the Social Security Administration, an additional 0.02 percent of payroll would raise the special minimum benefit, which would bring almost every elder above the poverty line. This particular benefit places a floor (the maximum is $886.40 in 2019) and is not properly indexed to inflation—it is indexed to wage growth, and wages have rarely kept up with the cost of living—so it has eroded over time, and almost no new claimants qualify.

Another 3 percent of payroll would go to fund mandatory individual savings accounts for retirement. By itself, this contribution is unlikely to permit all workers to maintain their living standards in retirement. However, as a supplement to retirees' monthly Social Security benefit, these accounts will help ensure that even low-income older Americans can live well clear of poverty or near poverty. The program will also allow those who want to contribute more to do so. Workers approaching retirement without adequate savings would have to increase their savings by considerably more than 3 percent. Still, these workers would be better off than they are today with universal access to a low-cost savings retirement program.

BOX 10.1 Why Not Just Expand Social Security?

Why not just expand Social Security to solve the retirement crises? If we expanded Social Security to provide adequate retirement for most American workers, payroll taxes would rise to about 30 percent of pay—up from the current FICA payroll tax of 12.4 percent, which is split evenly between employer and employee. Such a move is bad for four reasons: depending on only a payroll tax means the payroll tax is high and fluctuates wildly depending upon how large and productive the current worker cohort is relative to the retired cohort. Second, with payroll taxes that high, businesses and employees avoid paying them. Third, taxing workers at such a high percentage only encourages off-the-books work and a growing informal and unregulated labor force. Fourth, a hybrid system is more resilient and efficient.

Nations that achieve widespread retirement security do so with hybrid systems, not one that just relies on a PAYGO system like Social Security. Rare cases like France and Spain that started out with just a PAYGO system have

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very high payroll taxes—37 percent and 28 percent, respectively—compared to 12.4 percent in the US. To keep those taxes from going any higher and to scale them back, France and Spain are both developing advance-funded systems composed of mandated hybrids blending defined-benefit and 401(k)-type plans.

And by not forcing Social Security to meet all retirement needs, we keep tax rates low. The relatively low US Social Security system payroll tax of 12.4 percent means almost everyone pays the Social Security tax.

Nobel Prize winner Peter Diamond and economist Nicholas Barr and others argue a blend of PAYGO and advance-funded plans is more efficient, meaning administrative costs and risks are smaller, a large government plan can manage economic and demographic shocks better than a pure PAYGO system or a totally capitalized system. Households can fund their retirement more cheaply with a combination of regulated advanced funded pension accounts and Social Security.

An improved US retirement system would fully fund Social Security, mandate employer and employee contributions to invest in the market, professionally manage the investments, and pay out annuities.

Best Practices in Other Nations

Most effective national retirement systems have common features. The outlier is America's voluntary, commercial, financialized, do-it-yourself system, which departs from the common pension design features found in other OECD nations. The US employer-based pension system is voluntary—other nations insist on universal coverage and rely on fewer tax incentives. No other nation allows workers to withdraw government-subsidized retirement funds or borrow against them before retirement, and unlike in many other nations, annuity options are scarce in America beyond the government sector.[4]

Models that mix a government-run, pay-as-you-go element with an advance-funded program for accumulation, investment, and annuitization have been successful. These hybrid systems—for example, in the Netherlands, Israel, Australia, and Denmark—are best in class for retirement security and sustainable design.

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A report by Mercer, a global management consulting firm, ranked Denmark and the Netherlands especially high in all three years.[5] Why? For one thing, the Danish and Dutch hybrid public-private design provides flexibility to adjust to economic changes. Benefits and revenue can change to keep the system fiscally balanced and benefits adequate. The adjustments are baked into the rules, the adjustments are transparent, and a centralized administration and oversight keep the system relatively free of corruption. These systems are based on a primary layer of public pensions funded by tax revenue and a second tier of near-universal, advance-funded occupational pensions or plans for self-employed people, with the ability to lower benefits slightly if revenues from investments fall significantly. In the Netherlands, pensions can be reduced if the system does not receive enough returns—which was a challenge in 2021 because the recession kept interest rates low. Employers, workers, and the government share the risk of financial underperformance, the vulnerable are protected, and the system is highly regulated.

Australia and Denmark are also highly ranked because they have high rates of coverage, sound investment vehicle choices, and practical ways to annuitize and create lifelong income. A basic requirement for a good pension system is universal access to a savings plan. Only 44 percent of American workers have access to a retirement savings plan at work, whereas in Denmark, the rate of access is 85 percent; in the Netherlands it is 88 percent; and in Australia, it's over 75 percent. The United States has one of the highest elderly poverty rates of any of our developed country counterparts. The United States falls behind in having an adequate pension. According to the International Mercer Global Pension Index of 2021,[6] the United States gets a C- for adequacy, with a score of 61 out of 100. The United Kingdom has an adequacy score of 74 percent; Canada, 69 percent; the Netherlands, 83 percent; Denmark, 82 percent; and Australia, 67 percent. The most adequate pensions in the world come from Iceland and the Netherlands, with scores of 83 percent and 82 percent.

Another top criterion for a good pension system is its ability to achieve economic growth and equity. A welfare state that assures safety nets and household income during recessions provides long-

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term capital as well as efficient ways to smooth consumption from one period to the next, helping workers and firms take risks and find patient capital. Good pension systems provide smooth off-ramps from work to retirement and help incentivize hard work and investment in employees who know there is assured old-age income. A pension system that helps workers and businesses accumulate talent, skills, and capacity and that smooths transitions can bolster economic growth and equity.

By arranging to have retirement savings invested in long-term savings vehicles, the economy would have more patient finance capital available for long-term investments. Today, retirement savings in 401(k)s and IRAs are in liquid asset vehicles and thus cannot be invested in infrastructure or other long-term ventures. GRA accounts, in contrast, are nonliquid and can be invested in long-term accounts, like DB plans.

Replacing the Working-Longer Consensus

What distinguishes a progressive, leftist, or liberal vision of a working-longer consensus from a conservative, right-wing work-longer position? Not much. My proposal for a fully funded, adequate, and equitable pension system does not preclude the goal of allowing every older adult to work if they want. At heart, welfare states determine who has a claim to income without working for pay. In doing so, they provide those who want to work with more bargaining power. A pension system that provides adequate income and allows older workers to work is one that maximizes equity, adequacy, and economic growth.

Increasing elderly people's labor-force participation and providing a generous pension system encourages work. In such a system, older workers may choose to work because of attractive pay, working conditions, and hours. A liberal system leans toward outcomes in which elderly employees are working more on their own terms than those of an employer. Denmark, Sweden, and Norway have robust rates of elderly labor-force participation (ranging from 9 percent to 18 percent) and low elder poverty rates. However, when more than one out of five older people is working, the dynamic changes, and the

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elderly poverty rate—an indication of less generous pensions—goes up. In the OECD, the twelve nations with elder labor-force participation rates higher than the 20 percent of the United States are those with weak pension systems and high rates of elder poverty.

The dynamics of pension arrangements remain at the center of the emerging working-longer consensus. Since pensions are a large part of the welfare state, they help to regulate the size of the labor force (and whose time is commodified). The generosity of the welfare state is highly vulnerable to shifts in political will, such as the rise of austerity in the past ten years, which has fundamentally redefined who deserves income without working.

Secure retirements are an extension of workplace norms such as bargained paid time off benefits that give us the weekend, sick leave, holidays, and vacations. The working-longer consensus marks a reversal in paid time off provisions. It has eroded the weekend and evenings and time off and is attacking retirement. A liberal welfare state allows a job to any adult who wants to work—without regard to age, color, creed, sex, national origin, gender identification, or religious affiliation—and provides a high universal basic income to everyone after a lifetime of work so that people's ability to work and retire will pressure employers to improve jobs and productivity to the benefit of all.

To understand our economic problems, we should look at the lives of real people who are navigating the system. The reporter Greg Iacurci interviewed a couple in their 80s, Don and Grace Porter, at the beginning of 2021 after they lost their restocking jobs at Target, jobs they were happy to have after they lost their wallpaper business in 2008. With no part-time work, they were living on $1,700 a month in combined Social Security benefits, minus $570 that goes to a Medicare supplemental health plan. "It's tight," Grace said. "We're very frugal." The Portes are officially poor. Iacurci focused on the vulnerability of older workers in downturns. I focus on why this married couple of sixty-three years—who worked their whole lives—in their 80s had to work at Target to stay out of poverty.[7]

Grace and Dan's story is not exceptional. In May 2020, I told *CNBC News* that older workers went down market, desperate for any job

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after the Great Recession of 2008; we saw "the phenomenon of Granny working in McDonald's" ramping up.[8] But in the 2020 recession, employers laid off older workers faster than prime-age workers. Three million older workers and their spouses may have been forced into semipermanent poverty or near poverty over the coming ten years because of the unexpected retirements caused by the recession—though about 1 million of the youngest older workers had returned to work by 2022.[9]

The COVID-19 recession and lax labor law enforcement by the Trump administration may have provided a once-in-a-lifetime chance for employers to shed older workers to cut costs.[10] And shed they did—millions of older workers will likely never come back to work.

The United States prides itself in upholding the values that any adult who wants to work can do so free of judgment and barriers in characteristics not related to their productivity, such as national origin, religion, race, gender, and age. But strict age discrimination enforcement won't make the working-longer consensus. Although I don't want a mandatory retirement age to come back, a worthy thought experiment is this: if we didn't have a mandatory age, would the poor have better pensions?

It's Time for a Gray New Deal

As we face our future, we also face a choice and an opportunity for change. We can continue pushing older people to work longer out of sheer necessity—risking their health, keeping them precarious, and destabilizing the larger economy—or we can embrace and reinvigorate a universal pension system that enables old folks to retire in dignity and comfort if they wish.

Today's system is stuck somewhere in between, holding up the illusion of pensions and retirement while tilting heavily toward "work longer" economic coercion. A national pension system functions well when workers can consistently, over the course of their working lives, accumulate claims to income when they retire. But America's pension system has fallen short for most people because coverage

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is spotty and uneven: most workers in the bottom 80 percent of the income distribution do not have employers that contribute or sponsor a plan.

Because of our system's poor design, most workers don't voluntarily save for retirement because it is simply not economically feasible. Exacerbating this inequality, government subsidies—the tax benefits—mostly go to upper-income groups.

The shame of our system is that we think a good retirement comes about because of decisions made around the kitchen table, but the fact is that most people cannot retire well without government coordination. Nobody does it on their own. And this government coordination not only enables individual retirement but also helps sustain a healthy economy. Coordinating a public option for a universal supplement to Social Security will not harm the government financially, and the new system could raise wages and productivity. A public-option pension system will plug gaps in today's voluntary, commercial, individual-directed, do-it-yourself system.

