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CHALLENGES IN THE RETIREMENT SYSTEM

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CONTENTS

OPENING STATEMENTS

WITNESSES

ALPHABETICAL LISTING AND APPENDIX MATERIAL

COMMUNICATIONS

CHALLENGES IN THE RETIREMENT SYSTEM

TUESDAY, MAY 14, 2019

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:16 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Chuck Grassley (chairman of the committee) presiding.

Present: Senators Roberts, Enzi, Thune, Isakson, Portman, Scott, Lankford, Daines, Wyden, Stabenow, Cantwell, Carper, Cardin, Brown, Warner, Whitehouse, Hassan, and Cortez Masto.

Also present: Republican staff: Jeffrey Wrase, Deputy Staff Director and Chief Economist; Chris Allen, Senior Advisor for Benefits and Exempt Organizations; and Mark Warren, Chief Tax Counsel. Democratic staff: Joshua Sheinkman, Staff Director; Drew Crouch, Senior Tax and ERISA Counsel; Mike Evans, General Counsel; Tom Klouda, Senior Domestic Policy Advisor; and Tiffany Smith, Chief Tax Counsel.

OPENING STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Good morning. Today the committee will continue its work on retirement security and the various challenges facing the U.S. retirement system. We welcome all guests, and particularly our witnesses who had to work so hard to get prepared for this testimony. I look forward to hearing your thoughts as witnesses and ideas on ways to improve the U.S. retirement system.

Last month, Senator Wyden and I introduced the Retirement Enhancement and Savings Act, which typically goes by the nickname of RESA. This bill is an update package of important reforms to the retirement tax rules which was developed in advance by the committee over the last two Congresses. Passage of RESA remains a top priority for Senator Wyden and me.

Its centerpiece expansion of open multiple employer plans, or MEPs for short, and other common-sense changes would make it more feasible for businesses of all sizes to offer retirement plans by harnessing economies of scale and reducing unnecessary burdens on employers. I hope that the House will send its version of RESA over to us at some point this month. And I will continue to work closely with Senator Wyden and other committee members to reconcile the differences and get this important bill to the President.

Now, for the purpose of this meeting, there is still work to be done. And there certainly are gaps to fill in the retirement system. Our focus today will be exploring all of those issues. What more

can we do to improve coverage in the existing system? How can we encourage more people to save? What approaches should we take to help workers plan, save, and—critically—live in retirement?

The workplace retirement system is the primary way American workers save for retirement, whether through a defined benefit pension plan or an employer-sponsored defined contribution program. While defined benefit plans remain an important part of the overall retirement system, defined contribution plans, 401(k) plans, and similar programs are now the primary means for private-sector workers to save.

It is clear that there are gaps in the system and we need to work on improvements to the system, but it is not generally clear that there is a retirement savings crisis. Hence, the purpose of this hearing is to bring attention to that.

Let's look at the numbers. At the end of 2018, $27 trillion dollars has been set aside for retirement funds, including over $5 trillion in private-sector defined contribution plans. Workers with access to retirement plans have reached 66 percent of the private sector, with over 75 percent of the workers with access to plans actually making contributions towards their retirement. Since 1984, the number of 401(k) plans has grown from 17,000 plans to just over half a million plans, covering over 60 million active participants. By any measure, the growth of these plans and the dollars saved are a success.

But getting back to the purpose of this hearing, we need to do more to encourage and facilitate retirement savings. As the economy grows, our retirement system needs to keep pace, with greater access for employees and independent workers and efforts to make sure retirees enjoy a financially sound retirement.

So, while this hearing is a continuation of the committee's work in this area, it marks the start of our work on the next round of retirement savings reforms. We have several members on the committee who have put forth very good ideas for next steps. And our panel today will share their views on those and other proposals to strengthen the system.

[The prepared statement of Chairman Grassley appears in the appendix.]

The CHAIRMAN. Senator Wyden?

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Senator WYDEN. Thank you very much, Mr. Chairman.

And first of all, Mr. Chairman, I want to make it clear that I very much share your views with respect to the Retirement Enhancement and Savings Act. Colleagues, I think it is the view of Chairman Grassley and I that this important bill should have become law eons ago. And I just look forward to working with you and all our colleagues, Mr. Chairman, to make it law.

And I am going to begin my remarks today with a quick word on Social Security, the foundation of retirement in America. According to the most recent trustees report, Social Security can pay full benefits until 2035. After that, retirees would be hit with a 20-percent cut. That means that a 50-year-old worker who has paid

into Social Security out of every paycheck faces the prospect of not receiving the full benefits that he or she has earned.

I want to be blunt about this this morning. As long as I have anything to say about it, that cut is not going to happen. Not going to happen, full stop. The Congress has solved fiscal challenges bigger than this one, and it is going to have to do it again. Furthermore, let us understand that no program has done more for Americans' economic well-being and stability than Social Security. The Congress must not do anything to undermine that foundation. Social Security is not a piggy bank for lawmakers to smash when they are looking for money for other priorities. Instead, it is critical to protect Social Security for all workers for generations to come.

Now, to examining other areas where retirement needs strengthening—and again, Chairman Grassley is correct in saying that we have good ideas coming in from both sides of the aisle. Across the country, more than 100 million Americans have no pension and no savings in a retirement plan. A dignified retirement is simply out of reach for many working Americans.

There are a variety of ways, however, this committee can play a leading role in changing that. First, the committee worked on a bipartisan basis to put together the Retirement Enhancement and Savings Act. The bill is all about making it easier, particularly for small employers, to offer retirement plans to their employees, give those small businesses an opportunity to band together, offer a common retirement plan. It is a simpler and more cost-effective way of helping more Americans from sea to shining sea to save.

It ought to be easier for older Americans to save, and this is something that I have felt strongly about since I was co-director of the Oregon Gray Panthers. I just think it is absurd to cut somebody off from saving just because they crossed an arbitrary age limit. In my judgment, changing this part of IRA law is a no-brainer.

The chairman and I worked with our previous chairman, Chairman Hatch, to include this. I think it is a critically important part of the bill. Let me give you an example of what I am talking about. There are a lot of older working-class folks who cannot yet retire and want to keep saving. With so many families dealing with the consequences of the opioid epidemic—something I hear a lot of members on this committee talking about—I think of working grandparents who are supporting youngsters and want to keep saving. They ought to have that opportunity. That is going to be made possible by this retirement bill, and we need to get it across the finish line.

In addition to RESA, there are other ideas to discuss. Yesterday I introduced the Retirement Parity for Student Loans Act. It is based on a simple proposition. Somebody who is paying off student loans should not be denied the opportunity to save for retirement. The bill would allow employers to make matching payments into a retirement plan while the employee makes a student loan payment.

The bottom line is, whether you are paying off loans or building up a nest egg, you are making the right financial choices. You ought to be rewarded for it with an opportunity for more savings.

Next, I want to close by saying we really want to welcome our State Treasurer, Tobias Read. He is one of the innovative thinkers

in this whole area, with Oregon leading the Nation with the new auto-enrolled IRA program for people who do not have access to a retirement plan at work. Mr. Read has been a pioneer in this. The program is called OregonSaves. It went Statewide in 2018, and hundreds of thousands of people in my home State are going to be able to save under the program when it is fully up and running. I think we ought to be looking at what Mr. Read is going to tell us today towards expanding the program nationally.

Finally, we need to act—and this is something the chairman and I and many members have talked about—on multiemployer pensions. It has been a concern to many Senators on both sides of the aisle. And there are 150 of these pension plans that face insolvency in the next decade or two. Upwards of a million Americans who could be literally thrown off the financial cliff—worked hard, paid into their plans—face a crisis through no fault of their own. And the Congress cannot sit on the sidelines as those Americans, the ones who are walking on an economic tightrope with multiemployer pensions, are wondering whether they are going to fall into poverty.

Thank you to all our witnesses. Mr. Chairman, I look forward to working with you.

The CHAIRMAN. Yes.

[The prepared statement of Senator Wyden appears in the appendix.]

The CHAIRMAN. To introduce our witnesses, I am going to start with a constituent of mine, Ms. Joni Tibbetts, vice president of product management, retirement income solutions at The Principal Financial Group. Ms. Tibbetts has been with The Principal Financial Group since 1987. She has had several roles within the retirement division, including input on Federal and State legislative policy issues, product development, and encouraging new retirement plans to expand coverage. She earned her business degree from the University of Iowa and has completed product development education through the Wharton School of Executive Development.

In addition to what Senator Wyden had said about Mr. Read, he was elected State Treasurer in 2016. In 2006, he was elected to the Oregon House of Representatives, became speaker pro tempore, and held several key committee chairmanships. And Senator Wyden has already referred to his sponsorship of the Oregon retirement savings plan. Mr. Read is originally from Missoula, MT and has earned a bachelor's degree from Willamette University and his MBA from the Michael G. Foster School of Business, University of Washington.

Ms. Joan Ruff serves as chair of the American Association of Retired Persons. After more than 10 years as a tax attorney, she joined William M. Mercer, Inc. where she consulted on employee benefits and compensation. From there, she held executive positions at Zurich Financial Services and went on to chair the AARP's audit and finance committee. Ms. Ruff holds a juris doctor degree, University of Kansas; MBA, Rockhurst University; master of law taxation, New York University; and a bachelor's degree in journalism, University of Kansas.

Finally, Ms. Lynn Dudley, senior vice president of global retirement and compensation policy for the American Benefits Council.

Ms. Dudley directs the Council's advocacy efforts regarding retirement and compensation policy, defined benefit and defined contribution plans, and executive and non-qualified deferred compensation. She also coordinates the Council's outreach efforts in the international arena, including the Council's Benefits Passport informational series. Prior to joining the Council, she was a legal consultant for SunGard Employee Benefit Systems in Birmingham, AL. After earning her undergraduate degree at Vanderbilt University, Lynn received her LLM in taxation from the University of Florida in 1983 and law degree from Cumberland School of Law, Stanford University, 1982.

Thank you all for joining us. To start out, we will go from left to right.

STATEMENT OF JONI TIBBETTS, VICE PRESIDENT, RETIREMENT AND INCOME SOLUTIONS, THE PRINCIPAL FINANCIAL GROUP, DES MOINES, IA

Ms. TIBBETTS. Well, good morning. And thank you, Chairman Grassley, Ranking Member Wyden, and members of the committee. I want to thank you for the invitation to speak at today's hearing and also your work in seeking to enact important improvements to the retirement system.

My name is Joni Tibbetts, and I am a vice president of retirement and income solutions at Principal Financial Group. We are based in Des Moines in the chairman's home State of Iowa. I am pleased to offer insights based on Principal's more than 75 years in the retirement industry—our experience with small to medium-sized employers and their employees. We currently provide retirement services to more than 45,500 plan sponsors of all sizes, as well as their 5.9 million participant employees.

At Principal, we care about understanding the needs of our clients and employees through such activities like client councils, focus groups, real-time feedback, and data collection. This information informs our innovation efforts as we seek to better connect and engage with our clients. We are tremendously proud of the innovation through online and digital enrollment, as well as our financial tools that we recently introduced. These options have driven considerably improved outcomes for our participants. Examples include: the average contribution rate for newly eligible employees is nearly 8 percent, and 29 percent of newly eligible employees defer more than 10 percent. For existing plans, their participants who transition to Principal, nearly one in four opt to save more than 10 percent. And finally, when you look at participants who have visited our website, the average contribution is 50-percent higher than those who choose not to engage online.

In many respects, our Nation's defined contribution system has been a great achievement. But it has been nearly 15 years since the Pension Protection Act of 2006. And we need a system that keeps up with the changes in innovation, technology, workforce, and consumer needs. The retirement system should offer a range of solutions that are competitive in the marketplace as well as sensitive to the challenges of small employers. The Retirement Enhancement and Savings Act is a tremendous first step. We offer our

enthusiastic and full support for both the work that the House and Senate have done on RESA.

There are three provisions of RESA that we believe are critical to achieve meaningful participant outcomes. The first is expanding coverage, RESA's two-prong approach addressing the coverage gap for small employers. The first is to offer meaningful tax credits to small employers who set up a plan, and secondly RESA helps reduce the burden of establishing and administering a plan by expanding opportunities for small employers to join open multiple employer plans.

RESA's lifetime income provisions give fiduciaries greater confidence in adopting guaranteed income solutions. They establish realistic obligations to follow when selecting an annuity provider and also ensure participants who have purchased guaranteed income in their retirement plan that they are not penalized when such products cease to be offered. RESA also drives adequate savings levels. Only 19 percent of plans between $1 and $10 million in assets use automatic features. RESA creates a start-up tax credit and eliminates the auto-escalation cap. Both provisions can drive small employers to adopt a plan and implement these plan design features that are beneficial to participants.

There is an opportunity for retirement law to catch up with developments of innovation that have occurred in the marketplace. As the committee looks beyond RESA, additional policy recommendations we believe would be meaningful to American savers include, first, removing barriers to the adoption of best practices, including automatic plan design for small employers; second, expanding RESA's multiple employer plans provision to 403(b) plans; third, as Senator Wyden talked about, recognizing that workers are burdened by student loan debt; and finally, re-evaluating the administrative requirements in the era of open MEPs and automatic features.

I would be happy to discuss any of these in further detail during questioning. Again, I want to thank all of you for the opportunity to testify about the importance of success in our private retirement system. Principal Financial Group appreciates the effort and sincerity with which Chairman Grassley, Ranking Member Wyden, and members of the Senate Finance Committee have undertaken this. I look forward to your questions. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. Tibbetts appears in the appendix.]

The CHAIRMAN. Now, Treasurer Read.

STATEMENT OF HON. TOBIAS READ,
OREGON STATE TREASURER, SALEM, OR

Mr. READ. Thank you, Chairman Grassley, Senator Wyden, and members of the committee. Thank you for the opportunity to address the committee on the topic of retirement security. My name is Tobias Read, and I have the honor of serving as Oregon State Treasurer. As Treasurer, I am focused on promoting the financial security of all Oregonians.

In 2015, as a State representative, I sponsored the legislation that created the Oregon retirement savings program now known as

OregonSaves. The Oregon State Treasury is tasked with implementing OregonSaves. That is the reason I am here to testify before you today.

Oregon created the first in the Nation State-based auto-IRA program in response to the growing retirement savings crisis. The National Institute for Retirement Security estimates the gap between what is saved for retirement and what is actually needed for retirement is at least $6.8 trillion. At the same time, more than a third of the private-sector workforce in the United States lacks access to a retirement savings plan at work.

In Oregon alone, there were approximately 1 million private-sector workers without such access. And we know from research by the AARP that people are 15 times more likely to save for retirement when they have the option to do so at work. That is why I think everyone should be happy to see the efforts of Oregon and other States to expand savings options to more people. It is a smart approach that will help more workers at every income level and their families. Empowering more people to invest in their own futures is vital to the financial well-being of individuals, families, and of course governments at every level. And already, tens of thousands of Oregon workers are saving. We have eclipsed $19 million in savings in less than 2 years. And the program's total assets are increasing exponentially, adding more than $2.2 million every month, and that rate continues to accelerate. And here is some more great news: most of those Oregonians are first-time savers.

OregonSaves is a public-private partnership that gives workers the opportunity to save for retirement through payroll deduction. Their savings are deposited into their own individual retirement accounts. Those IRAs are owned by the worker and not tied to the job, ensuring that what a worker saves will always be their money and under their control.

Oregon businesses that do not offer a retirement savings option are required to facilitate the program for their workers. Many employers see the benefits of OregonSaves and are not waiting. Employers of any size can enroll at any time ahead of the deadlines that our program requires, and nearly 2,000 have already chosen to do so. The program is also open for voluntary enrollment by individuals, including the self-employed and those workers whose employers do not facilitate OregonSaves. Hundreds of people have already self-enrolled since we brought that option online late last year. The program has seen strong participation in line with our projections, with about three out of every four people choosing to remain in the program and save.

But beyond the numbers, what I love to hear are the stories of the savers like Genevieve, who works for a small nonprofit. Genevieve told us that, "OregonSaves is the easiest retirement program I have ever participated in. It has removed a lot of the stress of having to choose from a long list of decisions that feel overwhelming. Saving for retirement should be easy and painless."

I am also excited by the enthusiasm we are seeing from local business owners. Josh Allison, who is an owner of a brewery on the north Oregon coast told us, "OregonSaves allows me to offer a retirement plan to my employees, which I would have a difficult time providing on my own. As a small family-owned business, it gives

me the tools to recruit and retain good employees. It also gives my employees the ability to work for our company as a career. It is a win-win for all parties involved."

From the beginning, I was very aware that the success of OregonSaves relied heavily on our relationship with employers. We constructed the program to limit the obligation of the employer as much as possible and are constantly considering ways to reduce the time employers spend facilitating the program.

We have been working closely with some of the Nation's largest payroll service providers to discuss how best to integrate payroll processes, reducing further the amount of time employers need to spend on the program. For employers that handle their payroll functions without the help of a payroll service provider, the time to facilitate OregonSaves adds 10 to 15 minutes each month.

The public overwhelmingly supports the program. Employers say it is easy to sign up workers. And, based on a recent public survey, the level of support has actually increased in the first year. Today an astounding 82 percent of people support OregonSaves.

OregonSaves is already increasing the long-term financial stability of thousands of Oregonians, and we are just getting started. Thank you, Mr. Chairman. Thank you, committee members.

The CHAIRMAN. Thank you, Mr. Read.

[The prepared statement of Mr. Read appears in the appendix.]

The CHAIRMAN. Now, Ms. Ruff.

STATEMENT OF JOAN RUFF, BOARD CHAIR, AARP, WASHINGTON, DC

Ms. RUFF. Thank you; good morning. On behalf of AARP's nearly 38 million members and all Americans age 50 and over, thank you, Chairman Grassley, Ranking Member Wyden, and members of the Finance Committee, for this opportunity to testify today on the state of retirement security of American workers and their families.

Since 1983, there has been more than a 70-percent decrease in defined benefit pensions offered to workers. Today, half of all employees are in jobs that offer no plan of any kind, and most of the rest are in a 401(k) or similar type of plan. Diminishing pensions and inadequate retirement savings, coupled with longer life expectancies and higher health-care costs, endanger the dream of a secure retirement for millions of Americans, leaving them increasingly dependent on Social Security alone. While it is true that Social Security keeps millions of older Americans out of poverty, its average monthly benefit is very modest: $1,565 for a retired man and $1,244 for a retired woman.

And while the importance of Social Security cannot be overstated, given such modest benefit amounts, the retirement security of many Americans could be strengthened if we meaningfully improve their retirement savings. Our first goal should be to provide a workplace retirement plan for the 51 million Americans who lack one now. To help address the significant coverage gap, AARP has recently focused on State-level Work and Save programs, which are providing payroll deduction savings options to underserved populations, such as workers of color and much of the contingent workforce. Workers are 15 times more likely to save for retirement if they have a convenient way to save at work. These retirement pro-

grams, like 529 college savings plans, are operated through public-private partnerships.

Nationwide, roughly one-third of all States have pursued laws to address the retirement gap in their States. And the programs are succeeding, as we have already heard from Oregon's Treasurer Read. AARP has also long supported automatic IRA legislation which, like the State programs, relies on payroll deduction to encourage greater retirement savings. We believe that State programs and Federal legislation working together can most effectively offer Americans affordable and appropriate retirement investments. We also believe Federal legislation and regulations regarding retirement security should allow States to continue to enact and implement savings programs while expanding opportunities for those who still lack coverage.

Federal policies should also extend coverage to the 27 million part-time workers, two-thirds of whom are women, and most of whom lack coverage. This is especially important for older workers and caregivers, who often work less than full-time due to caregiving responsibilities. We also strongly encourage you to improve the Saver's Tax Credit. The most beneficial changes would be to make the credit refundable, to increase the income thresholds, and to restructure the credit into a match so that more of the tax credit's target population can benefit from it and build greater savings. Preserving existing protections is as important as expanding coverage and increasing savings.

ERISA clearly states that anyone exercising discretion over employee benefit plans must do so as a fiduciary. Yet, efforts to establish more lenient standards are frequently discussed. AARP urges relevant agencies, including the Securities and Exchange Commission and the Department of Labor, to continue protecting investors preparing for retirement. We welcome congressional efforts to hold hearings and ensure that financial advisors carry out their fiduciary duties for millions of retirement savers.

Those who have accumulated assets face the challenge of how to draw down on these resources and not run out of money. AARP supports efforts to prevent lump-sum cash-outs and to ensure adequate lifetime income. AARP also strongly encourages you to maintain default paper delivery of retirement plan disclosures, especially given strong consumer preferences for paper delivery of important financial documents across all age groups.

Finally, we urge you to find a fair solution for the millions of workers and retirees who count on multiemployer pensions for their retirement security. We commend Senators Portman and Brown who, along with several other members of Congress, have focused their attention on this issue.

Again, on behalf of AARP, we thank you, Chairman Grassley and Ranking Member Wyden, for inviting us to share our views on how to improve the retirement savings of Americans and their families. And we stand ready to work with you as the committee moves forward. Thank you.

The CHAIRMAN. Thank you, Ms. Ruff.

[The prepared statement of Ms. Ruff appears in the appendix.]

The CHAIRMAN. Now, Ms. Dudley.

STATEMENT OF LYNN D. DUDLEY, SENIOR VICE PRESIDENT, GLOBAL RETIREMENT AND COMPENSATION POLICY, AMERICAN BENEFITS COUNCIL, WASHINGTON, DC

Ms. DUDLEY. Chairman Grassley, Ranking Member Wyden, and other members of the committee, thank you for holding the hearing today and for your continued leadership on retirement policy.

The qualified employer-sponsored retirement system is strong and has many features that make it valuable. Without it, retirement would be far less secure for many millions of people. That does not mean that we cannot do better.

The Council supports the passage of the Retirement Enhancement and Savings Act. RESA reflects extensive bipartisan efforts to build consensus proposals, and these proposals have withstood the test of time. On its most broad level, RESA is important because it sends a message that Congress recognizes the enormous value of a robust employer-provided retirement plan system, and it builds on that system.

I would like to mention two provisions that highlight the policy importance of RESA. The first is a proposal that provides nondiscrimination testing reform so that employers can continue to accrue benefits for older, longer-service participants in defined benefit pension plans when the plan has been modified for future participants. Each year that this issue is not addressed, hundreds of thousands of additional employees are at risk of losing their benefits.

The second proposal would expand to open multiple employer plans. RESA does this by eliminating two rules that currently impede employers who want to join MEPs, a rule requiring a nexus between employers, as well as a rule that penalizes compliant employers for others' mistakes. This is a tremendous chance to improve access for many, including gig workers. We should not let that slip by.

I would like to recognize the important step that, Ranking Member Wyden, you have taken by addressing the barrier that student debt has on many participants. The Retirement Parity for Student Loans Act helps employers help their employees build retirement savings while the employee is paying down debt. Essentially, this works by allowing matching contributions based on student loan payments. This proposal has been included in the Retirement Security and Savings Act as well. We urge Congress to complete its work on RESA and turn to the next generation legislation this year.

Why should Congress do that? Because it will lead to a more secure retirement for millions of Americans. Senators Portman and Cardin—two longtime champions of good, solid retirement policy—have, with the input of many on the committee, been hard at work at this.

