Written Testimony

of Eric Stevenson

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Entitled

Investigating Challenges to American Retirement Security

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Good morning. I would like to thank Chairman Portman, Ranking Member Brown, and all Members of the Senate Finance Committee's Subcommittee on Social Security, Pensions, and Family Policy for holding this hearing on American retirement income and for the invitation to testify.

My name is Eric Stevenson. As President of Nationwide's retirement plans business, I am currently managing the team responsible for Nationwide's retirement plans operation that protects roughly $156 billion in participant assets for over 2.5 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 16 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, a Fortune 100 company based in Columbus, Ohio, is one of the largest and strongest diversified insurance and financial services organizations in the United States. Nationwide is rated A+ by both A.M. Best and 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 & 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 47 years of experience. Today, Nationwide is the largest retirement plan provider serving the public sector with over 7,700 government sector retirement plans, ranging from smaller county and city plans to mega-size state plans. In addition to the public sector, Nationwide also administers retirement plans in the private sector defined contribution and not-for-profit marketplace.

Protecting roughly $156 billion in participant assets, Nationwide is the 9th largest provider of retirement plans in the US 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 – managing 24,600 plans with less than $10 million in assets (~21% of the assets, 34% of the plan participants). We also manage some very large plans, including 124 plans with more than $100 million in assets (~60% of the assets, 50% of the plan participants).

Nationwide greatly appreciates the efforts of the Subcommittee on Social Security, Pensions, and Family Policy and the full Finance Committee to continually improve our nation's retirement system in a bipartisan manner. We commend Chairman Grassley, Ranking Member Wyden, Chairman Portman, Ranking Member Brown, Senator Cardin, and all Members of the Committee for their leadership in this regard. Nationwide is glad to be here today in strong support of S. 1431, the Retirement Security and Savings Act, introduced by Chairman Portman and Senator Cardin, which we are confident would help usher in a new era of enhanced retirement security.

The impact of COVID-19 on Americans' health and finances has highlighted several critical needs and challenges affecting workers. Specifically at Nationwide, we've seen the impact of COVID-19 related to the CARES Act provisions passed in March. Since that time, Coronavirus-Related Distributions (CRDs) are close to 20% of total withdrawals across our retirement plans, distributing $885M in total withdrawals. Even though the Retirement Security and Savings Act was introduced long before any of us encountered the term "COVID-19," the bill's provisions will help us meet the challenge of both restoring pre-COVID-19 retirement security and enhancing it.

Journey to Financial Wellness

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

- Beginning Planning
- Saving for Retirement
- Living in Retirement

The Finance Committee's ongoing work to improve our retirement system has benefited all three phases of American workers' journeys to financial wellness. Building on the recent success of the SECURE Act, Nationwide strongly supports the additional improvements Portman/Cardin will make to Americans' financial wellness. In particular, Nationwide believes the six key proposals highlighted below are critical to supporting workers in their financial wellness journey to a secure retirement.

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. According to the Bureau of Labor Statistics, 71% of all workers and 67% of private industry workers are provided with an opportunity to save through an employer-sponsored retirement plan. Plan Sponsor Council of America estimates an average participation rate of 85%. Still, too many workers remain uncovered by a retirement plan. Congress took significant steps to address this concern last year by passing the SECURE Act, which included provisions to expand worker access to retirement plans. One of those provisions created a new type of multiple employer plan ("MEP") called a "pooled employer plan," which is intended to make plan sponsorship more attractive and attainable to small and mid-sized employers and will first be available to employers in 2021.

But simply having an opportunity to save for retirement is not enough. Workers must also be able to afford to take advantage of that opportunity without jeopardizing other critical aspects of financial security. Here, Nationwide believes that the retirement system could be leveraged to help workers meet their short-term financial needs, like paying down student debt, while also increasing workers' ability to make greater and more consistent progress toward their retirement savings goals.

Student Loan Debt

As the number of individuals with burdensome student loan debt grows, fewer workers can afford to make contributions to an employer-sponsored retirement plan, particularly in the early years of their careers. 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 eight 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 period to an account that earns 6% 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 period, the difference would be $177,143.60.

At Nationwide, we understand the significant strain that student debt is placing on many workers. The student loan debt statistics are jarring: In the last 3 decades, the cost of a bachelor's degree has increased by 1,120%. In less than 30 years, the amount of student debt has tripled. 62% owe more in debt than they have in personal savings (source: Commonbond). But this is not just a challenge faced by 20-somethings. Student loan debt is increasingly affecting workers well into their 30s, 40s, and beyond, as some individuals struggle for decades to repay six-figure loans and others return to school mid-career. According to the Employee Benefits Research Institute 2020 Retirement Confidence survey, 7 out of 10 workers report having some kind of non-mortgage debt and say it has impacted their ability to save for retirement or emergencies. Roughly half say their ability to participate in workplace retirement savings plans has been impacted. Also, 1 in 5 workers have student loan debt for themselves, a child or grandchild, and 9 in 10 of all workers think it would be a good idea if employers offered matching contributions to retirement plans in exchange for workers making student loan payments.