We likely will have a chance to replace the working-longer consensus in the next recession and election. The policy window—when ideas, politics, and a pressing problem all come together—may finally be open for a Gray New Deal.

Remember what happened in the last recession? The value of older workers' retirement accounts fell. Some stayed on the job instead of exiting the labor force with secure pensions, and cut their spending drastically, making it difficult for younger workers to find work. Having a system that forces residents to cut their spending and cling to their jobs even more than they would during a recession is really bad economic policy. In contrast, modern economic policies have done the opposite. Economic programs—like income-support insurance systems—that stabilize spending and income during a recession automatically stabilize the economy. Social Security, unemployment insurance, income-support payments—all serve as automatic stabilizers. So do traditional pension plans. When times got tough, workers with DB plants retired instead of preventing a job opening or raising unemployment. When they collected their DB and Social Security, they maintained their spending power, to

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the delight of the local grocer and their mortgage holder. But the finance-based 401(k) system works in the opposite direction. People feel poor and panicked when their 401(k) loses value. They stay working and cut their spending. The recession was made even worse due to financialized pensions—we destabilized our automatic stabilizers.[11] Retirement-income security soared to the top in polls asking American families about their deepest fears.

And yet the working-longer consensus and its advocates perpetuate myths and falsehoods about work and old age. There is no evidence that working longer into old age improves people's retirement financial preparedness, especially when so many elderly workers are low paid and people must collect their Social Security while working. There is no evidence that having adequate income and control over the pace and content of your time is detrimental. On the contrary, control over your time and adequate finances promote well-being. The only evidence that is unassailable about working longer is that it makes retirement time more unequal. Retirement time is the new contested struggle for American workers.

After nearly forty years dominated by the working-longer consensus, to the detriment of millions of old folks and of our society, it's time for change. A Gray New Deal that mandates pensions, expands Social Security, and finances long-term care will increase workers' bargaining power, strengthen labor markets, and make workers better off.

Most importantly, good pensions could prevent a humanitarian disaster. Without robust off-ramps from work to retirement, or to part-time jobs that are appropriate for elders, the only option this growing cohort will have is downward mobility and old-age poverty.[12] And while old folks will suffer the most, we'll all pay for that in the end.

The truth is that we can afford a Gray New Deal. Contrary to what many say, we can afford to pay for voluntary retirements for old people who want to retire as long as we plan for it and as long as everyone contributes.

A nation's economic health depends on how it deals with an aging population and superannuation—the obsolescence of workers' skills

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due to changing technology and consumer demands. Considering all the human and economic benefits, paying for retirement-income security is well worth it.

The good news is that providing adequate pensions could pay for itself. Fortunately, the United States is a wealthy nation, and its population is relatively young; it can afford to restore Social Security benefits and provide universal advance-funded retirement accounts. For a relatively small price, we can ensure a secure retirement for all and nearly eradicate elder poverty in America, by saving 6 percent or more of pay in the form of a slightly higher Social Security tax and more in your own retirement savings account.

If you're still on the fence about this, consider the huge costs of not providing secure retirement to all American workers. Taxpayers will pay for the continued downward mobility of middle-class workers as millions more elders line up for public assistance. Through sheer economic coercion and necessity, millions of Americans will migrate from planned retirement to reluctant (and often dangerous) low-paid work. Consider the many negative and harmful effects of 8 million precarious elders—depressing wages, labor standards, and productivity. Meanwhile, working longer could worsen the health of many older workers, adding more suffering and medical costs. We simply cannot afford to continue in this direction.

Promising change is on the horizon and within reach. In 2021, three members of Congress introduced a bill to create an Older Workers' Bureau at the US Department of Labor. Much like the Women's Bureau formed back in the 1920s, this new body would investigate the conditions of older workers and formulate standards and policies to promote the welfare of wage-earning older people; and would advance their opportunities for appropriate and profitable employment, dignity, security, and bargaining power.

Republicans and Democrats in both the Senate and the House introduced the Retirement Savings for Americans Act which implements a TSP-for-Most type plan.[13]

If you take one lesson from this book, I hope it is this: adequate and sustainable retirement income is the key to better jobs for older workers, and it helps all workers. Stronger Social Security and a uni-

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versal pension system would enable and empower older workers to make a choice they've earned through a lifetime of work. Talk about a worthwhile investment that pays massive and essential dividends.

BOX 10.2 How to Plan for Your Retirement While Waiting for Congress

As I write, Congress has not acted to ensure that all Americans have a decent retirement. What can you do to minimize your risk of poverty, financial instability, and working until you drop dead? Think of yourself as working on five fronts aligned with your five identities: consumer, saver, investor, worker, and voter.

If you're going to have less than ten or eleven times your target annual spending when you retire, here are five areas you can work on to make your retirement more secure. As a consumer, know how much you are spending, know how much you need to spend, and know what you can stop spending on and be just fine. Start creating a monthly budget and analyze where your money goes. Once you have a target spending—don't forget to save room for emergencies: inflate your budget by 10 percent for emergencies—consider how much you must save to be able to have enough to live on once you retire. Saving $1,000 a month for twenty-eight years should yield about $600,000—which with Social Security maintains the living standards of someone making $60,000 per year. If you earn more and want more than $600,000, then save more per month and for more years. If you want to save less per month and still have $600,000 (all figures are adjusted for inflation), then you must save longer than twenty-eight years. (I am assuming a net-of-fee return of 4 percent.)

Third, if you can't possibly save enough to get to that target, and even if you can, make your saved dollar go further by having a smart, diversified, low-fee portfolio. Make sure you pay only wholesale fees when investing in index funds. As of this writing, I recommend you consider Vanguard funds. Vanguard is the only company that has a fiduciary responsibility for your money. Because it's mutually owned by the account holders, all the profits go to the account holders in the form of better service and lower fees. Other money-management companies must make profits to pay outside

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shareholders. (I have no relationship with Vanguard except as an account holder.)

The fourth dimension to manage is your work life. This is hard because age discrimination and low-paid jobs pose challenges for older workers. Try to join a union and negotiate for the highest pay you can possibly get. Follow all the tips to have a robust résumé. Don't compound the age discrimination by making any senior-moment jokes.

Last, you can mobilize your role as a voter. Make sure the candidates you vote for are dedicated to adding more revenue to Social Security and Medicare and not in favor of raising the retirement age or otherwise cutting benefits. The federal government is one of your most important financial partners in retirement.

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Notes

CHAPTER ONE

1. Mast, "82-Year-Old Walmart Cashier."

2. Papadopoulos et al., "Recession Increases Downward Mobility in Retirement."

3. Using the US Bureau of Labor Statistics numbers, Guy Burdick, in "Fatal Injuries," sums up the data well: fatal occupational injuries among workers of all ages decreased by 17 percent from 1992 to 2017, but for older workers, the increase in fatal injuries was 56 percent from 1992 to 2017. And it was worse for workers in the oldest group, those aged 65 and over.

4. The COVID-19 recession (as well as federal policies that have kept interest rates low) has made accumulating retirement savings even tougher. A spring 2020 survey—Berger, "3 in 10 Americans Withdrew Money from Retirement Savings"—found that 30 percent of Americans paid for groceries and housing out of their retirement accounts. Other data suggest that people who withdrew most from their savings were in the bottom of the income distribution. The issue is structural gaps between soaring costs of living and dwindling economic security, not individual spending habits; we shouldn't criticize people for dipping into their retirement funds for emergency savings and groceries in a recession, even if their future costs will be high.

5. Cooper and Davis, "Premiums and Employee Contributions."

6. Rae, Cubanski, and Damico, *Health Spending for 60-64 Year Olds*; Burtless, "Age Related Health Costs and Job Prospects of Older Workers"; Scott, Berger, and Garen, "Do Health Insurance and Pension Costs Reduce the Job Opportunities of Older Workers?"

7. *NBC Nightly News*, "Pandemic Draining Older Americans' Savings, Leaving Workers Behind," October 11, 2021, https://www.nbcnews.com/nightly-news/video/pandemic-draining-older-americans-savings-leaving-workers-behind-123290181600.

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8. Smialek and Casselman, "Retirees Are One Reason the Fed Has Given Up on a Big Worker Rebound."

9. Before the pandemic, we were already looking at a trend of older workers not doing as well relative to younger workers. Gosselin, "If You're over 50, Chances Are the Decision to Leave a Job Won't Be Yours"; Farmand and Ghilarducci, "Why American Older Workers Have Lost Bargaining Power."

10. Jacobson, Feder, and Radley, "COVID-19's Impact on Older Workers: Employment, Income, and Medicare Spending."

11. Low-income workers are less likely to be able to work from home. The original source for this data comes from the St. Louis Federal Reserve and the Bureau of Labor Statistics Occupational Employment Statistics.

12. Papadopoulos et al., "Recession Increases Downward Mobility in Retirement."

13. The COVID-19 recession caused more unemployment among low- and middle-income older workers than among those with better jobs and more education. Davis et al., "A First in Nearly 50 Years, Older Workers Face Higher Unemployment Than Mid-Career Workers."

14. Most middle earners postpone claiming Social Security benefits until age 65. Low earners are more likely to claim benefits at age 62, whereas middle and high earners typically postpone retirement and claim Social Security benefits at age 65 or older. While workers can increase their retirement income by claiming at older ages, many low earners—who are less likely to find adequate employment and have little savings—cannot afford to postpone claiming. In the COVID-19 recession, even more workers who lose their jobs will claim their Social Security benefits at 62. However, we do not include the possible change in claim age or the earnings gradient in our model. On how retirement ages vary by class, see Ghilarducci and Webb, "The Distribution of Time in Retirement."

15. Clingman, Burkhalter, and Chaplain, "Replacement Rates for Hypothetical Retired Workers."

16. Ghilarducci, Papadopoulos, and Webb, "Larger Birth Cohort Lowers Wages."

17. Karamcheva, *Is Household Debt Growing for Older Americans?*

18. Morrissey, "The State of American Retirement Savings"; Mutchler et al., "The Elder Economic Security Standard Index"; Graham, "True Cost of Aging." The Elder Index is a public data set available at https://elderindex.org.

19. For the standard American description of elderly poverty, see US Department of Health and Human Services, "Poverty Definition Federal Register under the authority of 42 U.S.C. 9902(2)"; Zhe and Dalaker, "Poverty among the Population Aged 65 and Older." Note, though, the American definition is stingy compared to the rest of the OECD countries.

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20. *The Economist*, "People Are Working Longer for Reasons of Choice and Necessity."