The Retirement Savings and Security Act was introduced yesterday and includes many proposals that would further improve the system, expand coverage, increase savings rates, and solve problems encountered in the system.

Here are just a few of the proposals. The bill would direct the agencies with responsibilities over retirement plans to consolidate duplicative notices and make recommendations to Congress on

ways to simplify, standardize, and improve disclosure requirements. The bill also eliminates unneeded notices to employees not participating in the plan and focuses instead on getting those folks in the plan. These changes will make it easier for participants to better understand the information they are receiving from the plan and to engage with that plan and participate.

The bill would allow inadvertent plan violations to be self-corrected under the IRS's compliance resolution system without submission to the IRS. This will reduce burdens on the government and make it easier for employers who catch errors to quickly resolve them. This will lead to better results for participants.

The bill would eliminate indexation of the PBGC's variable-rate premium. The VRP, as it is known, is already automatically adjusted to take into account the size of the plan's under-funding. Without eliminating the current double system of indexation, companies could eventually owe 100, 200, 300 percent of their underfunding just as premiums. This could lead to dire business consequences.

We continue to support congressional efforts to help participants keep track of their retirement benefits and solve the challenges posed by missing and unresponsive participants. We also support continued efforts to allow greater use of technology so that participants can take full advantage of the plan and achieve better outcomes.

The last point I would like to make is that the employer-sponsored retirement system thrives on the uniformity that Federal law provides with respect to qualified plans, particularly as it applies to employers offering retirement benefits in multiple States. And we are encouraged by your continued commitment to this system. Thank you.

[The prepared statement of Ms. Dudley appears in the appendix.]

The CHAIRMAN. Yes. For the benefit of everybody on the committee, we are going to keep the meeting going during the votes we have. Senator Portman is voting now, and then he is going to come back and chair. Then I will go vote on the two votes and come back. So we will keep it going, and we will take members in the order that they are on the list.

My first question is to all of you. RESA has advanced the ball considerably towards strengthening retirement savings, but there are still gaps and more that needs to be done. From each of your perspectives, what is the next top priority—and that is a single thing I want you to point out—that the committee should consider that will help strengthen our retirement system and help ensure Americans are saving for a secure retirement?

Let's start with you, Ms. Tibbetts.

Ms. TIBBETTS. Well, thank you, Chairman Grassley. As Principal is the number one provider for plans less than $10 million in assets, we really continually listen to our small plan providers in terms of what works for them and not. And two of the things that we consistently hear are cost and some of the administrative burdens. So, as we look beyond RESA, we are most excited about automatic safe harbors that are workable for small employers.

The CHAIRMAN. Okay. Mr. Read?

Mr. READ. Mr. Chairman, thank you for the question. I have been very pleased with the experience we have had in Oregon with automatic enrollment and the power of turning inertia into an ally. So I would commend that to the committee's attention.

The CHAIRMAN. Ms. Ruff, you gave us three in your opening statement. Do you have another one you want to add?

Ms. RUFF. Let me say, again, the priority is coverage. Twenty-seven million part-time workers do not have access. And I think that is incredibly important to our members.

The CHAIRMAN. Okay, and Ms. Dudley?

Ms. DUDLEY. I would just add to what the others have said, that reducing administrative burdens and removing barriers to savings are key to getting people a secure retirement.

The CHAIRMAN. Okay, and I thank you.

Now for Ms. Tibbetts about open multiple employer plans—there is analysis of these plans indicating that the proposed reforms would not significantly improve the number of small business plans offering a retirement plan. As you stated, your company has spent a lot of time evaluating the proposals. Would you share your views with us on open MEP proposals, and whether they would improve plan access for small employers?

Ms. TIBBETTS. Yes. Thank you, Chairman Grassley and members of the committee. As I mentioned, again, Principal has a lot of experience in working with small to medium-sized employers, and we listen to our clients. What our small employers talk about most is, again, the burdens of setting up multiple employer plans, as well as the fact that many small employers wear multiple hats. There is a cabinet company in Grimes, IA that has an owner-employee who provides all of the product development.

They create the cabinets. They work with citizens in Iowa in terms of what cabinets that they want, both residentially and in their small businesses. And his wife, who is also an owner-employee, wears multiple hats. And what she does is all of the accounting, all of the ordering, all of the payroll, and she is also required to take on the burden of setting up a plan.

So what we are most excited about in the open multiple employer plans is the opportunity for these small employers to be able to join an open multiple employer plan. And these plans are already established. So the wife of that cabinet worker only has to join this plan, and their administrative burdens are significantly reduced.

The CHAIRMAN. For Ms. Dudley, the majority of RESA and the House version called the SECURE Act are a shared core of provisions, including open MEPs and provisions to encourage retirement. I am concerned about one provision that the House added to its bill relating to part-time employees.

I think that it is important to look at ways to bring part-time workers into the system, but I have heard concerns from employers about potential burden and compliance costs. I understand that you are familiar with this proposal. Can you share with us the views of your members about the effects it would have on their businesses, and whether there are any alternatives we should consider that would expand coverage to part-time employees?

And when you are done, I will go to Senator Wyden.

Ms. DUDLEY. Okay, great.

The part-time proposal is an idea that has been around for a long time. You would have to be part-time consistently over a period of several years.

Our employers—our plan sponsor members—they have had some administrative concerns in the past over this, but they are very comfortable with the idea that going forward, we need to give access to people who are working part-time, especially over a consistent period, as more people do have part-time jobs for longer periods of time.

So we are comfortable with the approach taken in the SECURE Act with respect to part-time employees, but there are other things that you can do as well. There are things like automatic enrollment, making it easier for people to participate as soon as they do reach those threshold hours.

You can also create opportunities like open MEPs, and things where part-time employees can participate. There are other things you can do, but overall I think that we support the package. And we support getting the work done on RESA. So we would be comfortable with it.

The CHAIRMAN. Okay. Senator Wyden?

Senator WYDEN. Thank you very much, Mr. Chairman.

Thank you all. I will tell you that the best hearings around here are the ones where Oregon is trailblazing, and everybody can stay tuned for our victory tonight over Golden State. [Laughter.]

And here is what I want to just go over with you, Treasurer Read, because I think you have addressed a lot of the key points. So we have 1.8 million people of working age—something like 1 million of them have not had access to retirement plans. And basically, for a lot of those people in the past, it has kind of been bureaucratic water torture trying to figure all of this out. You have to choose between dozens of providers. You are crunching numbers on overhead fees and commissions. You have to wade through all these complex investment strategies.

You all have basically junked all of that with OregonSaves. And as far as I can tell, there have not been any hiccups.

The employers are reacting well. The workers are reacting well. But I gather—and it is in an important document; I guess it was submitted—you have offered up a couple of suggestions for how the Federal Government could help Oregon with OregonSaves and other State-based similar kinds of programs.

And if you could, maybe do a capsulized summary of what things are about here that can make the Federal Government a better partner for States that are trailblazing.

Mr. READ. Thank you, Senator. I appreciate your reminder to watch the game tonight. I am with you in rooting for it. My only disappointment is we will be on a plane. So we will miss the first half.

Senator WYDEN. The Tall Guy's Caucus will discuss it later.

Mr. READ. Thank you. I appreciate that.

We are very excited to play the role of a laboratory of democracy and share our lessons. I think we worked really hard to make our program as light a touch as possible for employers and as simple and straightforward for savers as possible. We are continuing to innovate in that approach and iterate to make it even better.

I think the largest part for us is continuing to partner with the Federal Government as you consider the options that are already under discussion here, making it possible for States that have already taken important first steps—Oregon, Illinois, California, Maryland, Connecticut, and others—to continue to pursue the solutions that make most sense for their constituents and citizens.

One specific thing that I think would be very interesting would be the possibility of reducing the minimum age for IRAs. We think about the young person who might be starting their career at 16 and not able to participate until they reach 18. We would sure like the idea of getting them in the habit of saving from the beginning of their career. So I think there are a number of things that could be helpful, but those would be good starts.

Senator WYDEN. If you want to add anything for the record, we are happy to have it.

Mr. READ. Thank you.

Senator WYDEN. But I will tell you, I am particularly attracted to the idea of getting younger people to save more. And again, there is support on both sides of the aisle for these kinds of ideas.

Obviously, they focus on personal responsibility. But what I like the most is, you begin to build a savings culture at the earliest possible time. So I have the suggestions you have for a 5500 database. That is a very wonky kind of concept, and we can get more for the record on it. But let us really try to promote the fact we want to get more young people saving.

Mr. READ. Absolutely.

Senator WYDEN. Let me ask you a question, if I could, Ms. Ruff. I think we have some retirees in the house, and they all feel like they are headed for a financial cliff with this multiemployer pension situation. What are the consequences of Congress letting this go by the boards once more? I mean, it just looks to me like this has been the longest-running battle since the Trojan War. I have had Senators on both sides of the aisle talk about—what are the consequences if Congress just lets this continue to kind of drift off into the ether?

Ms. RUFF. What we hear from our members who are participating in multiemployer pension plans is they are very concerned because of the funding situation. So we do encourage and urge that Congress does come up with a workable solution. We know that many of the participants already have had benefit cuts.

And as you pointed out, those who are already retired do not have an easy way to make up those funds, neither the time nor the resources to do it. So we encourage you to work that through.

Senator WYDEN. Thank you very much.

Senator PORTMAN [presiding]. Senator Stabenow?

Senator STABENOW. Thank you, Mr. Chairman. And thank you to all of you for being here.

There has been a lot of energy, work around this over several years. And I thank our acting chairman for his work. And I know that he and Senator Brown understand—from Ohio—what all of this means as well as we do in Michigan.

But I want to step back for a moment before asking a question, because I truly in my lifetime cannot believe that we are having

a discussion about folks who are losing or will lose a pension they paid into all their life. And I appreciate all of your input.

We do need to look forward on new things that we can do together. But we also have millions of people who followed the rules, a generation of people who paid into a pension, sometimes they did not—they decided they would not get as much with that coming out of their paycheck in order to be able to have that pension.

That was the promise that was made in our country. And I cannot believe, frankly, that we are not here on fire, concerned about making sure that all of them have their pension. And so it is important, I think, to just go back to sort of the hair on fire moment in the United States, which was the Great Recession in 2008, when Congress stepped up to bail out the banks because of what that meant. But the folks who lost money in that system, the pension system, there is just not that same sense of having to step up and do something about it.

We know that, at that time, the OECD estimated that U.S. pensions lost 26 percent of their money in 2008. Where is the hair on fire moment to make sure middle-class families are able to have what they were promised? And we look at the 401(k)s alone and IRAs alone during that time lost $2.4 trillion—trillion dollars.

And thank heaven Social Security was not privatized and put it into the Wall Street system at that time, or who knows what would be happening to people.

So I know that none of you have caused this, but I want to take this moment to say there has to be a different sense of urgency here. When we look at the fact that, although multiemployer pension plans have been historically successful, and I believe can continue to be, we know there are serious problems.

In fact, in 2012 close to 500 plans covering almost 5 million people were under 40-percent funded; 80 percent is considered adequately funded. We know, we are being told that many of these are going to run out of money. Real people, people out building the roads and building buildings and involved in all kinds of important work across our country will lose their pension if we do not act with some sense of urgency.

The pension guaranty fund projects that approximately 110 plans, covering 1.3 million people, are going to become insolvent in the next 20 years. And that does not count all the other ripple effects.

So I just want to bring it back—while we are talking about the future, which is important, it is important to look at how we structure things for the future. There are a group of folks right now watching the hearing, and hearing about this, going, what the heck here? I am not going to get the pension that I paid into my whole life in America? How did that happen?

So I would like to ask, Ms. Ruff, just talk about, for a moment, your members who are in that kind of a situation right now.

Ms. RUFF. Thank you for the opportunity to talk about that. Yes, our members' retirement security is one of their top issues. It is retirement security not only for themselves, but for their children and their grandchildren. So that does take in the future as well as where we are today.

And to that, we listen to their concerns. Will my pension be available? What is happening to my Social Security, as well as my 401(k) plans? To that, we do have a lot of educational and financial advice. But again, at this point, some of that needed to take place earlier on.

Senator STABENOW. And let me just say, I assume you have members who are not going to have the standard of living in retirement that they expected. Is that a fair statement?

Ms. RUFF. That is a fair statement—that is a fair statement. And that is a great concern of theirs. It is a great concern of ours, which is why we do want to work with Congress to really help that gap.

Senator STABENOW. And I assume that your members just followed the rules all their lives. They worked hard and paid into a pension and had every belief that, in our country, that pension would be there for them.

Is that also a fair statement?

Ms. RUFF. That is a fair statement. And they were encouraged to do so by employers and government.

Senator STABENOW. Mr. Chairman, I think we need a great sense of urgency about this. Thank you.

Senator PORTMAN. Agreed. Thanks for your work on it.

Senator Enzi?

Senator ENZI. Thank you, Mr. Chairman. I want to thank all the members of the panel for their information, both what they said and what is in their testimony.

Mr. Read, I appreciate that Oregon has a fund that actually has resources in it that are growing at $2.2 million a year. Did I hear that correctly?

Mr. READ. You did, Senator.

Senator ENZI. Wow; good. I hope other States will pick up on that. I am trying to figure out how to get the Federal Government to pick up on that. For private companies, we do expect them to invest money that will result in enough funds to pay the retirement they promised.

As Senator Wyden mentioned, there are 150 multiemployer plans that are in trouble within a decade. We do have requirements for private-sector businesses to invest money to pay that retirement. Some of those funds have done badly, but the Federal Government is in worse shape.

We do not have an investment fund for military retirees. We do not have an investment fund for Federal retirees. We do not have an investment fund for postal workers. There is supposed to be, but it is not there. And we do not have any real investment fund for Social Security. At least it has some income from those currently working who, as a result, expect to get Social Security when they are old enough. So I do not know how we are going to be able to do any bailouts, considering the scope that we have to cover.

Ms. Tibbetts, I recently gave a floor speech on the health of the Social Security program, given the latest trustees report that says the combined funds are slated to become depleted in 2035. That means just 16 years time, when 46-year-olds first become eligible for retirement benefits and, at that time, they are anticipating we may be able to pay 80 percent of the scheduled benefits.

Does your organization have a rule of thumb, I mean anecdotally, about how much your client should expect to fund their retirement from their own retirement resources versus Social Security?

Ms. TIBBETTS. Yes; thank you, Senator Enzi, for that question.

And this is something that, again, Principal continues to look at. One of the things that we have is a lot of innovative tools to be able to provide to plan participants so, as they are planning and saving for retirement, they can see how much income will be replaced by Social Security, as well as their savings into the retirement plan, spouse's income, and other sources.

So we find that participants, when educated through these tools, are better able to make decisions to be able to prepare for retirement. We have planners who are called My Virtual Coach. And we do find when participants go back and do a check-up to see how much of their incomes can be replaced by Social Security and also look at their retirement plan, they have better wellness scores. And what I mean by a wellness score is how successful they are in terms of being able to replace that pre-retirement income.

And being able to provide these tools is really the factor from an educational perspective to help the participants as they plan, understanding what Social Security is going to be able to provide, what other savings vehicles provide, and what is replaced through their retirement plan.

Senator ENZI. Thank you. Ms. Dudley, reducing retirement plan leakage and making sure Americans have retirement security are longstanding priorities of mine. The latest bipartisan RESA legislation includes a compromise provision placing some boundaries around the use of plan loans initiated by means of credit cards.

I am aware the GAO published a report May 1, 2019, concluding that retirement plan leakage remains a problem. Does the American Benefits Council have any recommendations for addressing retirement leakage, or does it have observations with respect to plan loans initiated by credit cards and the success of recipients paying back those credit cards?

Ms. DUDLEY. I am happy to answer that. The American Benefits Council continues to be concerned about leakage. It is a real problem. It most often happens with respect to plan loans when the person leaves their job and they have not paid their loan off. And that is why we were very supportive of the work that you did and your leadership to give people more time to pay off their loans, even after they leave their job. And we continue to look for ways to address leakage, and we support RESA and the limitation on the use of the credit cards in terms of plan loans.

Another thing that I would like to point out that companies are doing along the lines of what has been talked about relating to financial well-being, companies are looking for ways to better educate their employees about the impact of loans, including pop-up statements when they are applying for a loan so that they can understand actually what that will mean in terms of having less money in their account earning interest and earning benefits for the future.

So there are things that we are looking at, just even outside policy changes, that would help employees. We continue, though, to be concerned and look for ways to give people more time to rectify

plan loans, to put limits so that people do not use credit cards for unnecessary purchases or purchases that are very small. It could be very easy to use them to just buy things at the store, versus something that you really need them for.

Senator ENZI. Thank you. Thank you, Mr. Chairman.

Senator PORTMAN. Thank you, Senator. Thanks for your work on these issues over the years.

I am really excited about this hearing. As all of you know, I am convinced that we can do so much better on our retirement policies in this country. And the title of the hearing is "Challenges in the Retirement System." So I know that today we are focused more on the defined contribution plans, and specifically on private savings. But I will say we have some other challenges that are big, the biggest of all, of course, Social Security, in 2035, only being able to pay 80 percent of the benefit. That cannot happen.

Defined benefit plans—we have a huge issue with multiemployer plans. And the answer to the question posed earlier by Senator Wyden, unfortunately, is in 5½ years, I think PBGC goes under, maybe even sooner. And that is the Pension Benefit Guaranty Corporation. For those listening, that is the Federal program that guarantees these defined benefit plans, not just multiemployer plans, but all the defined benefit plans. That is a big deal. And so we have to fix that.

And the leading plans that are in the most trouble right now are the Mine Workers Plan and then the Teamsters Plan, which is the Central States Plan. Those going under would cause the PBGC to go under. There is no question about it, based on the analysis that we have seen.

So we have a subcommittee on this issue, on retirement security. We plan to get back to holding hearings on that. Remember at the end of the year, we had the select committee looking at it. We came close but did not quite get there. We have to get there now, and we have to ensure that does not happen.

And again, it would be terrible for the beneficiaries—90-percent cut if it did go under. But it is also terrible for the economy, for small businesses and others. So we are going to work on all that. We have 44,000 participants in Central States in Ohio alone, and it is an issue that Senator Brown, myself, and others are focused on.

Today we are focused more, again, on the defined contribution side, and we have this opportunity with RESA. I think it is an important first step. I think we ought to move forward with RESA as we passed it. And I hope we can do that.

One thing that is in RESA that is also very urgent—in fact, the most urgent thing of all I suppose we could talk about today—is this pension non-discrimination provision that Senator Cardin and I introduced. It is now part of RESA. The bottom line is, about 430,000 individuals—these are individuals who have a defined benefit plan—are at risk of losing their future benefits by the end of this year. Not many people are focused on it, but boy, it is important, and it is mostly older workers. And RESA does address that issue.

So I do not know, Ms. Dudley, maybe you want to talk about it for a second. This passed out of the Finance Committee, as I recall, back at the end of 2016.

Ms. DUDLEY. Right.

Senator PORTMAN. And since that time, since 2016, some of these workers now have their retirement at risk already. Why don't you talk a little about that, and what should be done about it.

Ms. DUDLEY. Thank you so much for that opportunity.

This provision or this issue comes about because a plan makes a change for future participants. And so the people who remain in the plan over time become older and longer-service. And so then they violate non-discrimination rules. And what the proposal would do would be to provide relief so that companies can continue to provide benefits to those people who are grandfathered in the plan.

Senator PORTMAN. Which is what they are doing now, rather than freeze the plan.

Ms. DUDLEY. Rather than freeze the plan and stop providing benefits. So that is how people could lose benefits—and have lost benefits.

In 2014, we actually did a survey to estimate what the impact could be. And at the time, it was hundreds of thousands of employees, potentially millions of employees or in the millions, and over time that has borne fruit. People have lost their benefits. Because of these rules, they are not allowed to accrue any further benefits for these older, longer-service workers.

And if we do not do it by the end of this year, it is a potential—as you said, another 430,000 employees could lose their benefits. And beyond that, every year that we do not fix this—every year—it is hundreds of thousands more people who could lose their benefits. And because people are getting older and they have longer service, more companies are impacted. So it is an urgent situation.

Senator PORTMAN. Another reason for us to move forward with RESA. In the meantime, Senator Cardin and I have also introduced other legislation that was talked about today. And I appreciate the comments from all the witnesses about it. But this is a broader retirement package.

So we are all for RESA. We want to get it done. We think we need to go beyond RESA, as the chairman talked about, and build on that foundation. And we have four principal objectives in this plan. It is addressing, I think, the major concerns we now have on our private retirement side. One is to allow people who save too little to set aside more for their retirement.

For instance, we have a new catch-up contribution for those over 60. And that comes because the latest data we have is that 48 percent, about half of baby boomers, my generation, have no retirement nest egg at all—so no private savings at all.

And so we have to give people a chance to save a little more, as one example. We also help small businesses to offer these 401(k)s. We talked a little about that earlier. We talked about the importance of getting RESA passed. This goes beyond RESA to provide an even more generous tax credit to small businesses.

Why? Because when you look at the data, about 68 percent of people who work have access to a plan. For small businesses, it is about 40 percent. And among part-time workers, as Ms. Ruff will

tell you, it is even worse. So we have to get more of these small businesses engaged. So we have a number of provisions to do that.

We also have something to expand retirement savings for low-income individuals. If you look at the data on who is saving and who is not, lower-income individuals make sense. They do not have the disposable income, are not saving for retirement nearly as much as they have to and should. So we have expansion of what is called the Saver's Credit to do that.

And then finally, to provide more certainty and flexibility for people in retirement, a lot of you know about the minimum required distribution rules. For instance when you are 70½, you have to take your money out of your retirement account. That was put in place at a time when our longevity tables were a lot different. Now people are living longer.

I just talked to someone this morning who is 70½ and still working, and he did not know we had this provision. He is very excited about it because he does not want to start taking his money out of retirement. He is still working. And my dad was in that situation, and a lot of people are.

We also say if you have under $100,000 in your retirement plan, your 401(k), you do not have to minimally distribute anything. If you have more than that, we are going to change the age of 70½ to 75.

So there are some things like that. We also encourage longer-term lifetime savings, rather than just taking a lump sum, which we think is also responsive to a specific problem we have right now in our retirement system, which is people living longer.

So again, I want to thank everybody for working with us on that. Everybody at the table has been involved in some way.

There is one thing that I know Senator Wyden is very interested in, which is this student loan issue. That is part of our bill too. And I think that is really important. It was talked about earlier. I know Ms. Tibbetts and others, Mr. Read and others, are supportive of that. I think it is really important.

On the part-time workers, Ms. Ruff, can you talk just briefly about that, why that is so important, and talk about why AARP so strongly supports that provision?

Ms. RUFF. Thank you very much. Part-time workers—there are about 27 million part-time workers. And many of them, the majority of them, are women. And women generally are the lower-wage earners as well. The result is, when they do not have a chance to save for retirement, they do not have the retirement resources when the time comes to retire. And at this point, 58 percent is the amount of the retirement income that most women have compared with men. They also have longer life spans.

A lot of that comes because of lower wages and caregiving. AARP is very concerned about caregiving, the financial and the emotional cost of caregiving. And that is one of the reasons that we look at it from the financial and retirement security standpoint.