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. As such, we support the provision in Ranking Member Wyden's bill and in Portman/Cardin that would permit employers to make matching contributions to a 401(k) or similar plan on behalf of a participant based on payments the participant makes toward a student loan if certain requirements are met. This provision would help workers who otherwise could not afford to make elective contributions to the plan still take advantage of the employer match and thus begin (or continue) accumulating money for their retirement.

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 the student loan employer match provision will become a popular employer-provided benefit, as it would help employers both respond to workers' concerns over student debt burdens and help ensure a better retirement savings outcome for workers struggling with student debt payments.

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.

Increasing Catch-up Contributions

Americans are living longer than ever before, which means workers need to accumulate even more savings in order to have a financially secure retirement. At the same time, many workers in the beginning and middle of their careers face competing financial needs—such as student loan and car payments, home purchases, and the cost of raising a family—that leave workers unable to contribute to a plan the maximum amount allowed each year under the Internal Revenue Code. To put into perspective, roughly 75% of full-time workers are living paycheck to paycheck. (2017, CNBC.com) A 2016 Mercer survey of U.S. workers found that immediate financial concerns are a significant source of worry for all workers, regardless of age, and that retirement income only becomes the highest priority concern for individuals aged 50 or older.

To account for these combined challenges, Americans are working longer than ever before, often using those additional years of employment to make increased contributions to their retirement plans. One way to accommodate both the increase in longevity and those workers who are unable to save at consistently high levels throughout their careers would be to allow savers to make greater "catch-up" contributions to a plan than what is allowed today. The amount available and promotion of this savings vehicle could play a significant role in closing the gap for savers, especially segments nearing retirement.

In this regard, Nationwide supports the provision in Portman/Cardin that would introduce an enhanced catch-up contribution limit for workers age 60 or older. Today, individuals age 50 or older are allowed to make an additional catch-up contribution of $6,500 (indexed) each year to a 401(k), 403(b), or governmental 457(b) plan. Similarly, individuals age 50 or older may make an additional catch-up contribution of $3,000 (indexed) to a SIMPLE IRA or SIMPLE 401(k) plan. The Retirement Security and Savings Act would increase those limits to $10,000 and $5,000, respectively, for individuals age 60 or older, and would also index those amounts. At Nationwide, we believe this additional catch-up limit will make a meaningful difference in helping older workers maximize their retirement preparedness in the very years when many of them are best able to do so.

Exchange-Traded Funds

The SECURE Act increased access to a workplace retirement plan with provisions like pooled employer plans (PEPs) and allowing long-term part-time workers to participate. Further improvements from Portman/Cardin such as expanding the Saver's Credit and reducing the service requirement for long-time part-time workers will further expand access to savings opportunities and provide a strong incentive to participate.

Still, some workers will need to save for retirement outside the employer context. For those individuals, solutions like IRAs and annuities provide an opportunity to prepare for retirement on an individual basis. To that end, we support a provision from Portman/Cardin to allow ETFs as an investment option in variable annuity products. This change responds to clear consumer preference for ETFs and is intended to lower the cost of variable annuity products and better integrate these products for fee-based registered investment advisers (RIAs).

Exchange-traded funds ("ETFs") are pooled investment vehicles that are similar to mutual funds, but ETF shares may be traded throughout the day on the stock market instead of having to be held until after the market closes. ETF products have been one of the fastest growing retail investment products for years, and this rapid rise is often credited to their simple structure, low cost, and intraday trading capability. Those features have made ETFs the preferred choice of many in the RIA community when selecting or making recommendations of investments for their customers. According to Cerulli's 2020 RIA Marketplace Report, "over the past decade, registered investment advisors' (RIAs') average allocation to exchange-traded funds (ETFs) increased 12.3 percentage points, whereas average mutual fund allocations decreased 17.8 percentage points. During the same timeframe, RIAs' use of ETFs rose 38%."

Despite the benefits and popularity of ETFs, under current law, ETFs may not be used as investment options in variable annuity contracts. This is largely due to the fact that the current IRS diversification rules were created before ETFs were a viable product category and thus don't anticipate their unique structure.

To provide variable annuity contract owners and advisors with the investment products they prefer, Nationwide supports efforts to allow ETFs to be used as investment options under variable annuity contracts, and we thank the Chairman and Senator Cardin for including a provision that would accomplish this in Portman/Cardin.