21. Beier, Torres, and Gilberto, "Determinants of Activities and Their Effect on Mental and Physical Well-Being and Retirement Expectations."

22. Skocpol, "Targeting within Universalism," 411–36.

23. The labor-force participation rates of those over age 65 by education is calculated using the BLS Consumer Population Survey in various months. Federal Reserve Bank of St. Louis (FRED), "Labor Force Participation Rate."

24. Projection of workers and share of labor force by age is updated annually by the US Department of Labor, Bureau of Labor Statistics.

25. A persistent myth is that Germany's old Otto Von Bismarck—by "old," he was 74 at the time—adopted age 65 as a standard retirement age in 1889. Germany initially set the age for mandatory retirement at 70. Von Herbay, "Otto Von Bismarck Is Not the Origin of Old Age at 65," 5.

26. In *Working Longer*, Munnell and Sass argue that, without working longer, one will fall short of a secure retirement.

27. Working longer for practical reasons is anchored in several "spreadsheet studies," which are mechanistic models based on ideal behavior. One such study, Munnell, Orlova, and Webb, "Asset Allocation," was very optimistic about the benefits of working longer. Tony Webb found that the Munnell model used assumptions about human behavior that turn out not to be true. The conclusion that people would be better off retiring at age 70 depended on the assumption that older people working had delayed claiming Social Security to get the big reward of a larger monthly benefit. That assumption was incorrect. Most people claim benefits while they are working. See Ghilarducci, Papadopoulos, and Webb, "The Illusory Benefit of Working Longer."

28. Rosenberger, "A Top Retirement Expert Weighs In."

29. National Research Council, "Labor Force Participation and Retirement." This chapter calls for much longer work lives for Americans because "with advancing age, large fractions of the population who are not working have no impairment. For example, among men aged 65–69 who are not working, more than half have no impairment. Even at ages 70–74, half of men not working have no impairment. These data suggest that the capacity to work is substantially greater than the proportion working at older ages" (93).

30. Keynes, "The Economic Possibilities for Our Grandchildren."

31. The OECD calculates effective average ages that people actually withdraw from the labor force using various methods described by a technical OECD paper: Keese, "A Method for Calculating the Average Age of Effective Retirement." To estimate how people typically work in each nation, twenty-two years is subtracted from that calculated average retirement age. For instance,

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if 62 is the estimated average retirement age, then forty is the number of work years.

32. Ideally, the average number of years worked is computed with actual data and stratified by socioeconomic status. Those with fewer years of formal education usually start work at early ages and retire at early ages. However, the OECD may be missing some years. The OECD computes the average effective age of retirement as the average age of exit from the labor force during a five-year period. Keese, "A Method for Calculating."

33. There are thirty-seven OECD nations, but the OECD reports data for only thirty.

34. Older workers withdraw from the labor force at far younger ages than they had intended to or had wanted to because they were laid off, forced out, or their health or their spouse's health forced them out. See Forden et al., "Physically Demanding Jobs and Involuntary Retirement Worsen Retirement Insecurity for Older Workers"; Newport, "Snapshot: Average American Predicts Retirement Age of 66."

35. In 1978, Congress outlawed mandatory retirement before age 70, and in 1986, mandatory retirement was abolished altogether.

36. Adler, "Leading Climate Change Activist Looks to Mobilize Older Americans."

37. Social Security Administration, "Table 6.B5.1."

38. The 1983 law raised the full retirement age from 65 to 66 for people born between 1943 and 1954; to 66 and 2 months for those born in 1955; to 66 and 4 months for someone born in 1956; to 66 and 6 months for those born in 1957; 66 and 8 months for those born in 1958; to 66 and 10 months for those born in 1959 until age 67 for people born in 1960.

39. On the undeserving poor, see Katz, "The Undeserving Poor." On the "do-it-yourself" retirement system, I am one of the coiners of the term. See Ghilarducci, "The Do-It-Yourself Retirement System."

40. See the 2018 festival program *90 Is the New 50: The Science of Longevity*.

41. AARP, "World's Oldest Yoga Teacher." To feel good about Alice, see Feldman, "What a 90-Year-Old Who Works at McDonald's Can Teach Us about Happiness."

42. Johnson and Gosselin, How Secure Is Employment at Older Ages?

43. More and more people said they were retired when they were pushed out of their jobs in the pandemic, so this idea of involuntary retirement rather than voluntary retirement is key for all researchers. Whether or not you retired voluntarily or involuntarily predicts the quality of the rest of your life. We developed the numbers in 2018 and in 2020. See Forden et al., "Physically Demanding Jobs and Involuntary Retirement Worsen Retirement Insecurity for Older Workers."

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44. Nicolas Barr, in "Social Insurance as an Efficiency Device," discusses why public insurance provides this type of insurance rather than private insurance. Public insurance is superior to private insurance because public or social insurance is efficient, less costly, and fairer.

45. You can see this evocative poster at the DeviantArt website (https://www.deviantart.com/party9999999/art/Thank-You-Orgainsed-Labour-420935154).

46. Alesina, Glaeser, and Sacerdote, "Work and Leisure in the United States and Europe."

47. Costa, *The Evolution of Retirement*.

48. Jacobs and Gerson, *Overworked Individuals or Overworked Families*.

49. Boushey and Clemens, "Disaggregating Growth: Who Prospers When the Economy Grows."

50. Estes, *Social Policy*. For more on older women's precarity, see chapter 5.

51. I prefer to rely on noneconomists for views on life stages, including retirement. Dora Costa, in *The Evolution of Retirement*, is the rare economist exploring the history of the idea of retirement time. But economists don't explore the idea of retirement as a deserving and "expectable" life stage for poor, middle class, and rich had developed in advanced economies. Goleman, "Erickson in His Own Old Age, Expands His View of Life."

52. Business Wire, "New Voya Survey Finds Half of Employed Americans Plan to Work in Retirement as a Result of COVID-19."

53. SimplyWise, "Retirement Confidence Index."

54. In the OECD, the average increase in life expectancy after the official retirement age (average normed retirement time) since 1958 is 6.08 years for women and 5.27 years for men. The US increase in expected retirement time is much less—4.4 years for women and 4.5 years for men. The explosion in retirement time has not occurred in the US. The life expectancy increase in Canada since 1958 is 7.8 years for women and 8.4 for men. In addition, the average length of life expectancy after pensionable age is lower in the US. The US ranks third from the bottom of thirty-one nations in the OECD. See OECD, *Pensions at a Glance 2019*.

55. Tina Reed, "US Life Expectancy Fell Again in 2021 amid Pandemic, Opioid Crisis."

56. The Gray New Deal is based on a powerful economic dynamic. Policies promoting working longer and providing good pensions are not mutually exclusive; they are complements. Strong pensions can help the economy create good jobs by leveraging worker bargaining power to push for higher wages and decent working conditions. Without solid pensions to fall back on, older people are compelled to work on terms that reflect employers' wants rather than older workers' needs.

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CHAPTER TWO

1. Beier, Torres, and Gilberto, "Activities Matter," 67–78.

2. Munnell, Hou, and Webb, "National Retirement Risk Index," 34–42. Congressional Budget Office, *Measuring the Adequacy of Retirement Income*.

3. Bivens and Mishel, Understanding the Historic Divergence between Productivity.

4. Saez and Zucman, "Wealth Inequality in the United States," 519–78.

5. Solow, "Thomas Piketty Is Right."

6. Quinn et al, "Challenges and Opportunities of Living and Working Longer."

7. Scholarly work shows that defined-benefit (DB) plans are structured so the value is high at relatively younger ages compared to peak value in DC plans, which always increase over time. Switching from DB to DC boosted elderly work effort. There are several classic articles on this point. See Friedberg and Webb, "Retirement and the Evolution." If more businesses and employers followed this path back to traditional DB plans, far more elderly Americans would be economically secure. See also the work of the powerful research duo Gustman and Steinmeier, "How Changes in Social Security Affect Recent Retirement Trends," and research from Alicia Munnell's research shop, Hou, Munnell, Sanzenbacher, and Li, "Why Are US Households Claiming Social Security Later?"

8. They conclude with enthusiastic endorsement of older people working longer. They write: "to the extent that workers are physically able to work longer, their additional labor supply can be beneficial to these individuals, to their employers, and to society as a whole, as more goods and services are produced to be distributed over an aging population." Cahill, Giandrea, and Quinn, "Retirement Patterns from Career Employment."

9. OECD, *Pensions at a Glance 2019*.

10. Bender, "An Analysis of Well-Being in Retirement."

11. The labor movement was always ambivalent about lifting mandatory retirement ages and was not at the vanguard of antidiscrimination rules compared to its efforts on civil rights. See Ferrelli, "Tracing the Conception and Meaning of the Age Discrimination in Employment Act." Union contracts often contained mandatory retirement clauses. It helped secure their seniority rights and pension benefits. Additionally, Ron Ehrenberg feared that middle-aged employees would be discouraged from being hired or that wages for older workers would fall when the permissible mandatory retirement age was raised from 65 to 70 in 1975 (he did not foresee mandatory retirement ages would essentially disappear by 1986). This neoclassical economics answer assumed some individuals would postpone their retirement and that their marginal productivities would be falling. Employers may respond by lowering wages for older workers.

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He also assumed the number of new hires would be reduced, because each employee would work longer. He also thought that employers worried they could not discharge older workers for fear of being accused of age discrimination would be discouraged from hiring middle-aged employees. Ehrenberg, "Retirement Policies, Employment, and Unemployment."

12. Women and children's labor force participation in the US often exceeded that of other rich nations. In 2023, the average labor-force participation rate for men in the G7 was 7 percent; in the US, it was about the same at 76 percent. The country with the highest labor-force participation for men is Japan, at 80 percent. The story changes for women. The G7 OECD average labor-force participation rate for women was only 62.5 percent, but the US exceeded that rate at 67.16 percent. Germany had the highest women's labor-force participation rate, at 73 percent. For teenagers and young adults the United States was also far above average. The labor-force participation rate for 15- to 24-year-olds was 52 percent in the United States and only 43 percent in the G7. The highest labor force participation rate for this young group was Canada, at 59 percent. OECD, "Employment Rate."

13. Mitchell, "Wage Pressures and Labor Shortages."

14. That changed as workers wanted more of a life and sought cultural changes in what expected end of life could be. Costa, *The Evolution of Retirement*.

15. Joe Glazer, "Too Old to Work and Too Young to Die."

16. Lammi, "Labor Undersecretary Malcolm Lovell Jr. Wednesday Urged Congress."

17. In various statistical analysis that decompose the factors that boost the labor force participation of the elderly the conclusion is that education matters, but improved health does not. Lain, *Reconstructing Retirement*. Coile, "The Evolution of Retirement Incentives in the US."