Senator PORTMAN. Well, thank you.

And the number I have is that only 22 percent of part-time workers participate in a plan now.

Ms. RUFF. Right.

Senator PORTMAN. So an enormous opportunity here. And just to broaden the eligibility of 401(k)s to include long-term part-time workers would make a big difference in terms of those retirement savings numbers we talked about earlier.

I have so many other questions. We have 50 different provisions in this bill. And again, many of you have been involved in those. We thank you for that, and we want to work with you on getting RESA done, but also expanding what we are talking about here.

And it is the backstop for so many people, Social Security, absolutely essential—it is the safety net. Got to have it.

But it is tough to live on Social Security alone; for a lot of people, impossible. So you need to have that private retirement savings as well. And although we have made some progress—back in 2001, by the way, Senator Grassley was chairman of this committee when the Portman-Cardin bill—the first bill passed. And he is the one who shepherded it through the Finance Committee.

So he has lots of experience in working on retirement policy himself over the years.

Senator Enzi, do you have a follow-up question? Then we are going to go to Senator Whitehouse.

Senator ENZI. Yes. Mr. Read, can you tell us a little bit more about how you encourage people to sign up for this and what kind of numbers you talk about with them as needing for their retirement, or do you do that?

Mr. READ. Mr. Chairman, Senator Enzi, we have set it up such that it is an opt-out provision. So the employers in Oregon who do not offer a retirement savings plan to their employees are obligated to facilitate OregonSaves. And what that means is that they say to their employees, "Unless you tell me otherwise, 5 percent of your wages are going to go into your IRA."

Now, the employee retains the ability to change that to any number, including zero, and some do. But for the most part, about three out of every four people stay in the program and save. Our average withholding rate has actually settled a little bit above that to about 5.5 percent.

We also have an auto-escalation feature that on January 1st of the subsequent year, unless a person opts out, increases that rate 1 percent each year up to a total of 10 percent. So we have had one of those so far, where people move to 6 percent, and about 90 percent of those people stayed at 6 percent, some portion stayed at 5, and actually a few people increased beyond 6 as well.

So we are really trying to make it as easy as possible for people to do what is in their own interest. It is also worth noting how we have set it up to be very simple. There are only three funding options: again, a standard path; if a saver does not tell us something else, their first $1,000 goes into a capital preservation fund that is focused on low risk and retention. And then everything after that goes into a target date fund based on the person's age.

All of this creates, I think, an atmosphere that really gives people a positive feeling. I am always reminded of a guy named Bud at the Mt. Ashland ski area who talks about how he never knew how to get started, how to take on retirement, that it seemed intimidating and a long way off.

He described his experience with OregonSaves. Now he says every time he looks at his statement, he smiles. He feels like it is piling up and like he is getting ahead. And I think that is something we are all excited about here, and I assume amongst members as well: giving people the chance to be in control of their own financial future.

Senator ENZI. Quick easy question: is there a required match by the employer?

Mr. READ. Mr. Chairman, Senator, there cannot be because it is an IRA. It is a Roth IRA. So no employer match is possible.

Senator ENZI. Thank you.

Ms. DUDLEY. Could I add something to your point on that? The American Benefits Council has a center on State initiatives, the State Law Project. And we have reached out and worked with Oregon and others on their rules, one, to be a resource on what works at the Federal level in the qualified plan system. And we continue to work with them to address all the issues that might come up, so that plans can operate side-by-side, both those federally qualified plans and State-operated plans. And one point that was raised earlier is the possibility of a 5500 database so that if you have a qualified plan, that is recognized by the States. And we support that effort and look forward to continuing to work on a system that allows a thousand flowers to bloom.

Senator ENZI. Thank you.

Senator PORTMAN. Okay, I had said earlier Senator Whitehouse may be next. He was the lonely participant here. Now we have others, unfortunately, who have come in, Senator Whitehouse—fortunate for them.

Senator Roberts?

Senator ROBERTS. I beg your indulgence.

Senator PORTMAN. You are next anyway.

Senator ROBERTS. Oh, I am next anyway; all right.

I want to thank the chairman and our ranking member. And to our panel of witnesses: thank you for coming.

Retirement security is a tremendously important topic. Here we have at least one example where there is a great deal of bipartisan support, especially with the RESA Act, which passed in 2016—and I voted for it then and support it now. We ought to find a way to get this done.

One proposal I believe will help improve the retirement picture for Americans, which Senator Cardin and I have introduced for the last three Congresses, is the Promotion and Expansion of Private Employees Ownership Act. Industry estimates the number of employee stock ownership plans at more than 6,500, with more than 14 million of those folks who actually participate.

Our bill would encourage the formation of S corporation employee stock ownership plans, of which we are both big believers, by adding a tax incentive already available to C corporation ESOPs and creating an office at the Treasury Department to provide technical assistance to the S ESOPs.

Given the track record that ESOPs have of creating wealth for their participants, do you think increasing the number of ESOPs would be at least one way to help American workers grow their retirement savings?

Ms. DUDLEY. Absolutely. I am a firm believer that employer stock can be beneficial to employees, not only in helping them engage in the plan and build retirement savings, but also it gives them a stake in the employer and allows them to grow with the employer. So I think it is a very useful tool. And with the right parameters around it, I think it works very, very well for employees.

And Congress has a long history of encouraging those programs for employees.

Senator ROBERTS. I thank you for that. I am going to submit my additional questions for the record. I apologize to the rest of the witnesses, in that Senator Roberts apparently has not voted in the second vote. So I think I, perhaps, ought to terminate my comments. Thank you all for coming. I know it is a tremendous demand on your schedule, but we appreciate it.

Senator PORTMAN. I thank you.

The CHAIRMAN. Senator Cardin?

Senator CARDIN. Thank you. Thank you very much, Mr. Chairman.

Before Senator Roberts leaves, let me say what a pleasure it is to work with him on ESOP proposals. It absolutely provides retirement security. It is an important part of the tools available.

I want to thank all the witnesses. Mr. Chairman, I just note the harmony among the witnesses. There is not a lot of disagreement on what we need to do. It starts with preserving the tools we currently have available and building upon that, making it easier for companies to establish plans.

Because of the complexities today, it is difficult to expand eligibility—and we talked about that in the part-time and in the multiemployer world—to provide greater incentives, particularly for lower-wage workers so that it is worthwhile for them to put money away for their retirement. And we talked about how that can be done with employer matches or the Saver's Credit, and expanding the Saver's Credit.

And we must deal with the realities that we were moving from a defined benefit world—we have moved from a defined benefit world—to a defined contribution world, so that there are now greater risks of retirees outliving their retirement income. And we have to look at lifetime income flows, how we can strengthen them, and look at the required minimum distribution rules in order to relax those in order to make it easier for people to have money as they live longer and longer lives without the defined benefit world to cover their lifetime income needs.

So I just make that observation. But it starts, Mr. Chairman, with passing the legislation that you and Senator Wyden have filed on RESA. We have to get that done. It should have been done—as Senator Wyden said—a long time ago.

Ms. Dudley, you mentioned in your opening comments the frozen plans that are included in the RESA bill that Senator Portman and I worked on, and the urgency. I just really want to underscore that again.

You mentioned the fact that thousands of workers may be losing benefits or have already lost benefits. Just talk a little bit about the urgency of getting this done immediately, that every week,

every month, we are losing people who had plan coverage who can no longer be covered because of our discrimination rules.

Ms. DUDLEY. Absolutely; glad to speak to that as often as I need to. I worked on this for many years. It is a real problem. People are losing their benefits.

And it is because the rules work in a quirky way and employers have just tried to protect older, longer-service workers by leaving them in a plan. When they change the plan for the future, they are no longer able to accrue those benefits without running afoul of these rules.

So each day that passes, an employer sits down and makes a decision about what they are going to do for the future. And they are constantly running this non-discrimination test. And when they see that they are going to fail it, then they make plans to shut down that plan and no longer accrue those benefits.

So over the years, it builds—it is hundreds of thousands of employees. And if we do not fix it by the end of this year, it is another 430,000 employees who potentially could lose their benefits.

And it is something where we need to—the urgency is that companies have to plan for the end of the year, and they have to tell people what is going to happen and if they are not going to accrue any more benefits.

And here is the piece about this that really bothers me. These are older, longer-service workers. And these are the years that matter most for their benefits in this type of plan. The end of your career is most important. And they lose those benefits.

Senator CARDIN. I wanted to give you extra time to explain that, because, Mr. Chairman, I just really want to underscore the point that we have to get the RESA bill done.

A lot of us have improvements that we would like to see in the system. I am very proud that—I know Senator Portman has already mentioned the bill the two of us have filed. I want to get that done. But to me, the first priority is get RESA across the finish line as soon as possible, because that has already been worked out.

And then I hope, Mr. Chairman, we will have a chance to mark up additional legislation that you were talking about that many of us have had suggestions on. I know Senator Portman has already mentioned a lot of the provisions that are included in the bill that we filed today, but they build on what we have already done that has worked. You simplify the system; as you pointed out, that has worked, automatic enrollment has worked, encouragement for lifetime income sources.

We know that. We have to deal with that since we are in a defined contribution world. And the refundable Saver's Credit—some of you have talked about that. To me, that is an extremely important point for lower-wage workers if we are going to be able to get them to start early enough for retirement savings.

I thank the chairman for holding this hearing.

The CHAIRMAN. Senator Warner?

Senator WARNER. Thank you, Mr. Chairman. Let me add my comments to Senator Cardin's that we need to pass RESA, and I appreciate the good work that you and Senator Wyden are doing. I would hope, as we pass RESA, one of the things that we would

take up shortly thereafter, though, is a bill that I have with Senator Brown and Senator Casey, the American Miners Act.

Ms. Dudley is talking about folks losing benefits. We are about to have thousands and thousands of miners lose benefits if we do not back up the UMWA contract and the 1974 Pension Plan. PBGC is not here today to go into those details, but just in my State 7,000 miners lose those benefits. My hope would be we would be able to move to that as well. And I know you would have great support from Senator Casey and Senator Brown on that.

I want to move to a variation of where we head from here. One of the things I have been working on the last couple years is the changing nature of the work force. The percentage of people who are going to go work for the same job the way my dad did for 38 years is dramatically declining, literally to the point now where close to 40 percent of our workforce is in some level of contingency. They are part-time, gig, or independent contractors. And I think we need to recognize this changing workforce needs to have the notion of retirement benefits as part of their life.

Let me start with Ms. Ruff, Ms. Dudley, but if others want to add in. You know I have been working on an idea that would actually set up a universal account that would be granted at birth that I think would actually be that fallback for the third of the workforce that, even under today's rule, has no retirement at all.

Obviously a lot of details on how we do not disrupt folks who are already in existing accounts, but how would you—starting with Ms. Dudley, does that notion of a fallback account issued at birth, low maintenance costs, how we make sure you have enough economic incentives so that there would be actually a take-up rate—general comments on that. We will start with Ms. Ruff, Ms. Dudley, and then if the others want to go in.

Ms. RUFF. Okay; thank you very much. You are quite right, the workforce is changing. We have gig economies. We have people coming in and out. And our plans are not set up for that. And we need to make sure that changes happen.

To my knowledge, AARP does not have a policy on the type of account that you are talking about. However, we do know that retirement security starts early. And so certainly, there are levers that we should be looking at, and I think that is one that should be looked at.

Senator WARNER. Ms. Dudley?

Ms. DUDLEY. I would just add that the Council is very pro savings, and we think all different types of savings are a good thing. And we believe also that savings needs to start early. And we want to continue to try to work together so that there is a seamlessness between any savings account and your employer-provided retirement account so that people can track what they have accumulated so that they can use it appropriately over their lives so that they can continue to build towards a secure retirement.

And I would just add too that open MEPs, the changes that RESA has on open MEPs, this is very critical for the evolving economy. Those can be adapted very easily to help gig workers, to help part-time employees. The work that you all have done, and the leadership that you all have shown on that issue, is enormously important and fits very well with the work that you are doing.

Senator WARNER. Well I would, again, commend the chairman and the ranking member for moving forward on this. But I really think the notion of portability——

Ms. DUDLEY. Yes.

Senator WARNER [continuing]. The ability to aggregate together from different income sources—candidly, even avoiding some of the worker classification issues, just making sure every dollar you make, some portion is set aside for retirement. Mr. Treasurer, do you want to add something on this?

Mr. READ. Mr. Chairman, Senator Warner, I think you are right. And I am aware of some of your work on the changing nature of work, and I appreciate that. I think this notion of portability, that is the key of it. And that is something that has really been positive about OregonSaves. As people move from employer to employer, they continue to be able to participate. And in fact, we have a number of people who are simultaneously working for multiple employers and contributing now.

I think the notion of automatic enrollment early on is essential. And I think the work that many on this committee have done about the refundability of the Saver's Credit, and a particular emphasis on lower-income folks, getting them started at an early age would be——

Senator WARNER. And that is why I think the idea, at least—potentially at birth. And making sure you get the incentives aligned so that there would be actual interest from the private sector, others to take care of the administrative burden. And how we minimize that administrative burden is something terribly important.

Mr. READ. I would say, Senator Warner, we may have seen examples of that to follow in a college savings context as well.

Senator WARNER. Yes. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warner.

Now, Senator Carper.

Senator CARPER. Thanks.

To Oregon Treasurer Mr. Read—Read is a famous name in Delaware, something to do with the Declaration of Independence, maybe even the Constitution. We welcome you.

I tell people I am a recovering Governor. I am also a recovering State Treasurer and was privileged to be Treasurer of Delaware when we had the worst credit rating in the country. We went to work on that and tried to do something about it. We had a great Governor, Pete Du Pont, a Republican. He did a wonderful job, and I hope I helped a little bit as Treasurer.

We had a pension fund that was not funded at all, and within 10 years, it was fully vested. We had a deferred compensation program for State employees. It was a mess, and we worked hard to straighten that out, and finally, now I think it is pretty good. So I sat in your shoes, in your seat, and wish you well.

Have you met our new State Treasurer in Delaware who succeeded Ken Simpler? Have you met her?

Mr. READ. I have, Mr. Chairman, Mr. Senator.

Senator CARPER. I urged her to find some good role models out there, so maybe as she takes the reins, you could be one of those.

Mr. READ. Happy to help.

Senator CARPER. That would be great.

This would be a question for Ms. Ruff and Mr. Read. First of all, thank you all for being here. Thank you for helping us with this. It is a great challenge, but an opportunity too.

Nearly half of American workers, I am told, do not have access to retirement plans through their workplaces, as you have alluded to. A few of you mentioned in your written testimonies that workers are, I think, 15 times more likely to save if there is an option to do so at work.

I am pleased to see that the State of Oregon and AARP are leading the way in setting up State-facilitated automatic IRA programs to help more workers save for retirement. We have found with the Thrift Savings Plan that we have here in DC, and in the Federal Government across the country, that when people go to work, go on payroll, if they immediately become members of the Thrift Savings Plan, there is about a 75-percent likelihood they will continue to be members. If they do not sign up automatically, it is about 25 percent. So it is a huge difference. There is a lot to be said about inertia, and I think that tells a pretty interesting story.

But, Mr. Read and Ms. Ruff, I know you talked about this a little bit, but could you each expand on the top one or two ways that Congress—I know you talked about this a little bit. We have votes going off. We have other hearings going on. So we are in and out of here. I apologize, but could you each expand on the top one or two ways that Congress can make it easier for States to set up and implement automatic IRA programs?

Ms. Ruff, would you go first?

Ms. RUFF. Yes. Again, I appreciate the chance to talk about Work and Save. It has been a very important issue to AARP.

And we have had from the beginning in this country a combination Federal and State system. What we need is for the Federal Government to recognize Work and Save and make sure that there is an encouragement of Work and Save, and that the rules do not go contrary to Work and Save, and that Congress does not come in and say they want to do away with Work and Save, because right now we know, in Oregon, it is working very well. And we are working with other States that are in the process with their legislators at implementing or enacting Work and Save programs so they can work side-by-side very easily.

Senator CARPER. All right.

Ms. DUDLEY. And could I just add something to that?

Senator CARPER. Yes, you may.

Ms. DUDLEY. The uniformity of the Federal law, it really allows employers that have qualified plans and operate in multiple States to do that, and to treat people equally. So we do really want to continue to work with everyone so that the systems operate and coexist comfortably next to each other.

Senator CARPER. All right. Thank you. Mr. Treasurer?

Mr. READ. Mr. Chairman, Senator Carper, I would agree with both of those statements. We are really focused on making it as easy as possible for employers and employees——

Senator CARPER. Again, my question is, what are one or two things that Congress can do to really help, please?

Mr. READ. Sure, Senator Carper. I would say allowing States to innovate and do what works for their constituents. I mentioned

earlier the creation and improvement of the 5500 database that allows us more easily to presumptively exempt an employer because they provide a plan on their own. We have a number of mechanisms that I think would improve that.

And I mentioned earlier, reducing the minimum age for participation in an IRA so that someone starting their career would get on the right path from the start.

Senator CARPER. Good. And for the whole panel, in addition to automatic enrollment and automatic escalation of contributions, do any of you have recommendations for other behavioral tools that could be effective to encourage people to save more for retirement? Anyone who has something to offer on that, please.

Ms. DUDLEY. Well, I have one——

Senator CARPER. Please.

Ms. DUDLEY [continuing]. Which is automatic re-enrollment. And it is really visiting—it is automatic enrollment. But you revisit it every year, or 2 years, or 3 years. I think even if you revisit every few years, and you come back and sweep people through and apply the automatic enrollment, that can be really helpful, particularly in the case of small employers, because they tend to lose a little bit of track. They are busy, you know, doing their business. And that really helps them sweep up people into the plan as they go.

Ms. TIBBETTS. Yes, and I would agree with Lynn, as Principal is a member of American Benefits Council. I think the importance of the sweep also has consumer protections, in that it has an opt-out. So you give the benefit of being able to sweep them back into target date or other funds to have more of an asset allocation balance, but there certainly is that protection of opt-out features.

Senator CARPER. Great. Thank you all very much.

Important subject; we are delighted that you are here. Thank you.

The CHAIRMAN. Senator Lankford?

Senator LANKFORD. Thank you. Thank you, all of you, for your time.

I want to go back to what Senator Carper was saying, and what Senator Warner was also talking about with the opt-outs and the statement you made about re-enrollment as well. Tell me mechanically how that would work for an employee, for a re-enrollment proposal?

Ms. DUDLEY. I will start, and then everybody can chime in. So automatic enrollment, when you come to work, you are filling out your paperwork for your job. And you automatically are put into the retirement plan, and you have some help. There are default investments, but you can opt out as to the enrollment of—if you do not want to be in the plan, you can opt out as to the percentage.

Senator LANKFORD. But the assumption is, you are in?

Ms. DUDLEY. You are assumed you are in. You are assumed you are in at a particular rate, typically 3 percent, hopefully with the changes in the law, a higher percentage. And you will either choose an investment or default into an investment, usually an age-appropriate target date fund.

Let us say you opt out, then the system, the computer system that most employers are using, will put a little flag next to you so that in whatever period of time, whether it is every year, 2 years,

3 years, your name will come back up and you are automatically enrolled in the plan. And you will get information that that is happening, and then you can opt out.

Senator LANKFORD. Right. So it just comes back at you again 2 years, 3 years later.

Ms. DUDLEY. Yes. Yes.

Senator LANKFORD. What would you suggest as the right time? Is that an annual, or is that an every 2 or 3 years?

Ms. DUDLEY. Well, I think 3 years. You know, you can do it sooner than that, but if you do it at least every few years, I think that—you have to think that there is an administrative issue to that too, so being practical about the time makes sense to me.

Senator LANKFORD. Right.

Ms. TIBBETTS. And I may add on to what Lynn said. We do see with our plan sponsors that about every 3 years is kind of a best practice there. And I do think it is important to note that with default rates of either 3 or 6 percent, you do not see a difference in opt-out rates.

Ms. DUDLEY. Right.

Ms. TIBBETTS. The opt-out rate for a 3-percent default is 11.3 percent, and the 6-percent default is 11.4. And it is also important to note that there is not a difference in opt-out rates for high-income workers versus low-income workers.

Ms. DUDLEY. Right.

Senator LANKFORD. Everyone knows that they should do it. It is just a matter of someone helping me actually do it.

Ms. DUDLEY. Exactly.

Ms. TIBBETTS. Exactly.

Senator LANKFORD. It becomes the biggest issue.

Ms. DUDLEY. And automatic escalation helps, so that when you get raises, you automatically go to a higher percentage of——

Senator LANKFORD. It is not just your percentage goes with you? Your percentage actually changes as well?

Ms. DUDLEY. Right, and lifting the current cap on that is helpful too.

Senator LANKFORD. Mr. Treasurer, let me ask you a question. You mentioned State innovation and allowing more State innovation. Do you have an example that you look at, either from your own State or from other States, to say this is something that should be allowed or encouraged, or something that is not allowed currently that should be?

Mr. READ. Mr. Chairman, Senator Lankford, thank you for the question. I think you know we fit our program into the IRA structure because of the Federal restrictions. I think there is a lot to learn from the experience that the college savings plans went through.

We hear a number, as Senator Enzi asked earlier, of questions about whether an employer could match. I can imagine the scenario years from now where you and your colleagues have recognized the power of this and made it possible for employers to participate in some way.

Those kinds of further reductions, I think, in barriers and the kind of synchronization across the entire country could be very positive.

Senator LANKFORD. One of the great challenges we face is the portability issue, where you have four different retirement funds in the last five employers you had, and trying to be able to track all those, how to combine, how to go through the paperwork. What is the best solution to help solve that?

Mr. READ. Mr. Chairman, Senator Lankford, I think part of what we are doing is an answer to that that allows people to take their retirement from job to job. This is an IRA. It is owned by the employee, by the saver. And so they get to take it with them. It is under their control. No one else has any claim on it. They control it, and it can go and grow with them throughout their careers.

Senator LANKFORD. Are there other changes or other proposals you would have on portability?

Ms. DUDLEY. Well, the one thing that I would mention is, portability is hugely important. And educating people on how to track their benefits——

Senator LANKFORD. There are a lot of people who say, "I am not going to opt-in because I am only going to be here a year or two, so I am not going to really do this. And it is too hard to be able to just shift the proposal over, and I want to leave it."

Ms. DUDLEY. Right, and making it automatic, helping people make that automatic, that it can roll forward and roll to their next employer, that is something that the private sector has been working on that is very useful.

Developing a database so that people can easily track and find their benefits is something that we are supportive of and working on as well.

Senator LANKFORD. Good. Thank you.

The CHAIRMAN. Senator Hassan?

Senator HASSAN. Thank you, Mr. Chairman. I want to thank you and the ranking member for holding this hearing, and I want to thank all of our witnesses for being here today.

I would like to start by echoing something Senator Wyden said at the opening of the hearing. There are three pillars in retirement savings: Social Security, employer-sponsored plans, and personal assets. And while it is not the focus of this hearing, it is going to continue to be critical that Congress address this first pillar and work to protect and strengthen the long-term viability of Social Security.