Collective Investment Trusts in 403(b) Plans

Collective investment trusts ("CITs") are an investment option that typically has lower costs than mutual funds. Although CITs may be used in 401(k) and certain other retirement plans, the Internal Revenue Code 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 the provision in Portman/Cardin 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 other provisions to improve 403(b) and 457 retirement plans, including:

- Sec. 304 to permit non-spousal beneficiaries to roll inherited IRA assets into 457(b), 401(k), 401(a) and 403(b) plans;
- Sec. 305 to eliminate the "First Day of the Month" requirement in 457(b) plans;
- Sec. 501 to exempt designated Roth contributions in 457(b), 401(k) and 403(b) plans from RMD rules, as Roth IRA assets are presently exempt;
- Sec. 502 to permit 457(b), 401(a), 401(k) and 403(b) plan participants to make Qualifying Charitable Distributions; and
- Sec. 504 to allow participants with Roth accounts in 457(b), 401(k), 401(a), and 403(b) plans to roll Roth IRA assets into these plans.

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. Here again, Nationwide believes that making some modifications to the existing retirement system will enhance individuals' ability to live well in retirement.

Increasing the RMD Age to 75

Today, Americans are living an average of 79 years, 50% of Americans age 65 can expect to reach age 85, and 1 in 4 Americans age 65 can expect to live past age 90. For most individuals, the potential need to fund many years of retirement living makes it very important to maintain as much money in savings as possible for as long as possible. One way the current retirement system could better serve those who are living longer and/or working longer would be to increase the age at which required minimum distributions ("RMDs") generally must begin.

We very much appreciate that Congress took action in last year's SECURE Act by increasing the age that triggers the deadline by which RMDs must begin from age 70½ to 72. However, Nationwide encourages Congress to further increase that to age 75, and we support the provision in Portman/Cardin to do just that. This change would allow workers to continue to save more effectively and not require that distributions from retirement savings be taken ahead of the schedule that works best for each saver. Workers face enough challenges in saving enough money to last for a potentially lengthy retirement, and the retirement system's forced systematic depletion of savings should not unduly add to that challenge.

Improving Longevity Annuities

Saving enough money to last for an average-length retirement is already challenging for many workers, but the prospect of having to save enough to protect against the possibility of living to age 90, 100, or beyond can be daunting. A more efficient way for retirees to protect themselves from the risk of outliving their savings in defined contribution plans and IRAs is to share the cost of that risk with others by purchasing a longevity annuity with a portion of their assets. Longevity annuities are deferred annuities that generally begin payments at or near the end of an individual's life expectancy. Since payments begin so late, they can be a very inexpensive way of ensuring guaranteed income after an individual reaches a certain age.

Prior to 2014, the RMD rules were an impediment to longevity annuities because the rules generally required that distributions begin before such an annuity would be scheduled to commence payments. In 2014, the Treasury Department and the Internal Revenue Service ("IRS") published final regulations on "qualifying longevity annuity contracts" ("QLACs"), which generally exempt QLACs from the RMD rules until payments under the contract commence, provided that certain requirements are met. Critically, the regulations limit the premiums an individual may pay for a QLAC in 2021 to the lesser of (1) $135,000 or (2) 25% of the individual's account balance under the plan or IRA. Although the $135,000 limit applies across all types of arrangements, the 25% limit applies separately to each defined contribution plan and collectively to all IRAs that an individual owns.

The 25% limitation is especially problematic when an individual would like to purchase a QLAC using savings in a defined contribution plan where a QLAC is not available for purchase directly through the plan (as is most often the case). In that case, the individual would need to roll money out of the fund and into an IRA before purchasing a QLAC from an insurance company. But the 25% QLAC limit on the account balance of all IRAs requires the individual to roll *four times* the amount out of the defined contribution plan than he or she may have otherwise wished to roll over, simply to purchase a QLAC in the desired amount (e.g., in order to purchase a $100,000 QLAC, the individual would to roll $400,000 out of the plan).

While Nationwide appreciates the efforts of the Treasury Department and IRS to facilitate the use of longevity contracts, the QLAC regulations in their present form could be improved to help longevity annuities better realize their potential in helping retirees manage the risk of outliving their savings. We therefore support the provision in the Retirement Security and Savings Act that would direct the Treasury Department and IRS to make key reforms to the QLAC regulations, including eliminating the 25% limit and raising the $135,000 cap (2021) to $200,000 (indexed). Those changes, together with other improvements that the provision would make, would go a long way in making QLACs more attractive to both retirees and insurers.

Conclusion

Once more, thank you Chairman Portman, Ranking Member Brown, and all Members of this Subcommittee for holding this important hearing and for extending an invitation to Nationwide to testify. Although the journey to financial wellness is one that lasts nearly a lifetime, many opportunities exist to improve our current retirement system and make that journey less arduous for savers. Today, we highlighted six of those opportunities, all of which are addressed in Portman/Cardin. We commend each of you for your ongoing, bipartisan work to improve every phase of Americans' financial wellness journey, and 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.