18. The Social Security Administration (SSA) uses language that confuses *retirement* with *claiming*. The SSA should stop using the word *retirement* because all it has control over is when a person claims. The SSA interchanges the word *retirement* when it means *claim* age, not retirement age. The SSA should not even use the word *retired* in describing who doesn't have disability or spousal pensions. The other complaint I have is the way Social Security describes the reduction in benefits before age 70. Claiming Social Security benefits at age 62 results in substantial reductions in monthly benefits from age 62 to the so-called full retirement age of 67 (for someone born in 1960). The monthly benefit reduction is 30 percent. But that is such a weird way to express it. The more straightforward way is that someone who is born in 1960 and makes $60,000 a year in 2021 dollars they will get $1,183 per month at 62 or almost double that, $2,281, at age 70. You can run your own calculator at https://www.ssa.gov

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/cgi-bin/benefit6.cgi. Some economists think that the way Social Security expresses the choices changes people's behavior. Behaghel and Blau, "Framing Social Security Reform."

19. The poverty guidelines are updated periodically in the *Federal Register* by the US Department of Health and Human Services under the authority of 42 U.S.C. 9902(2).

20. The erosion of DB plans also started in the early 1980s with the widespread adoption of 401(k) plans—the consultant identified as being responsible for its spread, Ted Benna, has called the 401(k) something negative that referred to an abnormal and threatening structure. He used the word *monster*. Olshan, "Ted Benna Has Called the 401(k) a Monster."

21. For most employers DB plans are more expensive that DC plans. See Ghilarducci and Sun, "How Defined Contribution Plans and 401(k)s Affect Employer Pension Costs." Because of this, employers replaced DB plans with defined contribution, 401(k)-type plans that often less generous—so retirees won't be as comfortable—which alone induces work. DCs also encourage longer work lives because workers can continue to accrue benefits as long as they work and contribute to the 401(k)-type plan. The waning of DB plans and the waxing of DC plans induced people to work longer. See Coile, "The Evolution of Retirement Incentives in the US."

22. In April 2000, President Clinton signed into law the Senior Citizens Freedom to Work Act of 2000, which eliminated the earnings test that applied to those over the Social Security normal age of retirement. A version of the test still applies to those age 62–64. The new provision reduces immediate payments to beneficiaries whose labor income exceeds a given threshold but gives the benefits back when the worker retirees. The earnings test is poorly understood. See Slavov, "It's Time to Do Away with the Social Security Earnings Test." The Social Security earnings test probably does not inhibit labor supply significantly. Gruber and Orszag, "Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt?"

23. The Social Security Statistical Supplement only publishes age of claiming benefits by men and women. I calculated the weighted average of the percentage of retired work beneficiaries claiming at certain ages. Seven percent of retired worker benefits who are women claim at age 70 for the first time and 5.7 percent of men do. Social Security Administration, "Table 6.B5.1."

24. If more businesses and employers followed this path back to traditional DB plans, far more elderly Americans would be far more economically secure.

25. Malcolm Lovell warned Congress (and all of us really) in 1982 that retirement can cause financial difficulty for older people. See Lain, *Reconstructing Retirement*, 56.

26. The Washington Consensus spread as a frame of reference and authority

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used by powerful institutions to make difficult political and economic decisions. Williamson, "A Short History of the Washington Consensus."

27. Gruber and Wise, *Social Security and Retirement around the World*.

28. OECD, *Pensions at a Glance: Income and Poverty of Older People*.

29. Murakami, "Japan's Part-Time Workers Need Tighter Reforms."

30. "I do not think the reform as it was originally envisaged can go ahead as such," Macron told reporters in June 2021. De Clercq, "Macron Says France's Pension Reform Cannot Go Ahead as Planned." But in winter 2023, newly re-elected Macron advanced the proposal to raise the retirement age to 64. Nussbaum, "Macron Plows Ahead with Pension Reform as More Protests Loom."

31. Jones, "Economists Fret as Italian Politicians Promise to Scrap Pension Cuts."

32. Campanella, "Making Retirement Work."

33. OECD, "Employment Rate by Age Group," and also Cassandro et al., "What Drives Employment-Unemployment Transitions?"

34. Bureau of Labor Statistics, "Employment Projection, Table 3.1." Home and personal health care—an occupation with a disproportionately high shares of older workers—will add almost one million jobs in the ten years between 2021 and 2031. Bureau of Labor Statistics, "Occupations with the Most Job Growth."

35. Federal Reserve of St. Louis, online economic statistics, "Employment Level—55 Years and Over."

CHAPTER THREE

1. Gothelf, *Forever Employable*.

2. A moving book reminding us of the nation's youth culture—one of my inspirations. Jacoby, *Never Say Die*.

3. Only 10 percent of people aged 62–70 are retired and financially stable. These 62- to 70-year-olds have the highest levels of well-being especially if their health is stable and they retired voluntarily, meaning they weren't forced out because of layoffs. Agency is vital. Ghilarducci, Papadopoulos, and Webb, "The Illusory Benefit of Working Longer."

4. About 60 percent of boomers (aged 57–70) who were still working said they needed and wanted to delay retirement because of COVID-19. SimplyWise, "Retirement Confidence Index."

5. I am writing this chapter right after the COVID-19 pandemic. In fall 2020, for the first time in fifty years, older workers had a higher unemployment rate than midcareer workers (aged 35–54). Forden et al., "Physically Demanding Jobs and Involuntary Retirement Worsen Retirement Insecurity for Older Workers." Papadopoulos et al., "Recession Increases Downward Mobility in Retirement." Older workers do not have the advantage in recessions they once had in being

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the "first hired last fired." See Johnson and Mommaerts, "Age Differences in Job Displacement, Job Search, and Reemployment"; Ghilarducci, "When Loyalty No Longer Pays, What's an Older Worker to Do?"

6. Berkman and Truesdale, "Working Longer and Population Aging in the US."

7. AARP, "World's Oldest Yoga Teacher."

8. Levitin, *Successful Aging*.

9. People in 401(k)-type retirement plans work longer than those in defined benefit plans, because one more hour, day, or year of work increases income in a 401(k) plan, but not in most defined benefit plans. See Friedberg and Webb, "Retirement and the Evolution of Pension Structure." Maestas and Zissimopoulos, in "How Longer Work Lives Ease the Crunch of Population Aging," found other obvious reasons people are working longer. Older people are more educated, and more older people have more education (because they are generally better paid). They also posit technological changes have made jobs better for elders (I take that convenient untruth up elsewhere in this book).

10. Clark and Newhouse, "Incentives and Limitations of Employment Policies on Retirement Transitions." It's worth noting that Tony Webb, coauthor of the Boston College study, later repudiated that work, in a paper coauthored with me and Michael Papadopoulos. Ghilarducci, Papadopoulos, and Webb, "The Illusory Benefit of Working Longer."

11. About 24 percent of men and women working at age 62 were collecting Social Security, and by age 65 a large majority are.

12. If you must work at 68, you probably will not tell a researcher. It is more dignified to say you are doing so for the love and not the money. We need research on response bias—people give answers to please the surveyor. This case may also involve cognitive dissonance because saying you are working for love and stimulation feels better than working because you have no real financial options. Cognitive dissonance means saying or believing something is true when it is not because changing your mind to feel psychologically comfortable is often easier than changing your situation.

13. More than 10 percent of older workers are the working poor. They work full-time and their incomes still meet the definition of de facto poverty.

14. Ghilarducci, Papadopoulos, and Webb, "The Illusory Benefit of Working Longer."

15. Lacey et al., "Projections Overview and Highlights, 2016–26."

16. Schwartz Center for Economic Policy Analysis, "20+ Years of Older Workers' Declining Bargaining Power."

17. Ghilarducci and Farmand, "Older Workers on the COVID-19-Frontlines without Paid Sick Leave."

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18. Schwartz Center for Economic Policy Analysis, "10+ Years of No Wage Growth: The Role of Alternative Jobs and Gig Work."

19. Topel, "Specific Capital, Mobility, and Wages." The boost in compensation called the "returns to tenure" predicts the financial returns from experience are especially high for workers who stay in the same occupation because they have mastered "job-specific" skills, internalized their organization's culture, and made productive contacts. Union strength often codified these gains to productivity.

20. Kambourov and Manovskii, "Occupational Specificity of Human Capital."

21. Foster, "With Age Comes Fewer Raises."

22. Farmand and Ghilarducci, "Why American Older Workers Have Lost Bargaining Power."

23. Johnson and Mommaerts, "Age Differences in Job Displacement, Job Search, and Reemployment."

24. Bender, "An Analysis of Well-Being in Retirement."

CHAPTER FOUR

1. *Harvard Health Letter*, "Working Later in Life Can Pay off in More Than Just Income."

2. Shiller, *Narrative Economics*.

3. Enron hearings, https://www.c-span.org/video/?168571-1/enron-bankruptcy.

4. Levitan, *Successful Aging*, 197.

5. The article posed twelve reasons—assertions, really—that one should work past age 65.

6. Dhaval, Rashad, and Spasojevic, "The Effects of Retirement on Physical and Mental Health Outcomes."

7. Hershey and Henkens, "Impact of Different Types of Retirement Transitions on Perceived Satisfaction with Life."

8. Diamond, "Forced Retirement."

9. In 2017, life expectancy of American men at age 50 is 79.5.

10. Dutch researchers found health deteriorates after twenty-five years of work. Lindeboom and Kerkhofs, "Health and Work of the Elderly."

11. Pilipiec, Groot, and Pavlova, "The Effect of an Increase of the Retirement Age on the Health, Well-Being, and Labor Force Participation of Older Workers."

12. Dhaval, Rashad, and Spasojevic, "The Effects of Retirement on Physical and Mental Health."

13. Van den Bogaard and Henkens, "When Is Quitting an Escape?"

14. Van den Bogaard and Henkens, "When Is Quitting an Escape?"

15. Van den Bogaard and Henkens, "When Is Quitting an Escape?" Back in 2008, researchers found job dissatisfaction to be a major cause of early

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retirement. See Von Bonsdorff et al., "Employee Well-Being, Early-Retirement Intentions, and Company Performance."

16. Eyjólfsdóttir, "Prolongation of Working Life and Its Effect on Mortality and Health in Older Adults."

17. The Netherlands, Sweden, and Switzerland have, on average, a high share of good jobs—those that provide high reward to effort—whereas Greece and Poland have a high concentration of low-quality jobs. Börsch-Supan et al., "Retirement, Health and the Quality of Work in Europe."