I wanted to start just by acknowledging that we have heard from a number of my colleagues today about this impending retirement bill that has come over from the House, and you have answered the particular questions I had about it. I just wanted to say that I am looking forward to continuing to work on it.

Senator Collins and I had introduced the Retirement Security Act, and many of the provisions in RESA that is coming over include the provisions that are in our Retirement Security Act, which would make it easier for small businesses to offer retirement plans, enable more businesses to join multiple employer plans, provide tax incentives to businesses that start plans that offer auto-enrollment, and reduce administrative burdens. So, all the things that you have talked about today in your testimony are very helpful as we do this work.

I wanted to follow up, if I could, on the topic that Senator Warner raised and Senator Lankford was just trying to get at, which is, again, we have had a lot of discussion about portable retirement benefits. I have joined Senators Collins and Casey to request a Government Accountability Office study on this topic, because we know as workers move from company to company more frequently than they did in the past, you can see how easy it is for employees to have small retirement balances at several companies, especially if they are not aware of their options.

You have all addressed the importance of portability given the gig economy, but I really want to drill down a little bit on whether there are additional fixes that we can put in place to make it easier to truly consolidate those small retirement plans that exist. I know we might look forward to a portable plan like what you have in Oregon, but what can we do to really help employees now who have multiple accounts from different employers? And we can maybe start with Ms. Dudley and just move right down the table.

Ms. DUDLEY. Great. Well, one of the things that you can do is make it easier for employees who leave their company to roll their money with them——

Senator HASSAN. Okay.

Ms. DUDLEY [continuing]. To take them to the next employer and combine them. Many, many employers except transfers from other plans. Making that easy and seamless from the participants' perspective—and there are tools that are being developed in the private sector to facilitate that. And now that we have technology more in the workplace, it is easier to use that technology to help transfer that money. So that would be the number one thing to do for people.

Senator HASSAN. Okay. Thank you.

Does anybody else want to add? Ms. Ruff?

Ms. RUFF. Yes. I do think that Senator Daines has a bill that talks of a lost-and-found so that people can, in fact, know and find their accounts.

Underpinning all of this that we have not spent that much time talking about is education, because if you understand the ramifications for opting out, you are going to be less likely to opt out and to understand the need to stay in long-term. So I would say education is incredibly important.

Senator HASSAN. Thank you. And just——

Ms. TIBBETTS. Yes, I concur with Ms. Ruff on the education aspect. One of the things that we do at Principal as we are working with plan sponsors is talk about the auto features and the importance of putting those in plans.

ASPA has done a study that we bring up to plan sponsors, and it talks about what are the three factors that have the biggest influence on a person's retirement income. And so, as we ask the question, it is savings rates, it is allocation, and it is individual investment accounts.

And most people go right immediately to, it has to be the individual investment, when 74 percent of retirement savings is attributed to those savings rates. So that is why I think it is critically important to not have participants think that, I am only going to be here for a couple years, so I must opt out. So in addition to the

plan sponsors, we talk about this with education with the participants.

Senator HASSAN. Okay. Thank you.

I am just going to mention one other topic. And I will follow up with a question for the record to you, Ms. Ruff, about this, because there is a huge gender gap in retirement savings. And I know AARP has done a fair amount of work on this.

Reports really show that, on average, women aged 55 and older see lower earnings than the same age men and have fewer years in the paid workforce because they are more likely to take time out as caregivers. So I would love to follow up with you about things we can do to really close that retirement gap.

Ms. RUFF. Terrific. There are many things that we are looking at. And focusing on the different levers, and caregiving being a huge issue, if we can in fact make progress on that area, we are going to make progress on the other areas.

Senator HASSAN. Thank you very much. Thank you all for your testimony today.

Thank you, Mr. Chairman.

Senator WYDEN [presiding]. Thank you, Senator Hassan.

Senator Brown?

Senator BROWN. Thank you, Senator Wyden.

Thank you all for joining us today. First and foremost, I want to reiterate my commitment to finding a solution on multiemployer pensions. Ms. Ruff, I appreciate the comments you made earlier about it. It is not the focus of today's hearing, but this committee has an absolute responsibility to do that.

No discussion of retirement security is complete without a recognition of the workers who spent their lives doing the backbreaking work—iron workers, construction workers, mine workers, truck drivers, bakers—about honoring the dignity of their work. They have followed the rules. They are at the risk now, as we know, of seeing their pension plans totally collapse if Congress does not act.

They are not asking for a handout. They are just asking for what they have already earned through the process of collective bargaining, giving up money today, giving up money at the table for future retirement security, something we should want everybody in this country to do if they have that opportunity.

I know that—and I have spoken with both Senator Wyden and the chairman about working in a bipartisan committee with Senator Portman and me to make this happen before the end of the year. So thanks for your interest.

I want to turn to the idea of the gig economy. The future of work should be one that is good for workers in honoring the dignity of work: good wages, good working conditions, good benefits, childcare, all the things that go with that. Part of that is having access to retirement accounts, as we know.

I have worked with Senator Crapo and others to allow independent contractors, which most of these gig economy workers are, to join open multiple employer plans, open MEPS. That way they would at least have some access and portability. But I think a lot of the so-called "gig economy workers" are classified as independent contractors when they should not be. And we know that violates

the spirit of the law over the years. We know access to employer-provided savings is a key indicator of workers' retirement security.

So my question of the panel is—and if you can, do as close to "yes" or "no" on these questions—is a traditional employer more likely than an independent contractor to have the benefit of an employer match to help accelerate the tax-deferred savings growth? Start at this end; Ms. Dudley?

Ms. DUDLEY. Yes, I would say that they are more likely to have a match from the employer, though their compensation is different than a traditional worker. So they may be getting that made up in compensation. So each individual situation, you have to look at that.

Senator BROWN. Ms. Ruff?

Ms. RUFF. Yes, you do receive benefits as an employee that you have to pay for yourself if you are an independent contractor.

Senator BROWN. Right. Mr. Read?

Mr. READ. Mr. Chairman, Senator, OregonSaves is a Roth IRA. So there cannot be any employer contributions.

Senator BROWN. Ms. Tibbetts?

Ms. TIBBETTS. Yes. We agree with Ms. Dudley and Ms. Ruff that we do see traditional workers generally having matching contributions. And as they indicated, independent contractors are usually paying for that by themselves.

Senator BROWN. And as the hearing has transpired in the last couple of hours, much of it has been about sort of tinkering with the tax system. Underlying the issue, in part, is wages. So let me—if you would answer this "yes" or "no"—it is sort of a self-evident question. If workers were paid higher wages, it is likely they would have more money to put away.

Ms. DUDLEY. Sure.

Ms. RUFF. It is true.

Mr. READ. Yes.

Ms. TIBBETTS. Yes.

Senator BROWN. Thank you. If workers are members of a union, are they more likely to have better access to retirement savings?

Ms. DUDLEY. Well, I think that they have—most unions have plans, and so they do have access. But I think for the American Benefits Council members, all of the members sponsor retirement plans. So I would think that they all have plans, but I think there are lots of employers that do not have plans.

Senator BROWN. Would union plans generally mean more money for the union membership, generally mean more money, Ms. Ruff, for the employee's retirement?

Ms. RUFF. Would you repeat that again?

Senator BROWN. Would union membership generally mean more money for employee retirement?

Ms. RUFF. Well, certainly the unions have the bargaining capacity. And traditionally unions have had better retirement plans. As it is now, more and more companies—and to your point—are taking on and recognizing what they need to be competitive, particularly in today's very tight labor market.

Senator BROWN. Mr. Read?

Mr. READ. Mr. Chairman, Senator Brown, I think your point is right. In fact, in the passage of OregonSaves, a big part of our dis-

cussion was the members of the SEIU, who are home care workers, therefore, independent contractors. So there is a close tie there.

Senator BROWN. Thank you. Ms. Tibbetts?

Ms. TIBBETTS. Yes, and we agree with the comments made by the panel. I think it is important to know that benefits are an important differentiator when employees are looking at which employer to work for. So whether it is small, large, or union, it is a critical factor.

Senator BROWN. Thank you.

Let me do one more question of the sitting chairman's home State Treasurer, if I could ask the question. I am sure Senator Wyden will give me an extra 30 seconds. As a result——

Senator WYDEN. As fond as I am of Senator Brown, if it can be 30, because I promised——

Senator BROWN. I will put it in writing.

Senator WYDEN. No, no. Go 30 seconds.

Senator BROWN. Based on your experience, Mr. Read, with the program in your State, do you think we need a national auto-enrollment plan? And it seems that such a plan needs to be portable, low-cost, and feature auto-enrollment and auto-escalation. Do you agree?

Mr. READ. Mr. Chairman, Senator Brown, I do. I think a national program, particularly with auto-enrollment, could have great potential. I hope that, as you consider that, you will make the appropriate provisions for those of us who have already started so we can continue our good work in partnership with you.

Senator BROWN. Okay. Thank you. Thanks.

Senator WYDEN. I thank my friend.

Senator Daines?

Senator DAINES. Thank you, Mr. Chairman.

About 10 days ago our youngest child, Caroline, just graduated from Montana State University. So we officially now have four children who will be on their own health care, and on their own cell phone plan. [Laughter.]

So I am a proud dad and a proud Bobcat. But with all that celebration as parents, it is also a reminder how truly quickly time marches on. Like any graduation, it makes you think about their future. It is a moment to pause about the future of our country.

But I am pretty sure this year's college graduates are not spending a lot of time focused on their retirement plan. They are fresh out of school. They are ready to take on the world with all-night study sessions now in the rearview mirror. And the thought of retirement, let alone Social Security, or a Roth plan, or a 401(k), perhaps is not always the first thing on their mind while they are looking for that first job.

In fact, when asked, the polls indicate that most of them do not think they will be seeing their full Social Security benefits when they retire. And I think all of us on this committee agree that we have to do a lot better for our children and grandchildren.

We must remind them the future is real. I think the older we get, the more we realize that. And it does get here before you know it. Montana has the sixth oldest population when we look at a per capita basis in our country. It is also critical that we in Congress

work in a truly bipartisan way to protect Social Security for our current, as well as future, generations.

In addition to protecting Social Security, we must also promote personal savings, employer-sponsored savings plans, as they are also incredibly important to ensuring there is financial security during retirement. And I applaud the good bipartisan work done by this committee to bolster these practices so our kids and other Montanans will have a sufficient retirement income.

Ms. Dudley, first I want to thank you for highlighting my bipartisan bill I have with Senator Warren to address these so-called "orphaned savings accounts." Some may wonder how do a Republican from Montana and a Democrat from Massachusetts come together. Well, we do.

Ms. DUDLEY. Right.

Senator DAINES. I look forward to continuing to work with my colleague from Massachusetts on this important issue.

I mentioned my daughter Caroline's recent college graduation. For Montanans who are just entering the workforce, what actions do you recommend they take now to make sure they have sufficient retirement income in their future?

Ms. DUDLEY. One of the things that I think is so important for young people coming out of school is to recognize that the dollar that they save now is so much more valuable than the dollar they save when they are my age.

Senator DAINES. You are sounding like me. [Laughter.]

Ms. DUDLEY. Well, I have children and grandchildren. But it is so much more important that they start early. And oftentimes, it is not so much how much are they going to earn on that dollar over the years—they are going to earn a lot as the market goes forward over time—it is the fact that they are putting the money in. And it is not so much how much in the beginning—though the more the better—it is that they are started.

Because what we find is that when young people start, they stay with it. They like it. People who are in employer-based plans really like them, and they do better than those people who are not.

Senator DAINES. Thank you; good advice.

Ms. Tibbetts, in your testimony you noted that there is still a significant portion of the working population that lacks access to workplace retirement plans, particularly among small employers. As a U.S. Senator from Montana, where we have a lot of small employers, that reality is very concerning to me. Could you speak for a moment about how the reforms in the Retirement Enhancement and Savings Act would help increase access to retirement plans among these smaller employers in rural States like Montana?

Ms. TIBBETTS. Yes. Thank you so much for that question. Principal is so excited about RESA. And we hope the committee passes this and it comes into fruition for small employers.

As we think about access, employees who work for small employers, 58 percent of them do not have employer-sponsored plans to be able to participate in. So I think the number one thing that RESA does is provide coverage opportunities for more of those small employers to be able to adopt plans.

We are excited about the small employer tax credit that helps offset some of those administrative costs and then increasing that

tax credit for plans that include auto features, and then secondly, the open multiple employer plans.

As I talked about earlier, when you think about that cabinet worker who lives in Grimes, IA having the ability to already join a plan that is in existence, it is easier, when you are wearing multiple hats from that company and your workers have access, to be able to save for retirement.

Senator DAINES. You know, having—and I will wrap up here. Having spent 28 years of my career in the private sector in small, medium, and larger businesses, growing businesses, particularly when you have 50-year record low levels of unemployment in this country, to be able to attract and then, importantly, retain the workforce as a small employer is so important. Because they do not have great big HR departments, compliance departments, when you have open headcount to fill, you have to be consumed with that and taking care of a backlog of work. It is a nice problem to have, but it is still a big problem.

And I can see this is another remedy, perhaps, to help in that area.

Ms. TIBBETTS. Yes. We could not agree more, Senator Daines. Thank you for those comments.

Senator DAINES. Thank you.

Senator WYDEN. I thank my friend from Montana.

Senator Whitehouse?

Senator WHITEHOUSE. Thank you, Mr. Chairman. Thank you to the panel for being here.

We obviously see the problem of small and medium-sized businesses trying to figure out how to manage a retirement savings plan. And the result of that difficulty is that 90 percent do not, which means that small business States like Rhode Island are often left with very little retirement savings.

We also have the lesson I believe that the 401(k) plans that opt in versus opt out, just as a simple default switch, can make a very, very big difference and help people out. And for the record, I see the heads all nodding, just to be clear about that.

I wanted to ask Ms. Ruff first, you kind of mentioned my Auto IRA bill in your testimony. I appreciate that. If you would like to, describe what it is about it that you like. And in the context of us doing something, what are the key features you would want to see in any bill that this committee would report for AARP to support that measure?

Ms. RUFF. For Federal auto-IRA it is very important that people have the ability easily to enter into the IRA and that their investments have fiduciary standards around them, very much like what a Work and Save type of program would be. And the important thing is that the two can, in fact, work together.

Senator WHITEHOUSE. Portability?

Ms. RUFF. Portability.

Senator WHITEHOUSE. A default to opt in, rather than opt out?

Ms. RUFF. Yes; certainly, the ability to opt out. And certainly the education for people to understand what their plan is and what they do with it if they move somewhere else.

Senator WHITEHOUSE. To Ms. Dudley's point about people knowing how valuable today's dollar is——

Ms. RUFF. Exactly. And life expectancy, another important area, that we are all going to be living longer and therefore, it is more and more important.

Senator WHITEHOUSE. Forever?

Ms. RUFF. Well, maybe you. [Laughter.]

But it is more and more important. Yes, it is more and more important that people save early.

Senator WHITEHOUSE. Treasurer Read, you have had the experience of actually doing this at the State level, and I would like to ask you, in your plan, what does a small employer have to do?

Mr. READ. Mr. Chairman, Senator Whitehouse, as little as possible. In fact, we have made it even easier for small employers. Initially, our design had the employer providing notice to employees and asking them whether they want to opt out. We have changed that, and in fact our record keeper, Ascensus, now does that.

So essentially, all that the employer has to do is provide the employee information to Ascensus and then facilitate as they do with any of their other withholdings over time.

Senator WHITEHOUSE. It is just—once they have set up the withholding and they know what their employee wants, which they do not have to do, it gets disclosed to them. They are done.

Mr. READ. That is right.

Senator WHITEHOUSE. What has the response been from the small business community?

Mr. READ. Generally positive. In fact, I was thinking of that when Senator Daines was asking his question. There are a lot of small employers who very much like this, and you know, they are focused on running their business. There is one in my mind who runs an iconic sandwich shop who says, "I do not have an HR department. I have sandwiches to make." And they view it as a very positive thing.

I mentioned in my opening testimony the brewer on the north Oregon coast who says, "This allows me to hire people who can work here as a career, and allows me to retain them." So it has been very positive.

Senator WHITEHOUSE. Good. And if we are looking at Federal legislation in this space, what would you like us to do about State programs like yours? Carve them out? Let them continue? Would you just as soon have this off your hands and have this turn into a Federal program? What is your take on how we should handle OregonSaves if we get around to doing a Federal Bill?

Mr. READ. Mr. Chairman, Senator Whitehouse, I appreciate the question. I feel very good about where we are going, and I think we have provided a service—if it is not too presumptuous to say it—in asking and answering some of these questions.

Senator WHITEHOUSE. So you would like to keep at it.

Mr. READ. I would like to keep at it, and I would like to——

Senator WHITEHOUSE. And as a State official, do you think there is some value to leaving space for other States to try to step up and do the same thing if they are interested in doing that?

Mr. READ. Yes I do, Senator. And I would appreciate when the Senate takes this on to have that conversation about how our particular version would interact with the Federal program.

Senator WHITEHOUSE. Great. Well, I thank you for the good example that you are setting. I am sure you said so, but I was elsewhere earlier. What has happened to your savings rate as a result of doing this, even in the small amount of time you have had?

Mr. READ. Well, we have—there are a number of ways to answer that, Mr. Chairman, Senator Whitehouse. In less than 2 years, we have accumulated over $19 million in savings. It is about 35,000 accounts. That number is growing at about $2.2 million each month, and it is a rate that continues to accelerate, because we are only about halfway through our rollout at this point.

Senator WHITEHOUSE. And you have one private-sector provider that contracts with you to provide this service, as opposed to having it be a competitive market?

Mr. READ. That is mostly right. We have one provider that does the record-keeping function and another that manages the money.

Senator WHITEHOUSE. Got it.

Ms. DUDLEY. Can I add one thought?

Senator WHITEHOUSE. Sure.

Ms. DUDLEY. On the whole concept of coverage—and I really appreciate the work that Oregon has done at the State level and the work that has been done here on a bipartisan basis to strengthen the qualified employer plan system. And I think that, as we look at coverage, there are going to be places where a Federal system would be more helpful to some people than the State system. And I think you all would agree that there is not a reason why all of these different approaches cannot exist together.

So I think that is something that we would like to continue talking with you about: how to make it seamless for people.

Senator WHITEHOUSE. In the same way that an individual gets to opt out of the program, you could have a State able to opt out if it was happier with its own program, for instance.

Ms. DUDLEY. Possibly. Yes, that is possibly—I mean, I think that is fair.

Senator WHITEHOUSE. I am over my time. So, let me yield back to the chairman. Thank you.

Senator WYDEN. I thank my friend.

And I think there is only one question I want to get at before we wrap up. And I am going to pose this to you, Ms. Dudley, and then we will take—the chairman has some important procedural matters that we have to convey to you before we wrap up.

Let us talk about these students who come out of school and they are just up to their eyeballs in debt. I mean thousands and thousands and thousands.

Ms. DUDLEY. Yes, tens of thousands.

Senator WYDEN. Tens of thousands. Thank you.

And they get that first big job, and they are incredibly excited. Maybe they are the first generation to get out of college. And the employer has a really good 401(k) matching program, a matching contribution program. So the employer is going to put up a good chunk of money. The student has to figure out where their share is going to come from.

We have had students come to us and say, "This is heartbreaking. You know, we finally got that good job after all those years, but we owe so much money, we do not want to miss out on

saving. We do not want to miss out on building that nest egg for the future."

So what we proposed in our bill is essentially that the amount they have to repay for their student loan, the amount they repay on a regular basis, would count towards their contribution for the 401(k) matching.

My sense is that this would be of enormous value right now with so many young people being up against this dilemma. I would be interested in your thoughts in terms of what your member companies are telling you about this situation, because that is really how it comes down in terms of my world.

I mean, I have town hall meetings in every Oregon county every year. And people just tell me that the student loan debt is just like a boulder on their back, and it ripples through their lives in so many ways. And at a minimum, we ought to figure out a way to let them start saving after they get hired for that first great job.

Ms. DUDLEY. Right. I think you are absolutely right. Employers, students, and young graduates are excited about the idea of being able to participate in a plan and also pay down their debt. I think employers recognize that this has become a barrier, student loans have become a barrier to people participating in many plans. Not every employer sees that problem, but many, many do. And they want to find a way to help them not leave money on the table.

One of the things that we always try to do when we are educating employees about participating in the plan is explaining to them the value of a matching contribution and the importance of contributing so that you get the match.

So what is happening to these employees, these young employees who have student debt, is they are not participating. So they are not getting their own contributions, and they are losing out on the match. And these are the years when the dollar counts the most and so, by participating early, you earn the most. And so, by participating early, you earn the most money for retirement.

So your bill should address this by allowing those employers to go ahead and recognize that people are paying down debt, and get that matching contribution in the plan, and get these people enrolled in the plan. So you may have a graduate who cannot do very much; maybe they are paying their loan down and so they cannot fully get the match. But they are able—they are in the system. They are in the system early, because when you get in early, you stay in the system.

Senator WYDEN. Great. And just for the record, if we could—for you, Ms. Ruff, you all have done some interesting work on the Saver's Credit, and because we said we were going to wrap up, if you could just furnish us, for the record, any suggestions you might have to improve the Saver's Credit. Because of time, we are not going to be able to get into it, but if you could just furnish that in writing, that would be very helpful.

Ms. RUFF. Certainly.

Senator WYDEN. On behalf of the chairman, I want to thank all of our witnesses. You all have been very patient, and we appreciate your testimony. We appreciate your being here and sharing your views on the policy, the direction the Finance Committee—on a bipartisan basis—wants to take to improve the retirement system.

For all the members and staff—I believe we do not have any members who are coming. Any members who have written questions for the record should submit them by close of business on Tuesday, May 28th.

Both the chairman and I share your view about getting the RESA bill passed immediately. If we had had our way, it would have been done yesterday. And so we appreciate your comments on that, and to indulge—I believe that the chairman will not object to it, but given the evening, before we adjourn, I would like to just say, "Go Blazers."

Mr. READ. Rip City. [Laughter.]

[Whereupon, at 12:23 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF LYNN D. DUDLEY, SENIOR VICE PRESIDENT, GLOBAL RETIREMENT AND COMPENSATION POLICY, AMERICAN BENEFITS COUNCIL

The American Benefits Council (the "Council") thanks Chairman Grassley, Ranking Member Wyden, and all members of the Finance Committee for holding this hearing regarding challenges in the retirement system and for the longstanding bipartisan leadership of this committee in enhancing retirement security.

We very much appreciate the opportunity to testify. The private retirement system has helped millions of Americans achieve retirement security. Even so, the system can be improved and strengthened, and there are numerous existing bipartisan proposals—several of which are discussed below—that we believe can help achieve that result.

The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. The Council's members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans.

STRONG SUPPORT FOR BIPARTISAN RETIREMENT SOLUTIONS

In a November 2018 election day poll[1] conducted by Public Opinion Strategies, nearly eight in 10 American voters (78 percent) showed a strong preference for bipartisan solutions to our retirement policy challenges, saying that compromise and cooperation would most improve their ability to save for a secure retirement.

For many years, retirement policy legislation has enjoyed a proud tradition of bipartisan leadership and support. That is how Congress has achieved so many improvements and enhancements to the private retirement system in the past, and we believe that bipartisanship is likewise the path to future success.