18. Berg, Elders, and Burdorf, "Influence of Health and Work on Early Retirement"; Calvo, Sarkisian, and Tamborini, "Causal Effects of Retirement Timing."

19. Wahrendorf et al., "Working Conditions in Mid-Life and Mental Health in Older Ages."

20. Gorry et al., "Does Retirement Improve Health and Life Satisfaction?"

21. Insler, "The Health Consequences of Retirement."

22. Horner, "Subjective Well-Being and Retirement."

23. Adversity is a functional limitation; life getting worse in the domains of health, stress, and general living circumstances; and experiencing a negative life event. Hildon et al., "Examining Resilience of Quality of Life in the Face of Health-Related and Psychosocial Adversity at Older Ages."

24. Edge, Cooper, and Coffey, "Barriers and Facilitators to Extended Working Lives in Europe."

25. Geyer and Welteke, "Closing Routes to Retirement for Women."

26. Choi, "Relationship between Life Satisfaction and Postretirement Employment among Older Women."

27. Neuman, "Quit Your Job and Get Healthier?"

28. Schmitz, "Do Working Conditions at Older Ages Shape the Health Gradient?"

29. Motegi, Nishimura, and Oikawa, "Retirement and Health Investment Behaviors."

30. Xiao, Goryakin, and Cecchini, "Physical Activity Levels and New Public Transit."

31. Pedron et al., "The Effect of Retirement on Biomedical and Behavioral Risk Factors."

32. Coe and Zamarro, "Retirement Effects of Health in Europe."

33. Grøtting and Lillebø, "Health Effects of Retirement."

34. No author has inferred that work itself is causing the good outcome. People who are happier and connected have more income and education may work, but the intervening reason for the higher well-being for older workers is their choice to work, not that they are working per se.

35. Van den Bogaard and Henkens, "When Quitting Is an Escape."

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36. Moore, Ghilarducci, and Webb, "The Inequitable Effects of Raising the Retirement Age on Blacks and Low-Wage Workers."

37. Ghilarducci et al., "Gender and Racial Disparities in Physical Job Demands of Older Workers."

38. Bersin and Chamorro-Premuzic, "The Case for Hiring Older Workers," 9.

39. Bruder, *Nomadland*.

40. Schwandt, "Wealth Shocks and Health Outcomes."

41. Rohe et al., "The Impacts of Individual Development Accounts, Assets, and Debt on Future Orientation and Psychological Depression."

42. Zurlo, "Unsecured Consumer Debt and Mental Health Outcomes in Middle-Aged and Older Americans."

43. Coe and Zamarro, "Retirement Effects of Health in Europe."

44. Coile, Milligan, and Wise, "Health Capacity to Work at Older Ages: Evidence from the United States n Social Security Programs and Retirement around the World."

45. Dufouil et al., "Older Age at Retirement Is Associated with Decreased Risk of Dementia."

46. Messe and Wolff, "Healthier When Retiring Earlier?"

47. Rohwedder and Willis, "Mental Retirement."

48. Rohwedder and Willis, "Mental Retirement."

49. Tumino, "Retirement and Cognitive Abilities."

50. Bingley and Martinello, "Mental Retirement and Schooling."

51. Oi, "Does Gender Differentiate the Effects of Retirement on Cognitive Health?"

52. Cho, "Bridge Employment and Health."

53. Carrino, Glaser, and Avendano, "Later Retirement, Job Strain, and Health."

54. Schroeder, "Retirement Wisdom."

55. On the podcast, Schroeder said: "One of the key pieces of work for them is it's something they can go lose themselves in or get a distraction or say, Hey, I have to go into work for a little while today. So suddenly when there's no place that they have to be, there's nothing that they're responsible for accomplishing, that can really drop people into a really challenging place. So, spending more time with a spouse or kids, or even themselves, is another big challenge that I see a lot. And the other big one, although there's lots of other little kind of nuanced experiences, is finding ways to create meaning, to have meaning, to reach meaning in their lives. That's a big one too. Again, so many people get so much out of work where they get so much of their meaning. And so suddenly when that's no longer there, it kind of, it drops them big time for a loop."

56. Schroeder, "Retirement Wisdom."

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CHAPTER FIVE

1. See the rich history on leisure studies in anthropology and sociology. Veal, "Is There Enough Leisure Time?"

2. Biggs et al., "Work, Health, and the Commodification of Life's Time," 4.

3. Dudel et al., "A Lost Generation?"; Dudel and Myrskylä, "Working Life Expectancy at Age 50 in the United States."

4. In a July 2019 *Guideline* interview, well-respected Boston College retirement researcher Alicia Munnell advocates for 70 as the new retirement age: "If you can add eight years to your work life by delaying retirement, suddenly the ratio of work to retirement years changes dramatically. 70 should be the goal now."

5. Coile, "The Evolution of Retirement Incentives in the US"; Coile et al., Social Security and Retirement around the World. Coile measures incentive behavior through the implicit tax rate on work (ITAX). Her study calculates what she cites as a key behavioral variable, ITAX, which measures the tax rate on working longer. She calculates the ITAX under given Social Security rules each year from 1980 to 2016, generating a time series of retirement incentives that show only the variation in Social Security rules. She calculates the ITAX for different earners, splitting them among into high, median, and low earners; male and female; and single and married. If the ITAX is negative, then Social Security wealth is rising with additional years of work. If it is positive, then Social Security wealth is shrinking. Coile controls for age and estimates that, since 1983, changes in Social Security rules have caused a 15-percentage-point drop in the ITAX of workers over age 65. In short, work is more valuable for people over age 65 than ever before. The incentives to work longer aren't that impactful for workers under age 65, most of whom have been forced out of their primary jobs before reaching that age.

6. Chou and Choi, "Prevalence and Correlates of Perceived Workplace Discrimination among Older Workers in the United States of America."

7. Because our sample is a synthetic cohort, we carefully constructed our measure of socioeconomic status by using a ranking of educational attainment that considers changes over time in markers of socioeconomic status. We justify using educational attainment rather than income as a measure of socioeconomic status because it is determined early in life before the onset of chronic disease that may affect labor market outcomes. Because average educational attainment has increased dramatically across the three birth cohorts—those with less than a high school education have become a much smaller and select group—we control for improvements in educational attainment over time by sorting participants into three education terciles rather than using the convention of categorizing educational attainment by whether participants have

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completed high school, have some college-level education, or have a four-year degree or more. Pre-retirement, the sizes of the terciles are equal. At older ages, we adjust their relative sizes to reflect the socioeconomic mortality gradient.

8. First, we are confident our spliced sample reflects important relationships reported in the demography and health literatures: our sample means confirm studies showing women live longer, on average, but have an earlier age of onset of needing assistance with activities of daily living (ADLs) limitations. We also confirm other studies that find educational gradients in health—those with higher levels of educational attainment live longer. Good resources on differences in life expectancy are: Brown and Hargrove, "Multidimensional Approaches to Examining Gender and Racial/Ethnic Stratification in Health"; Bosworth and Burke, "Differential Mortality and Retirement Benefits in The Health and Retirement Study"; Olshansky et al., "Differences in Life Expectancy Due to Race and Educational Differences Are Widening, and Many May Not Catch Up."

9. We don't have enough data points to tease out differences across race/ethnicity.

10. Bor, Cohen, and Galea, "Population Health in an Era of Rising Income Inequality."

11. These projections are based on period life tables so the growing gap should grow a bit smaller over time. I thank Anthony Webb for this point. The University of Southern California study confirmed what many suspected and dreaded. Andrasfay and Goldman, "Reductions in 2020 US Life Expectancy due to COVID-19 and the Disproportionate Impact on the Black and Latino Populations."

12. Bosworth, Burtless, and Zhang, "Later Retirement, Inequality in Old Age, and the Growing Gap in Longevity between Rich and Poor."

13. Sanzenbacher et al., "Calculating Neutral Increases in Retirement Age by Socioeconomic Status."

14. Retirement duration is computed using retirement and death ages. Death age is straightforward, computing retirement age is more complicated. Self-reports about retirement age are insufficient: many who self-report being retired work. To solve this problem—one that bedevils all researchers attempting to identify the age of retirement—we use the composite variable "labor force status" created by RAND: a person is in the labor force if working full- or part-time, unemployed, or on temporary layoff. RAND codes people as "retired" if they are not working, not looking for a job, and mention retirement. Therefore, we have an expanded version of *retired*. A person is in the labor force if working full- or part-time, unemployed, or on temporary layoff. People are "retired" if they are not working, not looking for a job, and mention retirement in the survey. We reclassify people on disability as retired at age 66 because at younger ages they are subject to return-to-work programs and an expectation

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they attempt to work. Although unretirement is not uncommon we classify workers as retired when they quit their last job. Maestas, "Cohort Differences in Retirement Expectations and Realizations."

15. See Ghilarducci and Webb, "The Distribution of Time in Retirement."

16. Because our sample is a synthetic cohort, we carefully constructed our measure of SES by using a ranking of educational attainment that considers changes over time in markers of SES. We use educational attainment rather than income as a measure of SES because it is determined early in life before the onset of chronic disease that may affect labor market outcomes. We control for improvements in educational attainment over time by sorting participants into three education terciles rather than using the convention of categorizing educational attainment since average educational attainment has increased dramatically across the three birth cohorts. Pre-retirement, the sizes of the terciles are equal. At older ages, we adjust their relative sizes to reflect the socioeconomic mortality gradient.

17. If we take away our multivariate analysis and controls for a moment, the data don't reveal the class differences so clearly. Viewed through that blurry uncontrolled lens, men in the top third and middle third of educational attainment have 14.3 years in retirement, while those at the bottom have 1.7 fewer years, at 12.6. Men in the bottom third retire 2.3 years earlier than men at the top, but they also die four years younger. In this same limited lens, women in the top third of educational attainment have 19.7 years of retirement time, which is 2.2 more years than the middle third and 3.8 more years than women in the bottom third. Higher-educated women get their advantage in retirement time by living longer and are more likely to be in good health.

18. Crystal and Shea, "Cumulative Advantage, Cumulative Disadvantage, and Inequality among Elderly People"; Coe and Zamarro, "Retirement Effects on Health in Europe."

19. Radl, "Too Old to Work, or Too Young to Retire?"

20. Friedberg and Webb, "Retirement and the Evolution of Pension Structure"; Munnell et al., "How Has the Shift to 401(k) Plans Affected Retirement Income?"

21. We created a sample to identify correlates of retirement duration and the disability status of those in retirement. the data should be reanalyzed when more HRS participants have lived natural human spans. More longitudinal research on the relationships between gender, work characteristics, health, and longevity are also needed. Arias, Heron, and Xu, "United States Life Tables, 2013."