There are many retirement policy proposals that have been introduced and that are worthy of discussion. A number of retirement provisions now pending in Congress, several of which are discussed below, deserve immediate consideration and *we strongly recommend their enactment as soon as possible.*

The retirement provisions referenced above are largely based on:

- The Retirement Enhancement and Savings Act of 2019 (S. 972) introduced by Chairman Grassley and Ranking Member Wyden ("RESA");
- The Retirement Security and Savings Act of 2019 (S.) (the "Portman/Cardin bill");
- The Retirement Parity for Student Loans Act (S.) (the "Wyden student loan bill");
- The Retirement Security Act of 2019 (S. 321) (the "Collins/Hassan bill");
- The Setting Every Community Up for Retirement Enhancement Act of 2019 (H.R. 1994) (the "SECURE Act"); and
- The Retirement Plan Simplification and Enhancement Act (H.R. 4524) (the "Neal bill").

These bills include many bipartisan, bicameral proposals that are very important to improving personal financial security. In fact, RESA earned unanimous approval in the Senate Finance Committee in 2016 and continues to enjoy broad bipartisan

[1] *https://www.americanbenefitscouncil.org/pub/bceef8fb-efa1-ab7f-17a8-4483226a5129.*

support in the Senate today. Similarly, in April, the SECURE Act passed out of the Ways and Means Committee by a voice vote. These two bills are well vetted, broadly supported by both parties, and endorsed by a wide range of stakeholders. We support prompt passage of these bills. The bills have differences that will require blending of different proposals, but we strongly believe that this is a step that can be taken in a bipartisan bicameral fashion, consistent with a long tradition in the retirement area. We urge Congress to continue to work together on a bipartisan, bicameral basis to finalize compromise legislation as soon as possible. *For example, as discussed below, hundreds of thousands of employees may find their future pension benefits eliminated if RESA/SECURE is not enacted in the very near future.*

We are also very supportive of the next generation of retirement reform, most prominently contained in the Portman/Cardin bill and the Neal simplification bill. These bills contain critical additional reforms that, together with RESA/SECURE, can further usher in a new era of retirement security. *In light of the shortfall in retirement savings discussed below, we cannot afford to wait to help tomorrow's retirees.*

CRITICAL ROLE SERVED BY THE PRIVATE RETIREMENT SYSTEM

In October of 2018, the American Benefits Institute, the education and research affiliate of the Council, published a paper entitled the "American Benefits Legacy, the Unique Value of Employer Sponsorship." Before discussing the excellent legislative proposals contained in the above bills, we wanted to take this opportunity to share with you the important findings of that paper. These findings strongly support the purpose of the bills, which is to further strengthen a private retirement system that is working well but can still be improved.

In the late 1990s, the Employee Benefit Research Institute ("EBRI"), developed a model to simulate retirement income adequacy. The model provides summary Retirement Readiness Ratings ("RRR") that simulate the proportion of households projected to have adequate resources in retirement.

The model shows that employer-sponsored plans result in a 28.7 percent increase in the number of low-income households achieving retirement security. While the importance of employer-sponsored retirement benefits to low-income households will not come as a surprise, what is most illuminating is the extent to which *middle-income groups rely on retirement savings plans through their employer.* Comparing the Retirement Readiness Ratings with and without employer-sponsored retirement benefits shows that the percent increase in the number of households that are saved from retirement income inadequacy is 52.3 percent for the second income quartile and 18.6 percent for the third income quartile.

Equally telling is the total dollar value of the benefits that are projected to be provided by employer plans and their role in covering the difference between public benefits and the financial needs of retirees. This is illustrated by EBRI's projections of "Retirement Savings Shortfalls," which calculates the aggregate value of projected financial deficits in retirement for all U.S. households between the ages of 35 and 64. This measurement is somewhat different than the Readiness Ratings because it also includes the anticipated needs to finance long-term care.

The savings shortfall measures the present value of the additional (after-tax) amount each household would need at age 65 to eliminate their expected retirement income deficits. While this shortfall is a relatively small proportion of the total value of all of the resources households are projected to have available to meet their retirement needs, it provides a useful indication of the overall value of the gap that will need to be addressed and the role of employer-sponsored benefits in filling this gap. The aggregate deficit number with the current employer-sponsored retirement benefits is estimated to be $4.13 trillion. *When the simulation was done assuming that there were no employer-sponsored retirement benefits and individuals were to behave in the manner observed for those without access to these plans, the aggregate deficit would jump to $7.05 trillion, an increase of 71 percent.*

In addition, in furtherance of our support for retirement security, the Council has recently joined a new campaign called "Funding Our Future," an alliance of organizations working to make a secure retirement possible for all Americans. The campaign now consists of over 40 organizations—representing consumers, employers, industry, and a variety of other perspectives—all pushing to educate the general public about the challenges of retirement security and how we can overcome them, both individually and collectively through improved public policy. The campaign has three pillars: (1) Making it easier to save at all ages, particularly at the workplace;

(2) Helping people transform their savings into retirement income; and (3) Saving Social Security. Advancing policy within each of these pillars will help improve retirement security for millions of Americans.

KEY BIPARTISAN PROPOSALS FOR IMPROVING RETIREMENT SECURITY

Below we highlight a number of proposals related to improving the retirement security of American workers that we most strongly encourage the committee to support.

Relief for Participants in Closed Defined Benefit Pension Plans

As the environment for sponsoring traditional defined benefit pension plans has become more challenging, many companies have found themselves reluctantly compelled to modify their plans so that new employees hired after a certain date are not eligible to participate. However, under current law, companies that seek to protect older, longer-service employees by continuing to accrue benefits for them until they retire are generally precluded from doing so by the clearly unintended impact of the so-called "nondiscrimination rules." With every year that passes, tens of thousands or possibly hundreds of thousands more participants lose benefits by reason of the adverse effects of the current rules.

The Council urges strong support for nondiscrimination testing reform that would allow employers to continue to accrue benefits for older, longer-service participants in defined benefit pension plans. This provision is included in RESA and the SECURE Act, and was also included in Neal/Tiberi (H.R. 1962) and Cardin/Portman (S. 852) bills from last Congress.

Each year that this issue is not addressed, hundreds of thousands of additional employees are at risk of losing benefits. The Council reached out to two national consulting firms earlier this year. *The consulting firms concluded that if this issue is not fixed in the near future—year-end is too late—at least 430,000 participants could lose future benefits as of January 1, 2020.*

Reducing Barriers to Saving Through Student Loan Repayment Programs

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

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

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

We are supportive of other proposals to give employers greater flexibility in helping their employees with student loan debt. For example, Senators Warner and Thune, and 20 other Senators, have sponsored a bill (S. 460) that would permit employers to pay down student loans for their employees without triggering taxable income for their employees, up to an annual limit of $5,250 on the total of such repayments and other educational assistance.

Self-Correction Procedures

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

process. The Neal bill, which we also strongly support, similarly includes a provision that would expand the use and availability of EPCRS.

Open MEP Reforms

Policymakers are constantly searching for ways to improve retirement plan coverage, and Council members believe that the best way to do so is to build on the employer-based system. Open multiple employer plans ("MEPs"), which enjoy bipartisan support in Congress, present a significant opportunity to do so.

We urge the committee to support legislation that would eliminate the punitive "one bad apple rule" (under which compliant employers in a MEP are penalized for violations by other participating employers) and permit open MEPs by eliminating the "nexus" requirement (under which all participating employers must share a preexisting relationship or common business purpose). *Facilitating the use of MEPs will create greater economies of scale, thereby reducing the cost of plan participation and broadening coverage for many, including the independent and contingent workforce.* This proposal is included in RESA, the SECURE Act, and the Collins/Hassan bill.

We would like to briefly note three key issues regarding the MEP proposals:

- *Clarify that gig workers can participate in MEPs.* Until a court case in late March, it was clear, under more than 30 years of Department of Labor authorities, that gig workers and other independent contractors without employees could participate in a MEP under certain circumstances, and would similarly be able to participate in an open MEP under the legislation. The court case called that into question, which jeopardizes some current MEPs and undermines a key objective of the open MEP legislation. We urge RESA and the SECURE Act to address this issue by clarifying that gig workers can participate in MEPs, as has been the longstanding rule.
- *Clarify that small businesses that join a MEP are eligible for the new plan start-up credit.* RESA and the SECURE Act increase the cap on the tax credit available to small employers that start a plan from $500 to $5,000. Under present law, it is unclear if a small employer joining an existing MEP is eligible for the credit. The issue is that the credit is only available for the first 3 years of a plan's existence. So if the MEP has been in existence for 3 years, the credit may be unavailable to a small employer that joins the MEP. If the MEP had been in existence for a year, for example, when the employer joins, then the credit may only be available for 2 years.
    - *Concern.* The concern is that the advantage of a MEP is that it can produce lower costs for participating employers. If small employers' net costs in the first 3 years are materially higher under a MEP than under a single employer plan, due to the fact that the credit is not available with respect to the MEP, that could reduce interest in joining a MEP.
    - *RESA addresses the concern.* RESA addresses this concern very effectively by clarifying that small employers without a plan may claim the credit if they join an existing MEP.
- *Provide the same MEP advantages to charities, churches, and public educational institutions.* Currently, the MEP provisions in RESA and the SECURE Act do not cover 403(b) plans, which are widely used by charities, churches, and public educational organizations (the only entities permitted to maintain such plans). We support expansion of the MEP provisions to cover 403(b) plans, so that these entities can enjoy the same new economies of scale being made available to taxable employers.

Improving Required Retirement Plan Reports and Disclosures

Under current law, employer-sponsored retirement plans and IRAs are required to provide a variety of reports and disclosures to participants at various times or upon the occurrence of specified events. The Council believes there is a significant opportunity to improve both the content and the timing of required disclosures in a manner that provides for more effective and meaningful communications to participants and account owners, while also decreasing administrative costs for plans and IRAs. We support bipartisan proposals to take such steps, such as proposals included in both the Portman/Cardin bill and the Neal bill. Those proposals (1) would direct the Treasury Department, the Department of Labor ("DOL"), and the PBGC to review the reporting and disclosure requirements and make recommendations to Congress to consolidate, simplify, standardize, and improve these participant communications, and (2) would direct Treasury and DOL to consolidate certain overlapping notices.

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

Stop Indexing the PBGC Variable Rate Premium for Single-Employer Plans

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

Correcting the Mortality Tables Used by Defined Benefit Plans, and Other Funding Issues

A number of factors have led many employers in recent years to terminate or freeze their defined benefit pension plans. Not least among these factors are increasing PBGC premiums and uncertain plan funding obligations, which can fluctuate depending on interest rates and other factors that are often outside of the plan sponsor's control, such as the mortality table that must be used for purposes of calculating a plan's funding obligations. The Treasury Department is required to update the mortality table that defined benefit plans must use for this purpose at least every 10 years. The most recent mortality table update was included in regulations that were published in October 2017.

The Treasury Department issued new mortality tables for pension plans in 2017, increasing plan sponsor costs by an estimated over $36 billion over 10 years. These regulations were flawed in two respects. First, the 2018 tables relied on assumptions developed by the Society of Actuaries ("SOA"), which SOA has since acknowledged overstate pension obligations. In addition, the regulations used a higher rate of future mortality improvement in the new mortality tables than the rate used by the Social Security Administration ("SSA") or any other regulatory organization. The Council supports the Portman/Cardin bill provisions to correct both flaws: (1) correcting the incorrect 2018 tables, and (2) prohibiting the regulations from assuming future mortality improvements at any age that are greater than 0.78 percent (*i.e.,* the weighted average used by the SSA).

We also want to emphasize that while many employers have been able to fund up their defined benefit plans, many other employers have faced significant challenges in that respect. Due to the declining helpfulness of the pension smoothing provisions and sustained low interest rates, some single-employer pension plans face sharp increases in minimum funding contributions over the next several years. These spikes are in many cases expected to be followed by much smaller minimum funding contributions in subsequent years. Nonetheless, the significant increases in funding contributions will create substantial hardship for some companies that would otherwise be on solid footing to support their pensioners if modest relief were provided. The Council encourages the committee to consider options that provide flexibility to single-employer plans sponsors facing funding obligations that are disproportionately large compared to the size of the employer's business.

Permitting Higher Catch-Up Contributions for Individuals Age 60 and Older

Even though most Americans understand the benefit of saving for retirement throughout their working years, younger workers in particular often face competing financial priorities, such as buying a home, paying off student loans, and raising a family. These expenses can make it challenging for many workers to prioritize saving for retirement until their 40s, 50s, or even 60s. In 2019, most employees are generally limited to making elective deferrals of $19,000 to a 401(k), 403(b), or governmental 457(b) plan ($13,000 with respect to SIMPLE IRAs and SIMPLE 401(k)s).

But individuals age 50 and older may make a "catch-up" contribution of an additional $6,000 ($3,000 for SIMPLEs). To give workers nearing retirement age an even greater ability to better prepare for retirement, the Council supports the provision in the Portman/Cardin bill that would increase the catch-up contribution for participants age 60 or older to $10,000 ($5,000 for SIMPLEs).

Increasing the Age at Which RMDs Must Begin

Under current law, plan participants and IRA account owners must generally begin withdrawing "required minimum distributions," or "RMDs," at age 70½. As a result, the RMD rules require many individuals to withdraw funds from their retirement accounts before the time when those funds are needed. The Council believes it is important that retirees be allowed to retain their savings in retirement accounts as long as possible to help protect against the risk of retirees depleting their retirement savings during their lifetime. We therefore urge the committee to support bipartisan proposals such as those in the Portman/Cardin bill, the SECURE Act, and the Neal bill and that would increase the age at which participants and IRA account owners must begin taking RMDs.

Reforming the Rules Regarding Inadvertent Overpayments to Participants

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

Although recent changes to the IRS's Employee Plans Compliance Resolution System ("EPCRS") have established that in some circumstances a plan sponsor may correct for an overpayment without seeking recoupment from the participant, the Council's members believe that additional steps to protect retirees should be taken.

Expansion of Electronic Disclosure of Plan Communications

Under current law, there are multiple regulatory standards governing the circumstances under which an employee may be provided with a retirement plan statement, notice, or disclosure in an electronic format. There is longstanding, bipartisan interest in modernizing the delivery rules for these disclosures.

The Council has long supported updating the means of fulfilling disclosure requirements. Our long-term public policy strategic plan, A 2020 Vision: Flexibility and the Future of Employee Benefits,[2] includes recommendations to advance the use of technology in delivering benefits information while ensuring appropriate protections for participants.

Consistent with these recommendations would be bipartisan legislation that gives employers the option to provide required notices and statements in an electronic format while providing participants with appropriate protections and the right to receive paper copies of notices at no charge. Participants would also be provided an annual written notice of the availability of paper notices. One such proposal, the Receiving Electronic Statements to Improve Retiree Earnings Act, was introduced on a bipartisan basis in the Senate in 2018 (S. 3795) (by Senators Brown, Enzi, Peters, Portman, Isakson, and Jones) and in the House in 2017 (H.R. 4610).

Missing Participants

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

In this regard, we welcomed the introduction by Senators Warren and Daines of the Retirement Savings Lost and Found Act of 2018. This legislation would establish a set of rules, for the first time, that a plan administrator should follow when a participant or beneficiary is missing or unresponsive. The Council believes strongly in the need for comprehensive guidance on plan fiduciary responsibilities with respect to unresponsive and missing participants. The safe harbor provisions in the

[2] *https://www.americanbenefitscouncil.org/pub/?id=e6154447-f3da-eaee-a09e-fbcc312a0e91.*

bill with respect to required minimum distributions and fiduciary obligations are a very important step forward.

Collectively, the provisions of the Retirement Savings Lost and Found Act could make important progress in addressing the problem created when individuals lose track of their retirement benefits at the time they change jobs, and the former employer is not able to locate the person. The creation of a consistent approach for fiduciaries is much needed and greatly appreciated.

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

PBGC Insurance Premiums for CSEC Plans

One key bipartisan, bicameral proposal included in RESA and the SECURE Act (as well as the bipartisan Rightsizing Pension Premiums Act of 2017 (H.R. 3596)) would conform the PBGC premiums for pension plans that serve multiple charities or cooperatives ("CSECs") to the funding rules that were put in place for such plans by Congress in 2014. CSEC plans have different funding rules than single-employer plans because they pose very little risk that the plans will not be able to pay benefits as promised. That same reasoning is applicable to PBGC premium levels, which should be lower for CSEC plans because CSEC plans pose far less risk than is reflected in the PBGC premiums they currently pay.

New "Secure Deferral Arrangement" Automatic Enrollment Safe Harbor

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

Under the existing automatic enrollment safe harbor, plans are generally deemed as meeting certain nondiscrimination testing rules if certain criteria are met, including that employees are automatically enrolled at a contribution rate of at least three percent of compensation in the first year, and such rate must increase by at least 1 percent a year until the contribution rate is at least 6 percent (but not greater than 10 percent) by the fourth year.

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

Remove Limitations on Subsidies Resulting From Accumulation of Retirement Assets

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

Along these same lines, the Council supports efforts to allow employers to deposit any employer contributions that would otherwise be made on behalf of special needs employees to the employee's section 529A (ABLE) account instead of the company's 401(k) plan. Special needs employees frequently choose not to participate in a 401(k) plan, or they must withdraw funds with corresponding taxes and penalties, because the funds accumulated in the plan can imperil their eligibility for much-needed means-tested benefits that they would otherwise be qualified to receive. Under the proposed solution, the employee would have to opt into the ABLE account, if offered by the plan sponsor. The employer contribution would be subject to the same deduction rules currently applicable to 401(k) employer contributions and the employee would be taxed on the contribution made to the account. The amounts would be subject to the section 529A rules once contributed.

Resolution of the Multiemployer Pension Plan Crisis

It is well known that the multiemployer pension plan system is in crisis. The PBGC, in its 2018 Annual Report, projects that, absent changes, the multiemployer program is likely to be insolvent by 2026. The Council supports efforts to develop a path forward, such as the efforts that were undertaken last year by the select committee established by the Bipartisan Budget Act of 2018. We believe that arriving at a bipartisan, bicameral solution will maximize the chance of a much-needed sustainable solution that will enhance retirement security and renew confidence in the multiemployer system without inadvertently imposing enormous costs on plan sponsors who are contributing to the plans.

In addition, the Council has been heartened by extensive informal discussions that indicate that Congress is not looking to raise funds for the multiemployer plan system from the single-employer plan system. A bipartisan solution to the multiemployer plan crisis is vital. But using assets from the single-employer plan system is not the answer. The programs are entirely separate and operate under distinctly different rules.

The companies that continue to support the single-employer system are under enormous pressure due to greater funding requirements and numerous increases in premiums (many of which were enacted as a source of revenue for unrelated spending). Greater premium increases or otherwise financing the multiemployer system through the single-employer system would only accelerate the rate at which single-employer sponsors exit the system, exacerbating a decline in companies participating in the PBGC's single-employer insurance program and thereby worsening the PBGC's problems.

We continue to urge that single-employer premium levels be *decreased* for all single-employer plans. The dramatic increases in PBGC premiums for single-employer plans have been, and continue to be, a key driver in company decisions to reduce exposure to uncontrolled costs through de-risking activities, including exiting the defined benefit plan system altogether. A reduction in future PBGC premiums would have a significant beneficial impact on preserving the remaining plans in the defined benefit pension universe.

A Consistent Federal Framework

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

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

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

QUESTIONS SUBMITTED FOR THE RECORD TO LYNN D. DUDLEY

QUESTIONS SUBMITTED BY HON. TIM SCOTT

Question. To what extent do you see cash-outs and leakage as threatening retirement security in the long term, and are there other steps we can take to build upon auto-portability?

Answer. As today's workforce becomes increasingly mobile, the cash-outs and leakage that sometimes occur in connection with a job change are becoming a more significant factor in workers' ability to accumulate sufficient retirement savings throughout their working years. The Council believes that taking steps to reduce cash-outs and leakage would have a meaningful impact on helping a sizeable portion of the workforce save more toward a secure retirement.

One important way to help address unnecessary cash-outs and leakage is through the development of "auto portability" programs and features, which, as described by Senator Scott, are intended to help ensure that retirement plan assets follow a terminating employee to his or her new employer. Auto portability is a very good step in addressing these issues, and, in this regard, we applaud the Department of Labor for considering some of the legal questions raised by such programs through the issuance of Advisory Opinion 2018–01A and a proposed prohibited transaction exemption regarding auto portability.[1]

Question. Beyond improving our educational system to ensure that financial literacy receives much more emphasis, what tools, resources, and programs are out there that might assist folks in planning for their financial well-being in the long term, and—more importantly—how can we connect workers to these programs?

Answer. Many of the Council's member employers engage in efforts to provide financial education and support programs for their employees. These financial well-being programs, which often include assistance with budgeting and basic financial skills, can help employees get the full value out of the retirement plans offered by their employers by removing or reducing some of the barriers to saving for retirement. Employer-provided financial well-being programs not only support employees in planning for the long-term, but they also provide value in increasing employees' overall personal financial security, improving health and reducing stress, and increasing worker productivity.

In conjunction with the drafting of the Council's "American Benefits Legacy," a report on the unique value of employer sponsorship, Council members revealed a wide range of innovative practices being implemented by employers through financial well-being programs that are producing measurable and impressive results. For example, one large member company combined targeted and personalized communications with the implementation of a simplified enrollment process for the employer's 401(k) plan. The result was an increase in the company's 401(k) plan participation rate (from an already high 87 percent in 2012 to a remarkable 92 percent in 2017), as well as an increase in the percent of participants who were maximizing the matching contribution (from 31 percent to 58 percent over 5 years). Other member companies have seen similar positive results by providing, for example, access to investment advisors and targeted education delivered both on-site and through webinars.

Employer-provided financial well-being programs have already demonstrated positive results, and employers' ongoing efforts to further innovate and refine these programs will only increase their ability to assist employees in planning for their current and future financial needs. To that end, the Council has the following policy suggestions that we believe will help employers continue to make strides with respect to developing such programs:

1. Protect the ability of employers and providers to innovate in the workplace. ERISA preemption is a critical component for employers who have operations in multiple States and want to provide programs on a national basis.
2. Make it easier to use technology to provide information in the workplace and to use new technology as it becomes available.
3. Allow people to make up savings they may have missed.
4. Consider options to facilitate information from Medicare and Social Security to help individuals think about their retirement income more holistically. This is especially important due to the interrelationship between health-care risk and financial security, especially in retirement.
5. Provide fiduciary safe harbors and allow for innovation with respect to lifetime income products that are practical, affordable, explainable, and portable. Understanding—let alone managing—longevity risk is challenging to even the most sophisticated of savers and retirees, which makes the availability of products that are well-designed to accomplish this task even more important.

[1] In the interest of full disclosure, the Retirement Clearinghouse, to which the Advisory Opinion and proposed exemption are directed, is currently a member of the Council but did not determine the final contents of this submission.

QUESTIONS SUBMITTED BY HON. MARIA CANTWELL

Question. How does a guaranteed lifetime income option help protect people from outliving their savings?