22. O'Connor, "Living Longer Does Not Mean We Should All Work Longer."

23. Auerbach et al., "How the Growing Gap in Life Expectancy May Affect Retirement Benefits and Reforms."

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CHAPTER SIX

1. Zoll, "Working Longer Can Be a Win-Win for Investors."

2. Munnell and Sass, *Working Longer the Solution to the Retirement Income Challenge*.

3. See Sass's interview in Zoll, "Working Longer Can Be a Win-Win for Investors."

4. Policy makers imagined that when they raised the Social Security full retirement age to 70 that people would work longer to get larger Social Security benefits. That did not happen. Many older workers work for such low wages they collect Social Security as a low-wage supplement—indirectly helping employers keep pay low for older workers.

5. For this calculation we use a comprehensive earlier model written by my coauthor Tony Webb as a benchmark. See Munnell et al., "How Important Is Asset Allocation to Financial Security in Retirement?"

6. These scholars are very aware that some people cannot work so they always propose ways people could be exempted from having to wait until 70 to get full pensions with an expanded disability programs to manage those with age-related physical or mental decline to work. But making retiring at age 65 a matter of disability and making retiring at age 70 the norm would stigmatize those who retire before age 70.

7. I fear that low-wage older workers collecting Social Security is an indirect incentive for low-wage employers of older workers to keep wages low. There is considerable evidence that the EITC lowers wages. See Farmand, "Impacts of the Earned Income Tax Credit on Wages of Ineligible Workers"; Leigh, "Who Benefits from the Earned Income Tax Credit?"; Rothstein, "The Unintended Consequences of Encouraging Work."

8. Social Security benefits provide a supplement to low pay so that these income sources together maintain a workers' household with a standard of living reached before retirement.

9. Ghilarducci, Papadopoulos, and Webb, "The Illusory Benefit of Working Longer," 6.

10. These data are for the 1943–47 birth cohort, the most recent cohort for which we possess claims histories that are most complete and mostly based on administrative data and therefore can be compared with data for previous cohorts.

11. About 25 percent of workers in the 1943–47 birth cohort had claimed at age 63, compared with 24 percent of workers in the 1931–37 birth cohort who had claimed at age 63. Among the 1931–37 birth cohort, claiming spiked at age 65—89 percent of workers and 98 percent of retirees had claimed by that age. Among the 1943–47 cohort, who faced a full retirement age of 66, the spike in

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claiming occurred one year later, 89 percent of workers and 99 percent of retirees had claimed by that age.

12. In 2021, Congress allowed eligible childless workers and workers over 65 to collect the Earned Income Tax Credit. It will be interesting to see if that reduces claiming Social Security receipt while working.

13. Improving the way Social Security comminates is part of a big discussion. In the pamphlet "When to Start Receiving Retirement Benefits," the Social Security Administration communicates a complicated rule. It would be best to change the entire language and just call age 70 the maximum benefit.

14. Ghilarducci, Radpour, and Webb, "New Evidence on the Effect of Economic Shocks on Retirement Plan Withdrawals," 6.

15. The dynamic duo Annamaria Lusardi and Olivia Mitchell with coauthor N. Oggero, in Lusardi, Mitchell, and Oggero, "The Changing Face of Debt and Financial Fragility at Older Ages," investigated changes in older individuals' financial fragility as they stand on the verge of retirement and found that over time older Americans close to retirement are holding more and more debt than earlier generations because they bought more expensive homes with smaller down payments.

16. The advice to work longer in personal finance blogs often assumes that older workers delay claiming and save more. See Elkins, "Here's How Much Money You'd Have If You Delayed Retirement until 70." And the advice to work longer pops up in the academic literature because all academic projections of the benefit of working at older ages use some combination of optimistic assumptions to project significant increases in retirement readiness. We just don't see these assumptions holding up when we examine real people's behavior. Specifically, all but one of these papers, Bajtelsmit, Foster, and Rappaport, "Strategies for Mitigating the Risk of Outliving Retirement Wealth," assumes that older workers delay claiming Social Security. They all assume increases in financial wealth, and only one Butrica and colleagues considers that earnings do not generally increase at older ages. Since the models use optimistic assumptions about claiming and saving it is not a surprise the studies project substantial increases in all good things: increases in replacement rates—ranging from 5 percent to 9 percent a year; reductions in the share at risk of outliving their wealth; and reductions in target savings rates; and substantial increases in the share of households able to achieve replacement rate targets. See Bronshtein et al., "The Power of Working Longer"; Butrica et al., "Does Work Pay at Older Ages?"; Butrica, Smith, and Steuerle, "Working for a Good Retirement"; Munnell, Webb, and Golub-Sass, "How Much to Save for a Secure Retirement?"; Munnell, Hou, and Sanzenbacher, "Women Retirement and the National Retirement Risk Index"; Munnell, Orlova, and Webb, "How Important Is Asset Allocation to Financial Security in Retirement?" Target incomes are defined as

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target replacement rates. A target replacement rate is about 60 percent–80 percent of pre-retirement earnings after retirement. The lower income groups need a higher percentage of post-retirement income.

17. Ghilarducci et al., "Working Longer Cannot Solve the Retirement Income Crisis."

18. Our method isolates the effect of independent factors on outcomes, in this case, financial retirement readiness. Using gold-standard data we found what independent factor of factor explains a person's changes (increases or decreases) in financial preparedness for retirement year to year. Our statistical technique allows us to control for educational attainment, race, birth cohort, health at age 62, marital status at age 62, and widowhood or divorce between ages 62 and 70. (We experimented with specifications that included industry, occupation, firm size, and union membership. None of these variables was statistically significant and thus we do not report results.)

19. We report in 2008 dollars throughout the study, to align with Palmer, "The 2001 GSU/AON Retire Project Report." Aon Consulting, *Real Deal*.

20. I and many other researchers in life-cycle studies use educational attainment as stable marker for class position in old age, because that status does not change over a person's lifetime. At older ages, using only income as a marker could not indicate the retired surgeon who took a year off to meditate.

21. As noted in our technical paper, when we are using the federal poverty line for the definition of low status instead of educational attainment or pay and conducting a multiple regression analysis, it reveals that the type of pension plan is even more important than pay or education.

CHAPTER SEVEN

1. Bruder, *Nomadland*.

2. Papadopoulos et al., "Recession Increases Downward Mobility in Retirement."

3. Radpour, Papadopoulos, and Ghilarducci, "Trends in Employer-Sponsored Retirement Plan Access and Participation Rates."

4. Dunlop and Higgins, "'Bargaining Power' and Market Structures."

5. Aaron, "Nudged, Pushed, or Mugged."

6. These wage numbers are adjusted for inflation and hours, I am reporting real median weekly earnings for full-time male workers calculated from the BLS, CPS numbers.

7. Radpour, Papadopoulos, and Ghilarducci, "Trends in Employer Sponsored Retirement Plan Access and Participation Rates."

8. Morrissey, Radpour, and Schuster. The Older Workers and Retirement Chartbook.

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9. Davis and Webb, "Extreme Retirement Inequality Persists, Even among Those with Similar Earnings."

10. On average, middle-class households need $600,000 to maintain their pre-retirement living standards in retirement, yet the median retirement balance for families reaching retirement age is $0, and the average is just $15,000.

11. One of the best sources for trends in retirement plan coverage at work is explained in this memo describing how the different data sets work together. Ghilarducci, Papadopoulos, and Webb, "Inadequate Retirement Savings for Workers Nearing Retirement"; Munnell and Bleckman, "Is Pension Coverage a Problem in the Private Sector?"

12. There is no reason to believe the relative expected income has gotten much better since coverage didn't improve. It is also important to note that income from Social Security is not increasing. Moreover, increases in the Social Security full retirement age cut benefits by 13 percent directly. Workers can claim Social Security benefits at any age after 62, with reduced benefits for those claiming before (ranging from 5.0 to 6.7 percent per year) and increased benefits for those claiming after the full retirement age (8.0 percent). Thus, an increase in the full retirement age acts as a cut in benefits for all workers. The full retirement age is currently in the process of being raised from 65 to 67, cutting Social Security benefits as much as 13 percent for early retirees and 16 percent for late retirees. Butrica et al., "The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers."

13. In the stylized versions of competitive markets in textbooks worker compensation is determined by the value of the marginal product of workers. Kaufman and Hotchkiss, *The Economics of Labor Markets*.

14. Bahn, *Understanding the Importance of Monopsony Power in the US Labor Market*.

15. Flood et al., *Integrated Public Use Microdata Series, Current Population Survey*.

16. Papadopoulos, "Reservation Wages and Work Arrangements."

17. Ghilarducci, Papadopoulos, and Webb, "Larger Birth Cohort Lowers Wages."

18. Ghilarducci, Webb, and Papadopoulos, "The Growth of Unstable and Low-Wage Work among Older Workers."

19. Weaver, "Worker's Expectations about Losing and Replacing Their Jobs."

20. Farber, "Employment Insecurity"; Hollister and Matissa, "Employment Stability in the US Labor Market."

21. The sample of workers who are older than 64 is special; they are the workers who stayed in the market and are likely to have longer tenure.

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22. Bidwell, "What Happened to Long-Term Employment?"; Chan and Stevens, "Job Loss and Employment Patterns of Older Workers"; Munnell, Soto, and Zhivan, "Has the Displacement of Older Workers Increased?"

23. Sass and Webb, "Is the Reduction in Older Workers' Job Tenure a Cause for Concern?"

24. Lalé, "Turbulence and the Employment Experience of Older Workers."

25. Yamashita et al., "Adult Competencies and Employment Outcomes among Older Workers in the United States."

26. US Bureau of Labor Statistics. "Labor Statistics from the Current Population Survey: Table 36."

27. Davis et al., "The Stalled Jobs Recovery Pushed 1.1 Million Older Workers out of the Labor Force."

28. Neumark, Burn, and Button, "Is It Harder for Older Workers to Find Jobs? New and Improved Evidence from a Field Experiment."

29. Collinson, "Striking Similarities and Disconcerting Disconnects."

30. Gosselin and Tobin, "Cutting 'Old Heads' at IBM."

31. Clark et al., "Employer Concerns and Responses to an Aging Workforce."

32. Molloy et al., "Understanding Declining Fluidity in the US Labor Market."

33. Chetty et al., "Where Is the Land of Opportunity?"; and Bergman et al., "Creating Moves to Opportunity."

34. Shambaugh, Nunn, and Liu, "How Declining Dynamism Affects Wages."

35. From 2008 to 2014, at least 52 percent of retirees over 55 left their last job involuntarily, the result of job loss or deterioration in health. Farmand, "Involuntary Unemployed by Class."

36. Nichols and Rothstein, "The Earned Income Tax Credit."

37. In 2020, the maximum credit for a childless adult between the ages of 25 and 65 was $538, phasing out fully at $15,820. After the passage of the American Rescue Plan in March 2021, benefits for childless adults were roughly tripled and eligibility was temporarily expanded to workers older than 65 and workers 19 to 25 who are not students. For students who are attending school at least part-time, the age limit is temporarily reduced from 25 to 24.

38. Davis and Farmand, "Who Does the Earned Income Tax Credit Benefit?"; Maag and Werner, "Expanding the Earned Income Tax Credit Could Provide Financial Security for Millions of Workers without Children"; and Rothstein, "Is the EITC as Good as an NIT?"

39. Lacey et al., "Projections Overview and Highlights 2016-26."

40. Estimated elasticities of wages with respect to the relative size of one's own cohort generally fall between –0.05 and –0.10 and are of similar magnitude for men and for women. Papadopoulos, Patria, and Triest, "Population Aging, Labor Demand, and the Structure of Wages."

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41. Ghilarducci, Papadopoulos, and Webb, "Larger Birth Cohort Lowers Wages."

42. Goux and Maurin, "Persistence of Interindustry Wage Differentials."

43. Autor et al., "The Fall of the Labor Share and the Rise of Superstar Firms."

44. There was a non-significant correlation of –0.31 between median age and unemployment rate in each occupation. Additionally, correlations between the percentage change of value added per industry (between 2007 and 2017) and median age of that industry produces the same results.

45. Farmand and Ghilarducci, "Why American Older Workers Have Lost Bargaining Power."

46. Morrissey, Radpour, and Schuster, "Older Workers and Retirement Chartbook," chart 1H.

47. The Center for Retirement Research and Brookings Institution document that older workers are more educated, which accounts for almost half of the increase in older worker labor force participation. In 1985, less than 20 percent of workers between the ages of 60 and 64 had college degrees. In 2013, 35 years later, over 36 percent did. (In a remarkable testament to aggressive public policy to improve K-12 education—including desegregation and keeping girls in high school—the share of older workers without high school degrees fell from over 26 percent in 1985 to about 7 percent in 2013.) Burtless, "Can Educational Attainment Explain the Rise in Labor Force Participation at Older Ages?"

48. The United States is among the few rich countries—those that make up the group of 36 countries in the Organisation for Economic Co-operation and Development—that ban mandatory retirement as a form of age discrimination. Americans sophisticated legal infrastructure supports workers suing for age discrimination. With few exceptions, Americans cannot be banned from work—or paid, promoted, or trained less—because of their age. OECD, "Working Better with Age."

49. Smith, "What Is the Ideal Retirement Age for Your Health?"

50. Weil, "Understanding the Present and Future of Work in the Fissured Workplace Context."

CHAPTER EIGHT

1. Economic Innovation Group, 2021.

2. Kiplinger-Alliance for Lifetime Income, poll; Ghilarducci, "Why Do We Make It So Easy to Steal Seniors' Money?"

3. States where work and retirement plans with high labor-force participation among the elderly and higher levels of workplace retirement coverage (all correlated with more education among the elderly) were much more likely to vote. I calculate a positive correlation between older voter turnout and workplace

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pensions—for 45- to 64-year-olds—of 18 percent. The correlation between older voters engaged in the labor force by either working or looking for worker and turnout among those over 65 is also quite high at 29 percent.

4. Doonan and Kenneally, *Generational Views of Retirement in the United States*.

5. Tergenson, "How COVID-19 Will Change Aging and Retirement," T1.

6. Burtless, "The Impact of Population Aging and Delayed Retirement on Workforce Productivity."

7. Vargas, "Oregon Grocery Store Worker, 91, Retires after Raising More Than $80,000 Online."

8. Morrissey, "How Many Older Workers Have Difficult Jobs?"

9. National Research Council, "Labor Force Participation and Retirement."

10. Pampel and Williamson, *Age, Class, Politics, and the Welfare State*. See also Ghilarducci and James, "Americans Haven't Saved Enough for Retirement."

11. Ghilarducci and James, "Americans Haven't Saved Enough for Retirement."

12. Gruber and Wise, Social Security and Retirement around the World.

13. I found among forty-two OECD nations the correlation between pension generosity—the amount of money spent per old person and the average time a person spends in retirement was 12 percent in 2005 and 16 percent in 2015. I find weak support for Gruber and Wise's (2000) supply-side argument.

14. McDonough, "Job Insecurity and Health"; Scott-Marshall, "The Social Patterning of Work-Related Insecurity and Its Health Consequences."

15. Burman, Geissler, and Toder, "How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them?"; Megan, "Federal Retirement Tax Benefits Mostly Go to the Wealthy"; Toder, Berger, and Powers, *Distributional Effects of Individual Income Tax Expenditures*.

CHAPTER NINE

1. Bureau of Labor Statistics, "Employment Projection, Table 3.1."

2. Ghilarducci and Cook, "Op-Ed: Pushed to Retire and to Keep Earning, Older Americans Face a Peculiar Vise."

3. McGahey, "America Needs an Older Workers Bureau."

4. Beyer, "Newman Introduce Legislation To Establish Older Workers' Bureau."

5. Davis et al., "The Pandemic Retirement Surge Increased Retirement Inequality."

6. Ghilarducci and Farmand, "Older Workers on the COVID-19-Frontlines without Paid Sick Leave."

7. The financial incentives and the labor market environment would have to change to ensure old people are not too expensive to hire. Employment protection and employment development would have to change so that older people

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are given flexibility they might need and continued training. Social norms, especially ageism, as well as a passion to end illegal age discrimination, would have to change so that older people could work. And last any collateral damage from increasing disability and morbidity caused by older people working to age 70 and must be acknowledged. What are the carrots and sticks faced by employers who may consider older workers and people over age 62 or so who would consider working?

8. Goldmacher and Ember, "Biden, Seeking Democratic Unity, Reaches Left toward Sanders's Ideas"; Ghilarducci, "The Time Is Now to Lower The Medicare Age to 50."

9. Reyes, "'It's Like We are Just a Piece of Garbage.'"

10. McWilliams et al., "Health of Previously Uninsured Adults after Acquiring Medicare Coverage."

11. Bonnie, Stroud, and Breiner, "Safety Committee on Improving the Health, Youth Board on Children."

12. Kirzinger, Muñana, and Brodie, "KFF Health Tracking Poll—January 2019."

13. Docteur et al., *Examining Approaches to Expand Medicare Eligibility*.

14. Since 61 million people receive Social Security benefits, and recipients are a significant source of aggregate demand raising Social Security by $200 a month would have stimulated demand and made up for the isolation felt deeply by elders during the pandemic. We could have sent the enhanced direct deposits—most Social Security beneficiaries have it—on May 1 to those receiving worker benefits under the median. Ghilarducci, "Teresa Ghilarducci on Social Security Fixes to Protect the Poorest."

15. See these articles about what older workers want. Burke and Cooper, *The Fulfilling Workplace*; Marvell and Cox, *Fulfilling Work*; Allan et al., "Conceptualizing Well-Being in Vocational Psychology."

16. Our calculation defined workers as self-employed but not incorporated; wage/salary, private; federal government employees; state government employees; and local government employees. Not included are self-employed who are incorporated; members of the armed forces; unpaid family workers; and those who retired during the previous year or were not in the labor force for other reasons for part of the year. *Working poor* is defined as those with earnings below two-thirds of the US median annual hourly wage in 2020 (as calculated for all workers). Two-thirds of the median annual hourly wage is $15.29 in 2020. About one-fifth of older workers—6.9 million workers over 55—earn less than the equivalent of $15.29 per hour. The share of younger, prime age workers who are between age 35 and 54 is 19 percent—11 million prime-age workers earn less than two-thirds median wage. Ghilarducci and Schuster, "Working Longer Not a Panacea Considering the Number of Low-Wage Work Options."

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17. Davis and Farmand, "Who Does the Earned Income Tax Credit Benefit? A Monopsony View."

18. Ghilarducci et al., "How Expanding EITC Will Benefit 1.5 Million Low-Income."

19. Truesdale, "Better Jobs, Longer Working Lives."

20. Abraham and Houseman, *Policies to Improve Workforce Services for Older Americans*.

21. Vogel, Ludwig, and Börsch-Supan, "Aging and Pension Reform: Extending the Retirement Age and Human Capital Formation." A quote from their paper: "Our quantitative finding is that endogenous human capital formation in combination with an increase in the retirement age has strong implications for economic aggregates and welfare, in the open economy. These adjustments reduce the maximum welfare losses of demographic change for households alive in 2010 by about 2.2 percentage points in terms of consumption equivalent variation."

22. Erikson and Erikson, *The Life Cycle Completed*.

23. Ageist jokes include these from *Reader's Digest*: "My husband can't activate our Amazon Echo, because he keeps forgetting its name, Alexa. 'Just think of the car Lexus and add an a at either end," I suggested. The next time he wanted to use our new toy, he looked a bit puzzled. Then he remembered what I'd said and confidently called out, "Acura!'" *Reader's Digest*, "Old Age Jokes."

24. Neumark and Song, "Do Stronger Age Discrimination Laws Make Social Security Reforms More Effective?" 13; McLaughlin, "Age Discrimination Laws, Physical Challenges, and Work Accommodations for Older Adults."

25. Neumark, "Strengthen Age Discrimination Protections to Help Confront the Challenge of Population Aging."

26. Forden et al., "Physically Demanding Jobs and Involuntary Retirement Worsen Retirement Insecurity for Older Workers."

27. Auerbach et al., "Is Uncle Sam Inducing the Elderly to Retire?"

28. Goda, Shoven, and Slavov, "Removing the Disincentives in Social Security for Long Careers."

29. US Department of Labor, "Older Workers."

CHAPTER TEN

1. Economic Policy Institute, American Federation of Teachers, and Schwartz Center for Economic Policy Analysis. *Breathe Easy—How Guaranteed Retirement Accounts Could Change Your Life*.

2. Ghilarducci et al., "Extreme Retirement Wealth Inequality Persists, Even Among Those with Similar Earnings"; Ghilarducci, Radpour, and Webb, "Social

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Security Reduces Retirement Wealth Inequality"; Radpour, Ghilarducci, and Webb, "Expanding Social Security Benefits to Help All Workers."

3. Economic Innovation Group, "Bipartisan Pair of Economists Propose Bold New Wealth Building Program for the Bottom 50 Percent of American Workers."

4. Berger, "3 in 10 Americans Withdrew Money from Retirement Savings amid the Coronavirus Pandemic—and the Majority Spent It on Groceries."