Answer. A guaranteed lifetime income option helps protect people from outliving their savings by providing a stream of income payments that are guaranteed to continue through retirement. Guaranteed lifetime income options are one of many tools that participants have to manage their income throughout their retirement and the associated longevity risk.

A recent informal survey of the Council's members revealed that only 13 of 93 respondents (14 percent) offer a lifetime income solution in connection with their defined contribution plan. Nearly 60 percent of those plan sponsors that do not offer a lifetime income solution indicated that they do not do so because of potential fiduciary liability. In a voluntary system, plan sponsors need assurance that they are not taking on more potential liability than is necessary, especially when considering adding a new option for which employee demand is low. Nevertheless, we encourage Congress to help pave the way for plan sponsors to increase the availability of lifetime income options in retirement plans—which, in turn, may lead to greater participant demand—by providing: (1) more fiduciary protection for offering lifetime income within a target date fund; (2) an improved safe harbor for the selection of an annuity provider, such as the proposal included in the Retirement Enhancement and Savings Act of 2019 (S. 972) introduced by Chairman Grassley and Ranking Member Wyden ("RESA") and the House-passed Setting Every Community Up for Retirement Enhancement Act of 2019 (H.R. 1994) (the "SECURE Act"); and (3) more clarity regarding how to provide qualifying longevity annuity contracts ("QLACs") within a plan.

Question. Do you believe Congress should provide more direction regarding the composition of a model plan? If so, what recommendations would you make?

Answer. Due to the complexity of the laws that govern the design of retirement plans and their administration, the provision of models (*e.g.,* model or standard language) that employers may use can be helpful in certain contexts, such as in providing specific language that would satisfy a discrete plan or disclosure requirement. However, the Council cautions that the availability of a model could stifle innovation and inadvertently limit savings when used in a broader context, such as with a model plan design or composition.

Whenever the government provides a model (or, similarly, a safe harbor) that serves to reduce plan sponsor liability and uncertainty, employers have repeatedly demonstrated that their behavior will generally converge around that model (or safe harbor). Although this may not be cause for concern in some instances, when it involves matters such as the design or composition of a retirement plan, we are concerned that the very real risks in providing a model outweigh the benefits. The private retirement system has been successful precisely because employers have not been required (or felt obligated) to follow one common approach in determining the retirement benefits provided to their employees. We therefore encourage Congress to preserve both the actual and perceived ability of employers to innovate and tailor their retirement plans to the particular needs and desires of their respective workforces.

Question. What partnerships exist to make sure that there is adequate technology and support to ensure that we eliminate this ongoing problem related to the leakage and lost accounts that result when workers change jobs?

Answer. The public-private partnership that exists between Congress and the private retirement sector is critical to facilitating the development and implementation of solutions to the problem of lost retirement accounts and retirement savings leakage. In this regard, providing for the portability of lifetime income products is an important part of any such solution. Plan sponsors and service providers depend on the ability to work with lawmakers to both (1) ensure that lifetime income portability solutions are permissible under Federal law, and (2) reduce the barriers, including undue liability, that may discourage employers from making such solutions available to plan participants.

Enacting the lifetime income investment portability provision that is included in both RESA and the SECURE Act would take significant strides in allowing for and encouraging the use of lifetime income portability solutions. Under RESA and the SECURE Act, participants in qualified defined contribution plans, 403(b) plans, and governmental 457(b) plans would be allowed to take a distribution of a lifetime in-

come investment without regard to any of the code's withdrawal restrictions if the lifetime income investment is no longer authorized to be held under the plan. The distribution must be made via a direct rollover to an IRA or other retirement plan or, in the case of an annuity contract, through direct distribution to the individual. We encourage Congress to enact this provision as soon as possible in order to help address one aspect of the barriers to ensuring that retirees have adequate income for life.

Question. I've worked on policies to ensure lifetime income portability and annuity selection safe harbors. Why are these provisions important?

Answer. Employer-sponsored retirement plans are an enormously important tool for helping people prepare for retirement. Employers are the leading impetus in designing programs that achieve demonstrated results in improving savings and enhancing the personal financial security of their employees. That being said, employers have to be responsive to employee demands when designing plan benefits, including lifetime income options, and such options must be practical, affordable, explainable, and adaptable in order to work.

With respect to lifetime income options in particular, employers must weigh the benefits of offering an option for which few employees have expressed an interest with the burdensome constraints and/or relatively high potential fiduciary liability that may accompany such an offering. This is why providing for lifetime income portability and an annuity selection safe harbor is important. The safe harbor in particular would reduce the unnecessary risk and potential liability that employers often cite as the primary reason behind decisions not to offer an annuity option within a defined contribution plan. We encourage Congress to enact both the lifetime income portability and annuity selection safe harbor provisions contained in RESA and the SECURE Act, which would reduce the risks associated with providing such plan options while preserving the flexibility that employers need to continue innovating in this regard.

Question. How would providing an estimate of the monthly income distribution from their retirement savings on the individual's annual benefit statement help working people gauge their progress toward reaching the goal of a safe and secure retirement?

Answer. Providing an estimate of the monthly income that could be generated from an individual's retirement savings is an important way to help inform workers about their potential income in retirement so that they can determine if they need to save more to achieve retirement security. In addition, employers are the leading innovators in developing ways to educate employees on important aspects of saving for retirement, including estimated income in retirement, and providing the tools that are necessary to help ensure that an employee's retirement plan may be carried out. It is critical that employers are allowed the flexibility to continue to innovate in this regard.

QUESTIONS SUBMITTED BY HON. MICHAEL F. BENNET

Question. What are your views on a 401(k) or 401(k)-like product that is detached from a specific employer?

Answer. The Council agrees with Senator Bennet's observation that the way Americans plan for retirement must adapt as the workforce changes, including the frequency at which individuals change jobs these days and the growth in the "gig" economy. We believe that open multiple employer plans ("MEPs"), which enjoy bipartisan support in Congress, present a significant opportunity to improve retirement plan coverage in light of these changes in the workforce, and that they can do so by building on the already successful employer-based system. We therefore urge Congress to enact the open MEP provision that has been included in a number of bills including RESA and the SECURE Act.

With respect to a 401(k)-like product that would be detached from a specific employer, the Council has concerns that such an approach would miss out on the benefit of the employer-led innovation that has made the existing private retirement system as successful as it is. Employers would have no incentive—or ability—to develop valuable new offerings or plan features with respect to a plan that is detached from the employer. Before giving further consideration to such an idea, which would be a substantial departure from the current retirement system, we strongly encourage Congress to enact the open MEP provision and allow time to evaluate the

progress that open MEPs can make in expanding retirement plan coverage for the modern workforce.

We further believe that the combination of open MEPs and auto portability can usher in a new era of enhanced portability while still preserving employer flexibility and innovation.

Question. Besides addressing the multiemployer pension crisis and passing RESA, what do you think are the most important steps we can take to increase retirement security for working Americans?

Answer. Beyond addressing multiemployer plans and passing RESA or the SECURE Act, the Council believes that enacting the next generation of retirement reform, most prominently contained in the Retirement Security and Savings Act of 2019 (S. 1431) (the "Portman/Cardin bill") and the Retirement Plan Simplification and Enhancement Act (H.R. 4524) (the "Neal bill"), will be important in further increasing retirement security for Americans. These bills contain critical additional reforms that, together with RESA and the SECURE Act, will usher in a new era of retirement security in part by protecting and encouraging employers' ability to be flexible and innovative when it comes to helping their employees save for retirement.

Two examples of these important additional reforms are: (1) proposals that would make it easier for employers to provide matching contributions to 401(k) retirement plans based on an employee's student loan payments (as contained in Senator Wyden's Retirement Parity for Student Loans Act (S. 1428), as well as the Portman/Cardin bill); and (2) a new automatic enrollment safe harbor that would provide in part for higher initial default contribution rates than the automatic enrollment safe harbor that is available today. This latter proposal in included in the Portman/Cardin bill, the Neal bill, and the Retirement Security Act of 2019 (S. 321) introduced by Senators Collins and Hassan (the "Collins/Hassan bill").

QUESTION SUBMITTED BY HON. MAGGIE HASSAN

Question. What are the best company practices when it comes to informing employees, especially young employees, about the matches and benefits offered to them? And what else can Congress do to help ensure that young people are investing in their retirement at the earliest opportunity and are not leaving match money on the table?

Answer. Many Council members engage in efforts to provide financial education and support programs for their employees. These financial well-being programs are often designed to help employees understand the retirement plans and benefits available to them, but in many cases they also address topics as diverse as budgeting and basic financial skills. Employers are at the forefront of innovation in the development of financial well-being programs, and our members have shared with us some very impressive and measurable successes.

For example, one Fortune 500 company assessed its employees' behavior and perceptions with respect to the company's retirement savings programs, and used the results of that assessment to deploy educational modules in a targeted fashion through webinars and on-site seminars tailored to its workforce. The company then tracked the behavior of several hundred employees who participated in a webinar or on-site seminar. Sixteen percent of those who participated in a webinar increased their elective deferrals from an average of 10 percent of earnings to 14.3 percent. Similarly, 12 percent who participated in an on-site seminar increased their savings rate in the employer's retirement plan from an average of 8.7 percent to 11.4 percent. Other Council members have found success in pairing financial well-being programs with technology, such as a simplified "Easy Enroll" program that offers new hires a "three-click" enrollment process with respect to the retirement plan that places them in a pre-established framework of a high default savings rate, automatic annual increases in the salary deferral rate, and investment in low-cost, age-appropriate target date funds.

Congress has an important role to play in helping to ensure that younger workers invest in their retirement at the earliest opportunity. At a minimum, Congress should take care so as not to take any action that would hinder employers' flexibility in developing innovative financial well-being programs, including the integration of technology with such programs. But beyond that, in order for financial education to have an impact on retirement savings, it must be coupled with action. To that end, legislative proposals such as the new "secure deferral arrangement" automatic en-

rollment safe harbor, which is included in the Collins/Hassan bill, the Portman/Cardin bill, and the Neal bill, are especially important in encouraging employers to adopt automatic enrollment and automatic escalation at higher default levels that will better start younger workers on a path to future retirement security. We believe that secure deferral arrangements and similar proposals, when combined with financial well-being programs that educate employees about the importance of saving for retirement at a sufficiently high deferral rate, will be especially meaningful in ensuring that young people begin saving at their earliest opportunity and take advantage of all the benefits their employers offer.

PREPARED STATEMENT OF HON. CHUCK GRASSLEY,
A U.S. SENATOR FROM IOWA

Good morning. Today the committee will continue its work on retirement security and the challenges facing the U.S. retirement system.

I want to welcome our witnesses this morning. I look forward to hearing your thoughts and ideas on ways to improve the United States retirement system.

Last month, Senator Wyden and I introduced the Retirement Enhancement and Savings Act of 2019—which typically goes by the nickname of RESA. This bill is an update package of important reforms to the retirement tax rules which was developed and advanced by the committee over the last two Congresses.

Passage of RESA remains a top priority for me. Its centerpiece expansion of open MEPs and other common-sense changes would make it more feasible for businesses of all sizes to offer retirement plans by harnessing economies of scale and reducing unnecessary administrative burdens on employers.

I'm hoping that the House will send its version of RESA over to us at some point this month. And I'll continue to work closely with Senator Wyden and other committee members to reconcile the differences and get this important bill to the President.

But there is still work to be done and gaps to fill in the retirement system. Our focus today will be to explore those issues. What more can we do now to increase coverage in the existing system, how we can encourage more people to save, and what approaches should we take to help workers plan, save, and—critically—live in retirement?

The workplace retirement system is the primary way American workers save for retirement, whether through a defined benefit pension plan or an employer-sponsored defined contribution program. And while defined benefit plans remain an important part of our overall retirement system, defined contribution plans—401(k) plans and similar programs—are now the primary means for private-sector workers to save.

While it's clear that there are gaps in the system and we need to work on improvements to the system, it's not generally clear that there is a "retirement savings crisis."

Let's look at the numbers. At the end of 2018, $27 trillion has been set aside in retirement funds, including over $5 trillion in private-sector defined contribution plans.

Workers with access to a retirement plan has reached 66 percent in the private sector, with over 75 percent of workers with access to plans actually making contributions toward their retirement.

Since 1984, the number of 401(k) plans has grown from 17,000 plans to just over a half-million plans, covering over 60 million active participants.

By any measure, the growth in these plans and the dollars saved are a success. But we need to do more to encourage and facilitate retirement savings. As the economy grows, our retirement system needs to keep pace, with greater access for employees and independent workers and efforts to make sure retirees enjoy a financially sound retirement.

So, while this hearing is a continuation of the committees work in this area, it marks the start of our work on the next round of retirement savings reforms. We have several members on the committee who have put forward good ideas for next steps, and our panel today will share their views on those and other proposals to strengthen our retirement system.

PREPARED STATEMENT OF HON. TOBIAS READ,
OREGON STATE TREASURER

INTRODUCTION

Chairman Grassley, Ranking Member Wyden, and members of the committee, thank you for the opportunity to address the committee on the topic of retirement security.

My name is Tobias Read, and I have the honor of serving as Oregon's State Treasurer. At the Oregon State Treasury, we focus on promoting the financial security of all Oregonians. We manage a $100 billion investment portfolio, issue the State's bonds, serve as the central bank for State agencies and local governments, and administer savings programs for individuals and families.

Before I was elected State Treasurer, I served in the State legislature. In 2015, I co-sponsored the legislation that led to the creation of the Oregon Retirement Savings Program, also known as OregonSaves. The Oregon State Treasury is tasked with implementing OregonSaves, and my experience with OregonSaves is why I am here to testify before you today.

We created the first-in-the-nation OregonSaves program in response to our Nation's retirement savings crisis. According to the National Institute for Retirement Security, the gap between what's saved and what's needed is estimated to be at least $6.8 trillion nationally.[1] At the same time, more than half of the private-sector workforce in the United States lacks access to an employer-sponsored retirement savings plan at work. In Oregon alone, with a working age population of 1.8 million, there were an estimated 1 million private-sector workers without such access. And that matters, because research by the AARP shows that workers are 15-times more likely to save if there is an option to do so at work.[2]

That's why everyone should be happy to see the efforts of Oregon and other States to expand savings options to more people. Empowering more people to invest in their own futures is vital to the financial well-being of individuals and families alike.

The program is working. I am pleased to report that OregonSaves is already a success, and it is still just getting started. Tens of thousands of people are already participating and most of these Oregonians had never saved before. We have eclipsed $18 million in savings by the first waves of participants. That number increases by more than $2.2 million a month and is accelerating.

WHAT IS OREGONSAVES?

OregonSaves is an easy, automatic way for Oregonians to save for retirement at work. Workers at an employer that does not offer a qualified retirement plan can automatically enroll and start saving into their own personal IRA. OregonSaves is also a public-private partnership. The program is overseen by the State and managed by a private program administrator with extensive experience in the financial services industry, similar to how 529 plans are structured.

Oregon employers that do not offer a retirement savings option are required to offer OregonSaves to their workers. Participating workers contribute to their IRA with every paycheck, and those IRAs are tied to the worker and not the job, ensuring that what a worker saves is portable and will always be their money and under their control. Workers can opt out if they want, but most are staying in—about three of every four eligible workers.

Based on early demographic data, two-thirds of workers age 35–44 choose to participate in OregonSaves when they work at a facilitating employer.[3] This means OregonSaves is laying a foundation for a long-term culture shift, in which saving early and throughout your career becomes the norm.

But beyond the numbers, I love to hear the stories of the savers, like Genevieve from the non-profit Merit NW in Salem. Genevieve told us that OregonSaves is "the easiest retirement program I have ever participated in. It has removed a lot of the stress of having to choose from a long list of decisions that feel overwhelming. Saving for retirement should be easy and painless."

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[1] *https://www.nirsonline.org/wp-content/uploads/2017/06/retirementsavingscrisis_final.pdf.*
[2] *https://www.aarp.org/content/dam/aarp/ppi/2017-01/Retirement%20Access%20Race%20Ethnicity.pdf.*
[3] *http://crr.bc.edu/wp-content/uploads/2018/12/IB_18-22.pdf.*

I'm also excited to see enthusiasm from businesses. Signing up workers is quick and easy. As Josh Allison, owner of Reach Break Brewing in Astoria told us, "OregonSaves allows me to offer a retirement plan to my employees, which I would have a difficult time providing on my own. As a small family-owned business, it gives me the tools to recruit and retain good employees. It also gives my employees the ability to work for our company as a career. It's a win-win for all parties involved."

HOW DOES IT WORK?

OregonSaves launched in a pilot phase in July 2017 and began operating statewide at the beginning of 2018. The program fills an important gap by expanding access to workers who have traditionally been unable to contribute to workplace retirement accounts. Workers, such as hair stylists or those in construction, generally work for themselves or for small businesses that lack employer-sponsored plans. For these workers, making long-term financial plans—including for retirement—often takes a back seat.

The program is currently registering employers with more than 10 workers. The statewide rollout will continue in waves through 2020, which is the timeline for small firms with four or fewer workers. However, many employers see the benefits of OregonSaves and aren't waiting to register. Employers of any size can enroll at any time ahead of their registration date, and nearly 2,000 have already chosen to do so.

The program is also open for voluntary enrollment by individuals, including the self-employed, gig economy workers, and those whose employers do not facilitate OregonSaves. Over 250 individuals have self-enrolled since we made that option available late last year.

OregonSaves is adding approximately 1,800 workers per week and the program now has more than 78,000 workers enrolled. We anticipate a similar volume of workers to enter the program over the next few years, as small businesses join the program in the final waves. The estimated total of eligible workers could be as large as 400,000–500,000.[4]

The participation rate of eligible workers has remained steady at around 72 percent, consistent with the market research analysis completed in 2016,[5] which estimated opt-out rates of 20 to 30 percent. And, there is potential for opt-out rates to drop over time: data from the United Kingdom's NEST program, a similar defined contribution workplace retirement plan with automatic enrollment, show the opt-out rate dropped by almost 50 percent over time.[6]

Workers automatically enrolled in OregonSaves utilize a standard set of options designed to reduce the stress and decision paralysis often ascribed to individuals enrolling in retirement savings plans. The standard savings rate and account type for OregonSaves is 5 percent of gross pay into a Roth IRA. Other States (CA, IL) initially set their standard savings rate at 3 percent, for fear that a higher initial percentage would reduce participation in the program. Our results show the higher percentage has not affected participation. The average savings rate is currently around 5.5 percent, and workers are contributing an average of $117 per month. Both CalSavers and Illinois Secure Choice chose to increase their standard savings rate to 5 percent based on our results.

We chose a Roth IRA as the standard account type because workers can withdraw their contributions at any time without penalty. This is an important design feature for new savers, many of whom lack emergency savings to weather financial shocks such as car repairs or medical bills.

Additional standard design features include depositing the first $1,000 saved into a capital preservation fund. This serves a dual purpose: first, it keeps our participants away from market volatility in the early months when they are new to the program. Second, it ensures that if a worker is automatically enrolled and decides soon thereafter to withdraw from the program, they can quickly access all contributed funds. Contributions above $1,000 automatically flow into a target date fund based on the participant's estimated retirement age.

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[4] *https://www.oregon.gov/retire/SiteAssets/Pages/Newsroom/ORSP%20Market%20Analysis%2013JULY2016.pdf.*

[5] *https://www.oregon.gov/retire/SiteAssets/Pages/Newsroom/ORSP%20Market%20Analysis%2013JULY2016.pdf.*

[6] *http://www.nestinsight.org.uk/wp-content/uploads/2018/06/How-the-UK-Saves.pdf.*

Finally, the standard design includes an automatic escalation of 1 percent on January 1st of each year until the contribution rate reaches 10 percent. Almost 10,000 OregonSaves participants had their first auto-escalation on January 1, 2019 and we are happy to report that 90 percent of participants who auto-escalated made no changes to their contribution rates. In fact, 48 participants used the reminder as an opportunity to increase their savings rate even further.

Preliminary analysis of participant data by the Center for Retirement Research at Boston College shows that 83 percent of workers who have not opted out are sticking to the default. This is similar to worker behavior in 401(k) plans.[7] Participants can go online or call at any time to make changes to their contribution rate, type of investment, account type (Roth or Traditional IRA), or auto-escalation details. And many do. The OregonSaves call center gets approximately 3,600 calls per month from participants seeking to interact with their accounts.

EMPLOYER FACILITATION

From the beginning, Treasury was aware that the success of the OregonSaves program relied heavily on our relationship with employers throughout the State. We constructed the program to limit the requirements on employers as much as possible and are constantly considering ways to decrease the time employers spend facilitating the program. Employer interaction with the program includes the steps outlined below.

First, registration or exemption. All Oregon employers receive notices from the OregonSaves program in the months leading up to their registration date. For employers that already offer a qualified retirement plan, these notices simply prompt them to go online and certify themselves as exempt. In practice, we have seen a small number of employers use these program notices as a prompt to set up their own qualified retirement plan instead of facilitating OregonSaves. We see this as an exciting development, both for workers, who will have access to better benefits, and for private industry.

In addition to the self-exemption process, we have determined two other ways to certify that an employer is exempt. If an employer files a Federal form 5500 and our staff is able to positively match the business on the form 5500 with the Oregon business, we will send a notice of presumed exemption from the program. Additionally, Treasury has a bill currently before the Oregon Legislature (Senate Bill 165), which would add a checkbox on a required annual business filing with the Oregon Department of Revenue. If the bill passes, employers offering a qualified retirement plan could check the box on the form and the Department of Revenue would transfer data to Treasury to exempt the employer from the program.

Employers that do not offer a qualified retirement plan go online to register. Registration involves verifying basic employer information and affirming the employer does not currently offer a plan. Once registered, the employer is prompted to provide basic information about each worker so OregonSaves can contact individuals to set up their accounts or obtain opt-out forms. Employers can either upload an excel spreadsheet onto the program platform or enter this data manually. Most employers tell us this process takes approximately 30 minutes to an hour, depending on the number of workers and the method used for upload.

Beginning 30 days following worker enrollment, employers begin transferring contribution amounts to the individual IRAs. Employers using a payroll service provide instructions to their payroll provider to initiate these transfers. Employers without a payroll service handle these transfers as they would any other deduction from an employee's pay. Employers and payroll providers tell us this adds 10–15 minutes to their payroll each pay period.

PROGRAM CHANGES FOR EMPLOYERS

Our original program rules gave employers the ability to make programmatic changes to individual worker accounts and asked employers to distribute program materials to workers. We have since shifted all responsibility for making changes and distributing materials to our third-party program administrator. In so doing, we are reducing the amount of time employers spend facilitating the program and ensuring the information reaching workers is provided in a timely and efficient manner.

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[7] *http://www.nber.org/2018rrc/slides1/1.2a%20-%20Belbase.pdf#page=13.*

We have also been working together with Illinois Secure Choice and CalSavers to collaborate with the Nation's largest payroll providers. At a meeting in Chicago last month, over a dozen payroll providers sent representatives to discuss how best to integrate payroll services with the State programs. It is our hope that by laying this groundwork early, payroll providers and third-party provider platforms will automate communication this year, further reducing the employer's role and in some cases eliminating their responsibilities entirely.