5. Melbourne Mercer, *Global Pension Index*.

6. Melbourne Mercer, *Global Pension Index*.

7. Iacurci, "They Went Bust in the Great Recession."

8. Novie, "For Millions of Americans, the Coronavirus Pandemic Will Make Retiring Harder."

9. Novie, "For Millions of Americans, the Coronavirus Pandemic Will Make Retiring Harder."

10. Right about the time the country was shutting down for the pandemic the ultraconservative magazine the *National Interest* publishing article connecting lax enforcement of age discrimination laws with activism with the Trump administration. The Trump administration cited with an employer, in the case here it was the Veterans Administration that an employee needs a strict standard of proof to prove age discrimination. Harnois and Roscigno, "Trump Is Making It Harder for Older Americans to Prove Workplace Discrimination."

11. Ghilarducci and Saad-Lessler, "How 401(k) Plans Make Recessions Worse."

12. Ghilarducci, Papadopoulos, and Webb, "40% of Older Workers and Their Spouses Will Experience Downward Mobility in Retirement."

13. Hickenlooper, "Hickenlooper, Tillis, Sewell, Smucker Introduce Bill to Expand Retirement Savings for Working Americans."

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QUESTIONS FOR THE RECORD

RESPONSE BY TERESA GHILARDUCCI, AND ERIC STEVENSON TO QUESTIONS OF SENATOR HICKENLOOPER

SENATOR HICKENLOOPER

Question 1. for Dr. Teresa Ghilarducci: Professor, New School for Social Research.

- In my home state of Colorado, **nearly 1 million workers** do not have access to employer-sponsored retirement savings plans.
- More concerning, according to the Federal Reserve the bottom 50 percent of the wealth distribution has a median retirement savings of $0!
- **We need more innovative retirement savings options so low income Americans can build wealth. What do retirement savings plans need to look like to make them work for low income workers**?
    - **Follow-up**: Would Senator Tillis and I's Retirement Savings for Americans Act help low income individuals, particularly those from underserved communities, who face barriers to saving for retirement?

Answer 1. The Retirement Savings for Americans Act (RSAA) would unequivocally help low-and moderate-income workers save for retirement and retire with security. RSAA, modeled after the proven and successful Thrift Savings Plan available to all Federal workers, includes many of these key principles and features of a sound retirement system, such as automatic enrollment, a generous matching contribution, portability, low fees, easy to understand investment options, and good returns. After 40 years of matched contributions and a reasonable rate of return, someone earning $30,000 annually without leaking could retire with about $600,000 in savings paid out in an annuity (This estimate assumes that someone contributes 5 percent of their annual income and receives a 5-percent match, that the account has a 7-percent annual return, and that there are no early withdrawals.)

Importantly, it would do all of this without crowding out what is working well in the private system.

This is a policy aimed at tackling the last remaining access gap that is highly cost efficient, and it has garnered the broadest support I have seen for a retirement proposal that is specifically aimed at closing the coverage gap for all workers. The range of bipartisan cosponsors and diverse organizations that have endorsed this legislation—from small business organizations to gig platforms to financial titans and the AARP—far surpasses that of any other proposal of this nature that I've studied throughout my career.

Question 2. for Eric Stevenson: President of Retirement Solutions, Nationwide.

- Knowing that small businesses employ nearly half of the employees in the U.S., I was proud that two bills I authored aimed at reducing costs for small businesses looking to start a retirement plan were enacted into law.
- **How are companies like yours helping small businesses leverage opportunities in Secure 2.0 to increase retirement plan coverage for their workers**?

Answer 2. There are multiple benefits of SECURE 2.0 to assist small businesses as they work to provide coverage for their employees. Nationwide is focused on helping those small businesses in three ways: implementing the provisions, educating financial professionals and plan sponsors, and promoting the benefits to plans to encourage adoption.

The enhancement of startup credits for starting up new plans, initially introduced in the original SECURE Act, can play a large role in helping small businesses to increase coverage for employees. By decreasing the initial startup cost, one of the largest hurdles to adoption is removed. Nationwide has promoted these tax credits to financial professionals to share with potential startup plans and delivered an industry-wide podcast discussing these benefits, as well as other provisions.

The retirement industry is also embracing the SECURE 2.0 provision that opens the opportunity for 403(b) plans—generally sponsored by charities, educational institutions and non-profits—to participate in Multiple Employer Plans and Pooled Employer Plans (MEPs and PEPs). Nationwide and our industry peers can support these valuable opportunities for employers of close industry affiliations or similar demographics looking to group together and offer retirement benefits to their em-

ployees, thereby offsetting costs and regulatory burdens. The work done in both the SECURE Act and SECURE 2.0 to simplify the filings and administrative burdens of MEPs and PEPs has cleared the way for wider adoption of these types of plans.

In addition to increasing access through company benefits, employees will also benefit from auto-enrollment requirements, thereby increasing employee participation across businesses of all sizes. Nationwide is encouraging existing plans to offer auto-enrollment now so they will see the same benefits that new plans beginning in 2025 will see when auto-enrollment becomes a requirement.

Nationwide will not only be implementing key required and optional provisions, similar to these, but will continue to participate in outreach programs with financial professionals and plan sponsors to promote the benefits of retirement plan access to employers and their employees.

Question 3. for Dr. Teresa Ghilarducci: Professor, New School for Social Research.

- As policymakers, we have to decide best how to allocate resources.
- Every year the tax code offers $276 billion in retirement tax incentives, but less than 1 percent goes to workers in the bottom 20 percent.
- As a result, the government will need to spend $1.3 trillion by 2040 to support workers' with inadequate retirement savings.

This is why I introduced the *Retirement Savings for Americans Act* with Senator Tillis. Can you please speak to how the bill would address both of these concerns if it became law?

Answer 3. The Federal Government offers generous tax benefits to incentivize retirement savings among higher-income workers, but those benefits are poorly targeted to low-and middle-income workers—precisely those who are at the greatest risk of financial insecurity.

A 021 CBO report showed that tax expenditures for pensions and retirement savings were $276 billion, ranking near the very top of all expenditures. Fully 84 percent of these subsidies went to households in the top two income quintiles. And just 19 percent of households in the bottom income quintile benefited from these incentives, compared to 77 percent in the top income quintile.

The Retirement Savings for Americans Act would help rebalance our upside-down retirement system by offering retirement accounts to all workers who don't have access to one through work, and providing a matching contribution of up to 5 percent for low-and-moderate income workers only. This generous match will incentivize lower income workers to save for retirement. We estimate that a worker making an average of $30,000 a year who saves 5 percent for 40 years and earns typical returns could have about $600,000 saved for retirement.

This, of course, would meaningfully boost the standard of living for the half of all households who are expected to have to take a standard of living cut in retirement because of a lack of savings. It would also reduce reliance on other government and social safety net programs because these workers would now have a significant nest egg to draw on in retirement, allowing them to live out their golden years with more dignity and security. All of this can be achieved for a fraction of the overall expenditures we already outlay for retirement savings, making this a highly cost-effective proposal.

Response by Teresa Ghilarducci to Questions of Senator Markey

SENATOR MARKEY

Question 1. Today, more than 48 million Americans are providing crucial care to family members—and many of these caregivers and receivers are older and retired Americans. These caregivers are providing $600 billion in direct unpaid care each year, and many of them have to sacrifice their own income to provide care to their loved ones. How does the retirement crisis make it more difficult for Americans to receive care and for family caregivers to provide care?

Answer 1. There is considerable research on who gives care to needy elderly and who among elders who need care actually gets the long term care they need. And sadly, who does not. Since our programs are set up for either Medicaid financing or self-financing the middle class is at the greatest risk of not getting the care they need in old age—the poor have Medicaid and the rich have money.

But, just as important the secondary effect of a spotty and incomplete provision for long term care is more Adult kids drain their own retirement accounts and cut back work reproducing even more retirement insecurity. Middle aged women, espe-

cially, need to drop out of the labor force to care for elders. This means that the lack of long-term care insurance is creating new generations of fragile future elderly. The impact of having to care for elderly fall especially on women and nonwhite workers.

Spousal care can also drain the health and wealth of the survivor. Without long term care insurance for the broad middle class, old age is financially risky which generates fear and shame. Neurologists and psychologist researchers identify these emotions as auger for depression and anxiety. The time of life that could be full of reflection, reckoning, and generativity (see Erik Erickson) is full of patching up holes in care and money.

These conditions militate against dignity. People in old age need stable income and stable source of health care including long term care.

Policy recommendation include ensuring that older workers have a significant.

Resources:

Forden, J; (2023) "Effect of Elder Caregiving on Labor Force Participation" Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, SCEPA Working Paper Series 2023–3.

Question 2. Many family caregivers do not receive financial support for their caregiving responsibilities, yet they must sacrifice work or educational opportunities. Consequently, they may spend out of their own saving or be at greater risk of financial insecurity, perpetuating the cycle of retirement insecurity. Several Federal agencies—including the Department of Veterans Affairs—provide stipends to caregivers. How do financial supports, such as stipends, for family caregivers support middle class seniors and their families?

Answer 2. Without long term care insurance for the broad middle class, old age is financially risky which generates fear and shame. Neurologists and psychologist researchers identify these emotions as auger for depression and anxiety. The time of life that could be full of reflection, reckoning, and generativity (see Erik Erickson) is full of patching up holes in care and money.

These conditions militate against dignity. People in old age need stable income and stable source of health care including long term care.

Question 3. Middle class seniors hoping to age with dignity are often caught in the eponymous middle—without access to Medicaid or sufficient savings for adequate care. These older Americans and their families face stressful and difficult choices about how to manage care and maintain financial stability across generations, while navigating a patchwork of Federal and state programs. Federal grants to state and cities for financial planning services can allow families to navigate their eligibility for Federal and state benefits, care options, and managing their budget and estate planning. How can these programs support families navigating a patchwork of Federal and state programs to access information and benefits for long term financial security?

Answer 3. Having just attended the 2024 American Society of Aging conference in San Francisco, browsing the exhibition booths and going to the sessions I have concluded that millions of people needing support because of the health or financial fragility of an elder in a family is broken. Many services and navigators are for profit and they had the best swag available at the conference. Other exhibitors were tiny charities providing care for specific body parts of million of seniors who aren't even covered by Medicare or Medicaid. A popular booth was the FTC booth instructing about illegal financial fraud. The attendees of the conference were mostly social workers who are trying to navigate these systems for tens of millions of elders. But the conclusion over and over in the conference is without a Federal program supporting long term care and funding innovations in at home care these patchwork systems will leave behind many middle class people.

[Whereupon, at 11:25 a.m., the hearing was adjourned.]

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