ENSURING WORKER ACCESS TO OREGONSAVES

Our goal is to ensure every Oregonian access to a retirement savings option at work. Oregon law requires all employers that do not offer a qualified retirement plan to facilitate OregonSaves, but does not include a mechanism to investigate compliance. The Oregon Legislature is set to vote on Senate Bill 164, which would allow our Bureau of Labor and Industries to investigate employer compliance. Treasury worked with employer and stakeholder groups to draft and amend this bill. The goal is to ensure all Oregon workers have access to the program without placing an undue burden on small employers around the State.

At a recent House Business and Labor committee hearing, representatives of the business community spoke about the process of creating program rules for employers, and this proposed compliance mechanism. A lobbyist representing several employer groups in Oregon, said "the Treasurer's office has been incredible in the implementation of this program . . . they have tirelessly worked with us throughout the rules process to ensure this is easy to implement. My clients are excited about it, their employees are excited about it. It's not what I thought I would have been telling you 2 years ago or 3 years ago."

The OregonSaves call center gets approximately 1,250 calls per month from employers with questions about the program and their role as a facilitating employer. The OregonSaves team has provided over 330 one-on-one training sessions to employers to assist in program set-up and provides informational sessions across the State to employer groups of varying sizes.

PUBLIC SUPPORT

The public overwhelmingly supports OregonSaves. Employers say it is easy to sign up workers, and based on a recent public survey by DHM,[8] the level of support has actually increased in the first year. That poll found an astounding 82 percent of people support OregonSaves.

They know it is the right approach, and that it will improve savings, making Oregon stronger, today and in the long run. Or as John, an employee at Provoking Hope in McMinnville told us, "I'm 30 and now just thinking about my future. For the first time in my life, I'm thinking ahead. Where I'm at today is a 180 [degree] turn—I never even had a bank account before. I'm grateful these types of programs are available to get people on the right track."

NO FEES FOR EMPLOYERS; REDUCING FEES FOR WORKERS

Facilitating OregonSaves is fee-free for employers. Program costs are covered by fees on the IRA account assets. The all-in fee for workers is capped at 1.05 percent of assets per year. This level will likely drop once the program is fully implemented and assets continue to grow. According to the 2016 feasibility study,[9] it is estimated that fees could drop down to 30 to 50 basis points after start-up costs are repaid. In fact, investment fund fee reductions are already a reality. In September 2018, State Street Global Advisors, OregonSaves' investment manager, announced lower investment fund fees for the OregonSaves Target Retirement Funds (from 13 to 9 basis points), which is the standard investment option for participants, as well as for the OregonSaves Growth Fund (from 6 to 2 basis points), reducing the all-in fees for workers invested in those options accordingly.

FEDERAL LAW AND INTERACTION WITH STATE PROGRAMS

OregonSaves and the other State-based auto-IRA programs are constantly seeking better ways to serve employers and program participants. We believe the following

[8] *https://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2018/oregon-retirement-savings-oregonsaves.doi.10.26419-2Fres.00248.001.pdf.*

[9] *https://www.oregon.gov/retire/SiteAssets/Pages/Newsroom/ORSP%20Feasibility%20Study%208_11_2016.pdf.*

changes at the Federal level would help achieve our program goals of reduced burden on employers and a better product for our participants:

(1) *Creating a robust 5500 database.* As previously mentioned, we currently use Form 5500 data to presume employers exempt from the program. While helpful, that data is not as robust as we originally anticipated. Our match rate was approximately 11.5 percent when comparing our data with the Form 5500 filings. Upon further research, we believe part of the issue is that subsidiary companies are not listed in a way that can be easily searched and retrieved. If a more robust database existed, OregonSaves and the other State programs could more easily exempt employers that offer a qualified retirement plan, meaning we can reduce the administrative burden on exempt employers and focus our efforts and resources on those businesses who need to facilitate.

(2) *Allowing minors to use OregonSaves.* Under the age of majority (18 or 21, depending on the State) an IRA is a custodial account that a custodian (typically a parent) holds on behalf of a minor child. The account is transitioned into the child's name at the age of majority. We recommend changing this requirement and allowing minors as young as 16 to open their own accounts and hold the money in their own names. This would allow State-based programs to auto-enroll minors working at facilitating employers and get young workers in the habit of saving early in their working lives.

(3) *Exemption from future Federal legislation.* When considering Federal legislation that would overlap or create national-level retirement savings programs, we would ask for an exemption to allow State-based programs to continue where they already exist.

CONCLUSION

OregonSaves is already succeeding and achieving the goal of improved access to retirement savings. Workers and businesses across Oregon express strong support and agree about the need for the program. Kevin, the Chief Content Officer at Statehood Media in Bend, summed up the need for this program when he said, "the Oregon Retirement Savings Plan reminds us that now, more than ever, we need to find easy and convenient ways to fund our retirement. . . . For me, it makes recruiting to Oregon easier. For the country, this is a step forward in national security."

The success of OregonSaves will have long-term positive implications for the savers and for Oregon. Thousands of Oregonians will save significant amounts of money for years to come as OregonSaves is phased in statewide. Every person is different and their retirement needs will vary, but OregonSaves and the ability to save is already improving our business climate, and is already increasing the long-term financial stability of thousands of Oregonians.

And we are just getting started.

QUESTIONS SUBMITTED FOR THE RECORD TO HON. TOBIAS READ

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. It is my understanding from your testimony at the hearings that employers joining the Oregon plan will not incur any cost to maintain the accounts for the employees. If the employer does not pick up the tab, then is the employee paying for this retirement account and/or will the State pick up some of the cost? If the participant pays for their own account, how does the State determine an appropriate fee for service?

Answer. There are no fees for employers. The OregonSaves program is entirely funded by an all-in fee on participants' assets under management, similar to how 529 plans are funded. The Oregon Retirement Savings Board oversees the program and takes many factors into consideration when determining fees, including the startup and ongoing costs of program administration and the costs of the underlying investments offered. Currently, the all-in fee is capped by administrative rule at 1.05 percent of assets. The actual fee incurred currently ranges from 92 basis points to 103 basis points, depending on which funds savers are invested in. The Board expects to lower fees over time as assets under management increase, we repay startup costs, and the program reaches economies of scale. The Pew Charitable

Trusts recently performed an analysis of the cost of programs like OregonSaves versus other types of plans, which provides helpful context on program fees: *https://www.pewtrusts.org/en/research-and-analysis/articles/2018/02/26/are-auto-ira-plans-a-good-deal-for-savers.*

Question. Our understanding of the Oregon program is that funds set aside by participants are pooled and invested in the standard "Investment Option" with a nominal account or "unit" associated with each individual participant. For simplicity purposes, the program offers a limited number of investment options. What are the plan's targeted per participant rates of return for the different investment options offered under the program?

Answer. OregonSaves was designed with simplicity in mind. Our goal has been to reduce as many common barriers to saving as possible. That's why the program uses automatic enrollment into an individually owned Roth IRA. Research shows that automatic enrollment increases participation rates substantially. Saving becomes the standard. For those who automatically enroll, the program has a standard investment path. The first $1,000 is invested in a conservative capital preservation fund. This helps ensure that participants do not experience an immediate loss in value if the beginning of their saving coincides with a market downturn. It also provides a liquid reserve of sorts that savers can access if they should have a budgetary emergency. Many of our savers are low-to-medium income and may not have other savings available for emergencies. Contributions after the first $1,000 are invested in a target date fund based on the savers' age and estimated date of retirement. Target date funds automatically rebalance investments over time, becoming more conservative as workers near retirement.

OregonSaves participants can remain on the standard investment path, or they can opt to invest in any of the funds offered through the program. The program provides three basic types of funds that range from conservative to aggressive, to accommodate savers with differing risk tolerances. In addition to the capital preservation fund and the suite of 12 target date funds, the program also includes a growth fund, which is an S&P500 index fund. These investment options provide savers with a meaningful range of choices, while keeping the program simple and easy to understand. Offering too many investment options can lead to decision paralysis for investors, especially if they are new to investing.

As Genevieve Sheridan, an employee at Merit NW, a nonprofit in Salem, OR, says, "This is the easiest retirement program I have ever participated in. It has removed a lot of the stress of having to choose from a long list of decisions that feel overwhelming. Saving for retirement should be easy and painless."

As with any form of investing, returns will depend on market conditions. There is no guaranteed rate of return. We provide historic investment performance information for savers on our website at *https://saver.oregonsaves.com/home/savers/investments.html.*

Question. Are these State-run plans designed to provide retirement readiness? For private-sector plans, participation and savings rate are two of the main factors towards retirement readiness. State-run plans have addressed participation via auto enrollment into the program and an IRA established in the employees' name. For savings rate, the State program carries restrictions to contributions as the limits are aligned with the IRA limits (*e.g.,* $5,500 for 2019). If contribution limits in these State programs are substantially less than 401(k) plan limits, how can employees save enough to retire in a State-run program?

Answer. Any one solution on its own isn't going to solve the retirement savings crisis in America. The fact is that many of us will need to rely on multiple sources of income during retirement, including but not limited to Social Security, employer-sponsored retirement plans, and Individual Retirement Accounts.

OregonSaves is designed to get more people in the habit of saving by making saving as easy as possible. The program has a standard savings rate of 5 percent of gross pay to encourage people to start saving at a rate that is high enough to make a real impact on their long-term savings without being so high that it discourages them from participating. The program also includes automatic escalation of contributions, increasing savers' rates by 1 percent per year until they reach 10 percent of gross pay. On average, savers are currently saving about 5.56 percent of their gross pay, a higher percentage than the standard. That works out to about $110 saved on average per month or about $1,320 per year. While that's below the annual contribution limits for IRAs, it's worth noting that this is money that wasn't previously being saved for retirement. And this is a significant amount of money for

the people that OregonSaves serves, who are mostly low- to medium-income. It's a great start, and we expect people to save an even larger amount as their contribution rates automatically increase each year. After the first escalation of contributions occurred on January 1, 2019, 90 percent of savers kept their rates at the new, higher rate.

Even saving small amounts through programs like OregonSaves can make a difference in the long run by allowing savers to delay taking Social Security by months or even years. Pew estimates that "participants in auto-IRA accounts could see Social Security benefit increases of nearly 7 percent to slightly more than 8 percent for each year they use their account savings to delay claiming these benefits."[1]

And it's important to note that we view OregonSaves as something that can align well with the variety of other savings plans that exist. We know of a number of employers who have been prompted to set up their own 401(k) plan due to the establishment of OregonSaves. Even though this means they are not participating in OregonSaves, we view this as a positive outcome since it increases access to workplace-based retirement savings.

Question. According to plan documents, the Oregon Retirement Savings Board is responsible for investing the funds contributed to participant accounts, and has outsourced the investment management of these funds to State Street Global Advisors. Please provide the investment policy of the Board and the criteria used in selecting the outside fund manager.

Answer. The Oregon Retirement Savings Board spent considerable time and effort developing an investment policy to guide the selection of investments for the program and ensure that the investments offered aligned with the goals of the program and the needs of its participants. A copy of the investment policy is available online at: *https://www.oregon.gov/retire/SiteAssets/Pages/Rules/3a-1%20-%20Oregon Saves%20Investment%20Policy%20Statement%20-%20Counsel%20Edits%20-%2020 17.6.22%20-%20CLEAN.pdf.*

Using the policy as a guide, the Board decided to offer three types of investment options that range in risk exposure: a capital preservation fund, a suite of target date funds, and a growth fund. For each type of investment, the Board used an open, competitive process to review available options, taking into consideration factors such as cost, historic performance, and comparison to benchmarks. The Board then selected the investment manager for each investment type. Documents related to the selection process can be found online on the Board's website at: *https://www.oregon.gov/retire/Pages/Meetings.aspx.*

Question. The investment options under the plan appear from offering documents to be low-cost index funds. The participant fees for investment into these funds are about 1 percent. What level of these fees goes to the investment manager and what are the fee amounts going to the State? How do these fees compare to low-minimum Roth-IRA options offered in commercial markets?

Answer. OregonSaves is funded by an all-in fee on savers' assets under management. The all-in fee covers all aspects of the program, including the State's expenses, the cost of the program administrator, and the cost of the underlying investment options. The fee is about 1 percent of assets under management and can be broken down as follows:

- 15 basis points for the State.
- 75 basis points for the program administrator.
- 2–12 basis points for the investment manager, depending on the fund.[2]

It's worth noting that OregonSaves differs from other Roth IRA options, because the program is facilitated through the workplace. Having the option to save automatically at work is extremely important. Research from the AARP shows that individuals are 15 times more likely to save if they have a way to do so at work.[3] Since OregonSaves was the first program of this kind to launch, it took significant resources to develop a system that allows employers to facilitate the program for their employees, including the development of employer, payroll provider, and employee portals. For this reason, it would make sense to compare the cost of OregonSaves

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[1] *https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/03/auto-iras-could-help-retirees-boost-social-security-payments.*

[2] OregonSaves offers three different types of investment options: a conservative capital preservation fund, a suite of target date funds, and a growth fund.

[3] *https://www.aarp.org/ppi/info-2017/Access-to-Workplace-Retirement-Plans-by-Race-and-Ethnicity.html.*

to the cost of other workplace savings options. The Pew Charitable Trusts recently performed an analysis of the cost of programs like OregonSaves as compared with other types of plans, which can be found here: *https://www.pewtrusts.org/en/research-and-analysis/articles/2018/02/26/are-auto-ira-plans-a-good-deal-for-savers.*

The Board expects to lower fees over time as assets under management increase, we repay startup costs, and the program reaches economies of scale. In fact, the expense ratios for the target date funds have already decreased from 13 basis points to 9 basis points, and the expense ratio for the growth fund decreased from 6 basis points to 2 basis points.

QUESTIONS SUBMITTED BY HON. TIM SCOTT

Question. In South Carolina, we have a large—and growing—population of retirees, as well as a dynamic, diverse workforce—where retirement security is a high priority.

Now, one hurdle to ensuring a successful and stable retirement, in the past, has been a lack of portability as folks transition from one job to the next. Of the 14.8 million workers who change jobs each year, 6 million cash out of their retirement plans. This has been particularly difficult for some African American employees, who have a 401(k) cash-out rate of 63 percent.

For this reason, I have been strongly supportive of the private sector's efforts to address cash-outs and, in particular, the development of auto-portability, which would allow a person's retirement savings to move with them when they change jobs. I worked closely with Secretary Acosta and the Department of Labor on guidance to facilitate auto-portability, and it has the potential to help millions of families. Now, we just need to implement the system, and I'm hopeful we can move forward with that as efficiently as possible.

To what extent do you see cash-outs and leakage as threatening retirement security in the long term, and are there other steps we can take to build upon auto-portability?

Answer. One of the defining features of OregonSaves is that accounts are portable. Each saver has their own, individual account that goes with them throughout their career, from one job to the next. By the time the program is fully rolled out, tens of thousands of employers in Oregon will facilitate OregonSaves. Workers who move from one facilitating employer to another don't need to do anything to keep saving. They can automatically reenroll and continue to save with each paycheck into their account at their new employer. Even if a worker is no longer employed by a facilitating employer, they can continue to contribute to OregonSaves through their bank account. Cash-outs tend to occur when employees leave their job and no longer contribute to the employer-sponsored plan. With OregonSaves, you can keep contributing regardless of where you are in your career, and that continuity of saving can help workers' retirement security over the long term.

In recent decades, we've seen what I see as an exciting shift towards greater flexibility, control, and stability in retirement savings. Total retirement savings have risen from 48 percent of total employee wages in 1975 to a staggering 337 percent of wages in 2017.[4] And in 2016, the Survey of Consumer Finances found that three-quarters of Americans over 65 reported retirement income that was at least enough to maintain their standard of living—up 14 percentage points since 1992.[5]

That being said, financial literacy remains a barrier to effective retirement savings for too many Americans. A 2018 report from the Board of Governors of the Federal Reserve System found that three-fifths of non-retired adults with self-directed plans reported having little or no comfort managing their investments.[6] On a five-question assessment on basic finance, the average number of correct answers was just 2.8.[7] In these circumstances, cash-outs when an employee moves from one employer to another make sense. The process for rolling over retirement accounts is confusing and time-intensive, and transitioning workers already have enough to

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[4] *https://www.napa-net.org/news-info/daily-news/13-things-you-probably-didn%E2%80%99t-know-about-retirement-savings.*

[5] *https://www.federalreserve.gov/econres/scfindex.htm.*

[6] *https://www.federalreserve.gov/publications/2018-economic-well-being-of-us-households-in-2017-retirement.htm.*

[7] *Ibid.*

think about when changing jobs. We need to ensure there are simple and easy ways to keep money already saved in the system and earmarked for retirement during these periods of transition. Auto-portability is a great first step at addressing this issue.

Question. Clearly one piece of this puzzle is improving our educational system to ensure that financial literacy receives much more emphasis. Beyond that, however, what tools, resources, and programs are out there that might assist folks in planning for their financial well-being in the long term, and—more importantly—how can we connect workers to these programs?

Answer. Improving financial literacy is an important priority and one of our biggest challenges. The current system is not working for many Oregonians, leaving them without the right opportunities, tools, and financial education resources they need to address the real, ongoing economic challenges they face today.

Oregon families face rising consumer debt and student loan debt, limited retirement savings, limited personal savings, more financial product choices without more financial know-how, and the overuse of payday, check cashing, and title loans. These issues have serious impacts for families and on the State, our economy, and the social service system. And even with more income and opportunity, Oregonians will not have better financial outcomes without the right tools and financial education.

State agencies and their partners in Oregon already perform a significant amount of financial education and outreach, but without the benefit of coordination that would increase their efficiency, reach, and impact. Currently, there is no single entity in Oregon that is responsible for coordinating financial education efforts. If State government and private entities worked together to provide better access to meaningful financial information and resources, we would better empower Oregonians to improve their financial literacy and their lives.

Agencies and their partners agree that better coordination and support of their efforts is the key to improving financial literacy in Oregon. In 2015, as part of the creation of OregonSaves, the Oregon Legislature requested the Oregon State Treasury provide a series of recommendations to improve financial literacy in the State. After a series of working groups and discussions with Oregon's experts from the public and private sectors, Oregon State Treasury came up with the following recommendations:

1. Assign responsibility for the coordination of statewide financial education efforts to a single entity.
2. Connect Oregonians to current resources by creating a more comprehensive network or clearinghouse of information for the public.
3. Provide support for current programs through cross promotion and public/private partnerships as well as provide more funding for financial education providers with a track record of success.
4. Improve curriculum-based financial education by making financial literacy an essential skill required to graduate high school and by better aligning adult and K–12 financial education programs.

For a full list of the recommendations, please see page 8 of the 2016 OregonSaves annual report to the Oregon Legislature at: *https://www.oregon.gov/retire/SiteAssets/Pages/Newsroom/Oregon%20Retirement%20Savings%20Plan%20December%202016%20Status%20Report%20to%20the%20Legislative%20Assembly.pdf.*

More recent scholarship also suggests that a special focus of financial literacy efforts should be on getting the right information to the right people at the right time. Studies of financial literacy retention are not encouraging, suggesting that a more focused approach on delivering relevant information and tools, when they are likely to be useful, would be more effective.

QUESTIONS SUBMITTED BY HON. MARIA CANTWELL

Question. The States are leading the way by creating new and innovative ways to expand retirement savings options. Oregon has enacted an "auto-IRA" system that allows workers to save through their employer's retirement savings plans or use the State program if an employer does not offer a plan. Many States have followed your lead and your model. In Washington, we chose a different model—a "marketplace" model, which lets small businesses and individuals shop around for the retirement savings plan that best meets their needs. New Jersey uses this model too.

What changes could Congress make to Federal law that would aid in the implementation of State-based auto-IRA programs?

Answer. OregonSaves and the other State-based auto-IRA programs are constantly seeking better ways to serve employers and program participants. We believe the following changes at the Federal level would help achieve our program goals of reduced burden on employers and a better product for our participants:

(1) **Creating a robust 5500 database.** We use Form 5500 data to presume employers exempt from the program. While helpful, that data is not as robust as we originally anticipated. Our match rate was approximately 11.5 percent when comparing our data with the Form 5500 filings. Upon further research, we believe part of the issue is that subsidiary companies are not listed in a way that can be easily searched and retrieved. If a more robust database existed, OregonSaves and the other State programs could more easily exempt employers that offer a qualified retirement plan, meaning we can reduce the administrative burden on exempt employers and focus our efforts and resources on those businesses who are required to facilitate.

(2) **Allowing minors to use OregonSaves.** Under the age of majority (18 or 21, depending on the State) an IRA is a custodial account that a custodian (typically a parent) holds on behalf of a minor child. The account is transitioned into the child's name at the age of majority. We recommend changing this requirement and allowing minors as young as 16 (or whatever age allows them to work for compensation) to open their own accounts and hold the money in their own names. This would allow State-based programs to auto-enroll minors working at facilitating employers and get young workers in the habit of saving early in their working lives.

(3) **Exemption from future Federal legislation.** When considering Federal legislation that would overlap or create national-level retirement savings programs, we would ask for an exemption to allow State-based programs to continue where they already exist.

(4) **Remove retirement account savings from the asset limitations for SSI.** In 2018, we passed legislation in Oregon to remove retirement account savings from the State-level asset limitations for the Temporary Assistance for Needy Families (TANF) program. By allowing Oregonians to keep the money they have already saved in their retirement accounts, even when they fall on hard times and require assistance, we are telling them that they do not have to choose poverty now or poverty later. The State can help these families weather a job loss, injury, or other major life event, without forcing that family to give up long-term financial security in retirement. We would ask Congress to consider doing the same for the asset limitations for Supplemental Security Income (SSI). Individual Development Accounts (IDAs) and ABLE account balances are already exempt from the $2,000 individual asset limit for SSI. Removing retirement accounts from the asset limit would empower individuals to think long-term and save for their own retirement security.

Question. What are the key concerns of employers and how have you addressed those concerns?

Answer. Employers always have a lot on their plates, and we have tried to keep that in mind throughout the process of designing and implementing the program. In the end, we want the program to be a benefit to employers as well as savers. OregonSaves can provide business owners with an easy way to save their own money for retirement, and an easy and no-fee way to provide an important benefit to their workers. As Josh Allison of Reach Break Brewing in Astoria puts it, "OregonSaves allows me to offer a retirement plan to my employees, which I would have a difficult time providing on my own. As a small family-owned business, it gives me the tools to recruit and retain good employees. It also gives my employees the ability to work for our company as a career. It's a win-win for all parties involved." It's also worth noting that research shows that employees are more productive when they have less financial-related stress.[8]

Employer concerns have been largely centered on the time and resources necessary to facilitate the program. With that backdrop, OregonSaves has been intentionally designed to limit the employers' role as much as possible. The State of Or-

[8] *https://www.fidelity.com/about-fidelity/institutional-investment-management/research-finds-the-top-two-sources-of-stress-for-american-worker.*

egon takes on most responsibilities for administering the program, including fiduciary responsibility. The employer only handles those steps in the process the State cannot: providing employee information and making payroll deductions for those that enroll. We are constantly looking for ways to decrease the employer's role. For instance, employers were initially responsible for distributing information about the program to employees, but we were able to take on that task ourselves. We are also working with payroll providers to better integrate our systems, so information can automatically pass from one system to another, further reducing the obligations of employers related to payroll deductions for the program.

Since the beginning, we have engaged the employer and business community to gather their input and feedback. We included employers in our initial program design workgroups and employer representatives have been on our rulemaking advisory groups. Before launching the program, we conducted two pilots with volunteer employers to help us ensure the program worked as well as possible. We continue to solicit feedback from employers on a regular basis and use that information to plan improvements and changes to the program and system. In fact, we are now working with the Pew Charitable Trusts to survey all facilitating employers to learn more about their user experiences. All of this engagement has been critical to the success of the program. It has allowed us to continually reduce our ask of employers, which in turn allows them to spend more time running their businesses.

At a recent Oregon House Business and Labor committee hearing, one representative of several employer groups in Oregon testified to this, saying, "the Treasurer's office has been incredible in the implementation of this program they have tirelessly worked with us throughout the rules process to ensure this is easy to implement. My clients are excited about it, their employees are excited about it. It's not what I thought I would have been telling you 2 years ago or 3 years ago."

Question. Too many people underestimate how much money they will need to save in order to comfortably retire. Individuals need a better understanding of the lifetime value of their current level of savings in their 401(k) plan. Understanding of the value of the total assets saved for retirement and how much those savings will translate to on a monthly basis will help to improve individual retirement savings levels. By helping workers better gauge how much they will need to retire, individuals will be better prepared for retirement and be able to make more educated decisions about their savings and investments.

How would providing an estimate of the monthly income distribution from their retirement savings on the individual's annual benefit statement help working people gauge their progress toward reaching the goal of a safe and secure retirement?

Answer. People benefit from tools that help them gauge their potential income in retirement. Such tools can help individuals estimate the future value of dollars saved, as well as how much of their current income their savings will replace during retirement. With this information in hand, workers can make informed decisions about how much to save and potentially course correct if it looks like they are falling behind.

For the OregonSaves program, we've developed a retirement calculator that allows participants to see what saving a specific percentage of their pay could mean in terms of dollars saved by the time they retire. It can be hard for workers to see how the standard 5-percent contribution adds up over time, taking into account the power of compound interest. A next step for us is to expand that tool to provide a more holistic view of savers' progress toward retirement security.

While there are many online tools for consumers to estimate retirement income, the best allow consumers to factor in all sources of income, including Social Security payments, pension benefits, defined contribution plan balances, and IRA savings. It's even better when the tools are tied to actual accounts and benefits, allowing for retirement income estimates based on actual savings and benefits earned by the individual. We will continue to look for ways to supplement our tools and work with others.

QUESTIONS SUBMITTED BY HON. MICHAEL F. BENNET

Question. As you know, retirement can be daunting for many Americans who have not had an opportunity to save. We have an obligation to make it easier for people to save for retirement, and automatic enrollment IRAs are a good step in that direction.

What have you learned about the best way to design such a program to maximize uptake and economic security in retirement for workers?

Answer. The State of Oregon created OregonSaves with two basic design principles in mind: ease and simplicity, and our success is due to the fact that these principles have been applied to every aspect of the program. Saving needs to be as easy as possible—both for employees to save and for employers to facilitate that savings. Features like automatic enrollment and auto-escalation of contributions take into account human nature and remove the inertia standing in the way of getting started and saving more. People know they need to save. People want to save. And they will, if we lower the barriers and make saving the norm for all workers.

Most employers want to offer retirement benefits. Like employees, they want it to be easy, so we need to limit the time and effort involved as much as possible, especially if we are asking them to take on administrative efforts as a requirement of doing business. When designing programs like OregonSaves, it is critical to engage the business community at every stage. Through their input and feedback, we can help make sure the program aligns with the way they do business and work towards ever better integration with their systems and processes. We've learned important things and made improvements to OregonSaves as a direct result of employer engagement.

One way to maintain ease for both workers and savers is to keep the program simple. We started the program with a standard path of savings options for savers. The majority of savers continue to use the standard path. But we know one size doesn't fit all, so we've also provided savers with a range of other options from which to choose. They can change their savings rate anywhere from 0 to 100 percent of their pay. They can choose from a small but meaningful range of investment options. They can switch from a Roth IRA to a Traditional IRA. And if we hear requests from savers for more or different options, we have the flexibility to add those to the program over time. If we had tried to add all of the bells and whistles to start, it would have made it harder to develop and roll out the program, and the extra added features might not have aligned with actual customer demand. By keeping it simple to start, we make the program easier to implement, and now our actual users can inform future enhancements and updates.

Question. What can we do at the Federal level to facilitate more of these types of efforts in the States?

Answer. In addition to the Federal level recommendations proposed in the written testimony, in Oregon we are closely following efforts at the Federal level to craft and create a national version of OregonSaves. We believe every American should have to opportunity to save through their employer and support the efforts in Congress to create a national auto-IRA program. If a national program comes to fruition, we would support a carve out from the national program for States that have already launched auto-IRA programs, as well as States that choose to launch their own auto-IRA program at a later date. We believe that State-level programs allow for a nimble response to specific regional challenges and that States should be allowed to take on the administration of such a program, should they choose to do so, as long as they meet the minimum requirements of the national program.

Question. As the American workforce changes, the way we plan for retirement has to adapt as well. Often, people are working for multiple companies at once, or frequently changing employers throughout their careers. Unique work situations require us to think more creatively about how we can help people save.

One idea would be to create a 401(k) or 401(k)-like product that is detached from a specific employer. This would allow employees to maintain the same account as they go between employers, and allow those employers to match their contributions and follow other best practices, like auto-enrollment and auto-escalation, while applying the same protections that they receive in an employer-based 401(k).

What are your views on this idea?

Answer. Portability of retirement accounts would benefit people by encouraging more people to save and to keep saving throughout their careers. Some people may work for the same company for their entire career, but most of us will change employers at some point. We may decide to start our own business. Or we might work in the gig economy, where we don't have access to employer-provided benefits. As the nature of work changes over time, it would help to have retirement savings options available for workers that adapt to those changes.

One of the defining features of OregonSaves is that accounts are portable. Each saver has their own, individual retirement account that moves with them throughout their career, from one job to the next. By the time the program is fully rolled out, the majority of employers in Oregon will facilitate OregonSaves. People who move from one facilitating employer to another don't need to do anything to keep saving. They can automatically reenroll and continue to save with each paycheck into that same account at their new employer. Even if a person no longer works for a facilitating employer, they can continue to contribute to OregonSaves through their bank account. With OregonSaves, you can keep contributing regardless of where you are in your career, and that continuity of saving can help workers' retirement security over the long term.

Other retirement products could be designed the same way. We would certainly like to give OregonSaves participants access to the higher contribution limits associated with a 401(k), and a number of OregonSaves facilitating employers have expressed a desire to match employee contributions. That said, we would be interested to learn more about the details of a portable 401(k) product and the fiduciary responsibility of the employer in this model, and we would want to maintain the ability of individual States to operate their own programs that meet the requirements of a national plan.

Question. Besides addressing the multiemployer pension crisis and passing RESA, what do you think are the most important steps we can take to increase retirement security for working Americans?

Answer. For people to have increased retirement security, they need access to easy savings options, improved financial literacy to help them make informed choices about their personal finances, and good paying jobs so that they can afford to save.

State programs like OregonSaves help increase access to retirement savings options by ensuring that every worker has a way to save easily and automatically through their paycheck. It would be great if people in all States had that option.

We also want to make sure people have the financial knowledge to manage their money wisely. OregonSaves has allowed us to talk with hundreds of thousands of workers about retirement, giving retirement security a public spotlight it does not usually receive. We have also used the program's roll out to connect workers and employers with organizations that specialize in financial education and assistance. The more we can do to make financial literacy a priority, the better.

Research shows that most people can afford to save more for retirement than they are now, but there are still many that can't afford to save.[9] Not having enough money to save is the number one reason people provide for opting out of OregonSaves. Public policy that promotes more and better economic opportunity for people is critical to ensuring that workers can take advantage of the improvements in retirement savings access that programs like OregonSaves create.

PREPARED STATEMENT OF JOAN RUFF, BOARD CHAIR, AARP

On behalf of our nearly 38 million members, and all Americans age 50 and over, AARP thanks Chairman Grassley, Ranking Member Wyden, and members of the Finance Committee for the opportunity to testify today on the significant issues surrounding the current and future state of retirement security of American workers and their families. AARP has members in every State and American territory, including 368,939 members in Iowa and 506,555 members in Oregon. AARP is committed to expanding retirement savings so that all Americans and their families have adequate income for retirement through Social Security, pensions and private savings, and we have worked throughout our history to develop and improve our retirement system.

THE RETIREMENT INCOME GAP

The gap between the financial assets Americans will need to maintain their standard of living in retirement and what they actually have—or are on track to acquire—strongly suggests that the retirement security of millions of Americans will increasingly depend on Social Security. For more than half a century, a secure re-

[9] *https://www.ebri.org/content/the-2015-retirement-confidence-survey-having-a-retirement-savings-plan-a-key-factor-in-americans-retirement-confidence-5513.*

tirement in the United States centered on reliable income from three sources, the so-called "three legged stool" of retirement—employer-provided defined-benefit pension plans, personal savings, and Social Security. Together, these sources of income offered a stable financial future. Unfortunately, diminishing pensions and inadequate retirement savings—coupled with longer life expectancies and higher health costs—endangers the dream of a secure retirement for millions of Americans, and requires Social Security to play an even greater role in the lives of older Americans.

Defined-benefit (DB) pension plans once dominated the employment landscape. In 1983, roughly 60 percent of workers with an employer-sponsored retirement plan had a DB pension plan; by 2016, however, just 17 percent of workers with a workplace retirement plan had a DB pension.[1] At the same time that fewer workers have been offered a pension with guaranteed lifetime income, more workers have been offered defined contribution (DC) plans—such as 401(k) plans—to save for their retirement. In 1983, only 12 percent of workers offered a workplace retirement plan were exclusively offered a DC plan, but by 2016, 73 percent of workers offered a workplace retirement plan were only offered a DC plan.

The switch from DB to DC plans has important implications for retirement security. First, employees now assume the responsibility of determining if and how much to save, and managing their retirement funds, even if they have little or no investment experience. Second, it is quite possible to outlive the savings in a DC plan because account balances may run out due to the uncertainty life expectancy. Third, despite the increased use of DC plans, financial experts generally agree the income they generate may not fully compensate for the loss of employer-provided DB pensions.[2]

Making matters worse, workers who only have access to a workplace savings plan are not saving enough to significantly contribute to a secure retirement. For middle-income households ages 55–64 with a DC plan or Individual Retirement Account (IRA), the median balance is roughly $100,000, not nearly enough to ensure a secure retirement, especially given that the average number of retirement years has increased markedly from 12 in the 1960s to almost 20 today.[3,4] It is no wonder that surveys persistently show that Americans do not feel financially prepared to retire. A recent Center for Financial Services Innovation poll, funded in part by AARP, found that only 18 percent of respondents felt very confident they could meet their long-term financial goals, including retirement.[5]

Of course, access to a workplace retirement plan is better than none at all. Remarkably, just over half of all workers in the United States are in jobs with no retirement plan. These workers are more likely to work part-time or in a small business, and be less educated and lower-paid.[6] Overall, the share of the workforce covered by retirement plans is 51 percent as of 2013, a percentage that has remained largely unchanged over the past three decades.[7] While these workers still could contribute to an IRA to save for their future, few actually do. For example, only about one worker in 20 with earnings of $30,000 to $50,000 a year and no access to a payroll deduction plan contributes to an IRA consistently.[8]

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[1] Center for Retirement Research (2018), "Workers With Pension Coverage by Type of Plan, 1983, 1998, and 2016," *http://crr.bc.edu/wp-content/uploads/2015/10/figure-16.pdf*.

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

[3] Center for Retirement Research (2018), "401(k)/IRA Balances for Median Working Household with a 401(k)/IRA Age 55–64, By Income Quintile, 2016," *http://crr.bc.edu/wp-content/uploads/2015/10/Table-17.pdf*.

[4] Center for Retirement Research (2018), "Average Years in Retirement, 1962–2050," *http://crr.bc.edu/wp-content/uploads/2015/10/figure-10.pdf*.

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

[6] Center for Retirement Research (n.d.), "Pension Participation of All Workers, By Type of Plan, 1989–2016," *http://crr.bc.edu/wp-content/uploads/2015/10/Pension-coverage.pdf*.

[7] Craig Copeland (2014), "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013," Employee Benefit Research Institute (EBRI), Issue Brief 405, p. 27, Washington, DC, *https://www.ebri.org/pdf/briefspdf/EBRI_IB_405_Oct14.RetPart.pdf*.

[8] Employee Benefit Research Institute (2006), unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module.

SOCIAL SECURITY'S CRITICAL ROLE AS AN INCOME SOURCE FOR MILLIONS OF AMERICANS

As a result of the diminishing presence of DB pensions and the uncertainty and volatility of personal retirement accounts and private assets, even those lucky enough to have access to a workplace retirement plan are more likely than ever to find that Social Security is the only guaranteed income stream they will not outlive during their retirement. Unsurprisingly, in an AARP poll conducted last year, respondents across three generations overwhelmingly said Social Security is very important to their retirement security: 64 percent of Millennials, 79 percent of Gen-X respondents, and a full 90 percent of Baby Boomers agreed with that view.

Social Security is the only lifetime, inflation-protected, guaranteed source of retirement income that most Americans will have. It is the foundation of retirement security that keeps millions of older Americans out of poverty and allows them to live independently. Social Security was first conceived as a way to protect older Americans from spending their final years in poverty. The program has evolved over its more than 80 years to protect against a variety of risks, including the death of a spouse or parent, and a disability that prevents an individual from participating in the labor force. Most Americans do not see Social Security as lifetime insurance against a wide range of risks, but rather see it as a source of retirement income that they have invested in via payroll taxes during their working lives. It is an earned benefit, but it is not structured like a savings account or a 401(k) plan. Social Security benefits are calculated through a formula that helps protect the most vulnerable members of our society. This progressive benefit formula ensures that those with low lifetime earnings receive proportionately larger annual benefits. About half of those 65 and older depend on Social Security for the majority of their retirement income, and roughly one quarter of those 65 and older rely on the program for all or nearly all of their income in retirement.

Social Security plays a crucial role in the financial security of millions of Americans. It has proven to be the most effective policy for reducing poverty among older people, particularly for women and racial and ethnic groups who are more likely to have had lower wages and less likely to have pensions. Without Social Security, nearly four in ten Americans 65 and older would live below poverty; that number drops to one in ten after Social Security lifts more than 15 million older Americans above the poverty line. Nearly one in four women ages 65 and older live in families that receive at least 90 percent of their income from Social Security. The reliance in minority communities is even more pronounced; nearly 38 percent of African American women in families receiving benefits rely on Social Security for almost all of their income, and more than 31 percent of older Hispanic women do the same.

Social Security is clearly the cornerstone of American financial security in retirement. It is extremely important to AARP's members that it will provide adequate benefits not only for them, but also for their children and grandchildren. While the Social Security Trustees have made clear—and AARP will continue to emphasize—that Social Security has enough funding to pay 100 percent of benefits until 2035, it is also true that unless Congress acts, benefits could be reduced by 20 percent beginning in 2035 and through the remainder of the century. A cut this deep would result in severe hardships for millions of people across the country, especially considering the high level of reliance on what are modest benefits now. It is critical to remember that the average monthly check for a retired male worker is $1,565; and for a retired female worker, it is even less, only $1,244. While the importance of Social Security to the 63 million Americans who receive its benefits cannot be diminished, it is also true that given such modest benefits, the retirement security of many Americans could be strengthened if we meaningfully improve opportunities to accumulate retirement savings.

THE FUTURE OF RETIREMENT SAVINGS

For decades, Congress has enacted laws with the aim of making retirement saving easier. Congress has created many different types of plans for employers to offer their workers, including IRAs, SIMPLEs, and Simplified Employee Pensions (SEPs). Congress has also authorized a number of automatic features—including automatic enrollment, automatic deferral amounts, automatic escalation, and automatic default investments—to help workers who do not make affirmative decisions to begin saving for their retirement. Such automatic features and payroll deductions have resulted in significant higher savings. Among new hires, participation rates nearly double to 93 percent under automatic enrollment, compared with 47 percent under voluntary enrollment. Over time, 8 in 10 participants increase their contribution rates, either automatically or on their own, while three-quarters of participants re-

main exclusively invested in the default investment fund.[9] Furthermore, plans with automatic enrollment had an 87 percent participation rate as of the end of the second quarter, whereas plans without automatic enrollment had a participation rate of 52 percent. At the end of 2017, 87 percent of Millennials in plans with automatic enrollment were participating in the plans, whereas 41 percent of Millennials in plans without this feature were participating. Since 2008, the average savings rate among employees automatically enrolled has risen from 4 percent to 6.7 percent, and 63 percent of automatically enrolled participants in the past 10 years have increased their savings rate.[10]

However, these automatic savings features can only help workers whose employers offer a workplace retirement plan, and as noted earlier, 51 percent of the workforce lacks retirement coverage. Expanding coverage for the tens of millions of workers without coverage continues to be a high priority for AARP.

I. State Work and Save Programs

To help address the coverage gap, AARP is focused on passing State-level Work and Save programs, which are intended to provide access to payroll deduction retirement savings options for all workers. State Work and Save programs are providing critical access to large, currently underserved populations, such as workers of color and much of the contingent workforce, including gig workers. Such access is essential to addressing the retirement income gap because workers are *15 times more likely to save for retirement by having a way to save at work.* Participation rates in traditional retirement plans have not budged in decades, but Work and Save programs are leading a change for the better.

These programs generally operate much like a 529 college savings plan for retirement and are operated through public-private partnerships. Notably, while employers facilitate payroll deductions, the retirement programs are not operated or overseen by employers. Rather, employers are afforded access to a simple, retirement program to offer their workers, which only requires employers to disseminate information packets to their workers and facilitate payroll deductions, which they must already do to remit taxes. Worker participation is easy and contributions are automatic; however, worker participation is voluntary, as they always retain the option to opt out of the program.

Workers choose if they want to participate, how much they want to contribute, and the way in which they invest their money. When a worker changes jobs, their accounts are portable and can be taken with them. Work and Save programs are designed to be self-sustaining and participant-funded, and workers benefits are based on what they pay into the program plus investment experience. States play the role of aggregating smaller employers who otherwise would have to sponsor, pay for and manage a retirement plan, including choosing the investments and providers and incurring fiduciary responsibility.

Work and Save programs can ultimately save U.S. taxpayer dollars as well. By affording workers access to a simple way to save for retirement, fewer households will need to rely on social services, ultimately foregoing costly expenditures by the government. The U.S. would save an estimated $33 billion on public assistance programs between 2018 and 2032 if lower-income retirees save enough to increase their retirement income by $1,000 more per year.

Nationwide, roughly one-third of all States have pursued laws to address the retirement gap in their States. Oregon was the first State and is furthest along in implementing this approach, with their launch of OregonSaves in 2017. Oregon's automatic IRA program has had great success. As of May 1, 2019, 4,331 employers have registered to facilitate OregonSaves for their workers and 78,467 employees (72 percent of those eligible) have enrolled in the program. Employees contribute, on average, about $100 per month, and assets in the program now exceed $18.4 mil-

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[9] *https://nam05.safelinks.protection.outlook.com/?url=https%3A%2F%2Finstitutional.vanguard.com%2Fiam%2Fpdf%2FCIRAE.pdf&data=02%7C01%7C%7C34dd87bd990145d2669c08d6d3fd5585%7Ca395e38b4b754e4493499a37de460a33%7C0%7C0%7C636929482340429841&sdata=SuhVz6d8Xc9OYzTEKINqQe817YWi0gH8zpEYW3XgEZM%3D&reserved=0* (February 2018).

[10] Fidelity data—August 2018 from: *https://nam05.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.planadviser.com%2Fautomatic-enrollment-helping-participants-increase-retirement-savings%2F&data=02%7C01%7C%7C34dd87bd990145d2669c08d6d3fd5585%7Ca395e38b4b754e4493499a37de460a33%7C0%7C0%7C636929482340429841&sdata=FQXZs0ELy8txGgDLlfREGecvdvjKIpmFighaFYer8rA%3D&reserved=0.*

lion. Other States that have enacted such programs, such as Illinois, Connecticut, and California, continue to rollout and implement their own retirement programs.

Progress in the other States continues as well. This year, Colorado, Idaho, Indiana, New Mexico, and Pennsylvania voted to formally study State retirement programs. In March 2019, New Jersey Governor Phil Murphy signed into law the New Jersey Secure Choice Savings Program, an automatic IRA program. Related legislation has also been filed in Iowa, Kansas, Maine, Minnesota, Missouri, Montana, Nevada, North Carolina, Oklahoma, Oregon, Rhode Island, South Carolina, Texas, and Wisconsin.

II. Policies to Encourage Greater Retirement Savings

In addition to our State work, Federal policies that further encourage automatic payroll deduction savings for workers who lack retirement coverage should be enacted. AARP has supported various efforts—at both the Federal and State levels—to ensure individuals nationwide have access to an Automatic IRA system, including legislation introduced by Senator Whitehouse. Such proposals rely on payroll deduction to encourage greater retirement savings, and as noted earlier, is a proven method of increasing coverage and participation. AARP supports both Federal and State legislation. We believe State programs work in tandem with Federal legislation in order to be most effective at offering more Americans affordable and appropriate retirement investments. AARP has underscored this to Congress and the administration and have noted that Federal legislation and regulations regarding retirement security should continue to allow for State enactment and implementation of these programs.

Federal policies should also be enacted to extend coverage to the 27 million part-time workers who generally are not covered by retirement savings plans. This is especially important for older workers and caregivers who often shift from full-time to part-time work or return to the workforce less than full-time due to caregiving responsibilities. Moreover, women are far more likely to work part-time than men—two-thirds of part-time workers are women.[11] AARP supports Senators Portman's and Cardin's Retirement Savings and Security Act and Senator Murray's Women's Pension Protection Act which both offer coverage to part-time workers after 2 years of employment, and we strongly encourage you to act on this provision soon.

In addition to extending coverage to more workers, Congress should also act to encourage greater savings for those who participate in savings plans. While defined benefit plans are generally designed to provide adequate retirement benefits to long service employees, defined contribution plans—like 401(k) plans—do not always lead to adequate retirement savings. The 2006 Pension Protection Act permitted employers to enroll employees automatically at a three percent contribution level, but this has proven too low. AARP supports increasing the automatic level between 5 and 6 percent, provided individuals always have the ability to select a different level. This change has been included in the Retirement Enhancement and Savings Act, which AARP supported in the last Congress, and which the Finance Committee has previously voted out unanimously.

AARP is especially supportive of initiatives to improve the Saver's Tax Credit, such as the proposal in Senators Portman's and Cardin's Retirement Savings and Security Act. In 2001, Congress created the Saver's Credit, a tax credit available to low- and moderate-income taxpayers who contribute to a retirement savings plan. Unfortunately, the Saver's Credit is woefully underutilized. From 2006 through 2014, between 3.25 percent and 5.33 percent of eligible filers claimed the credit, and the average value of the credit ranged from $156 to $174 over this time period. A series of changes—some small and others more substantial—would enable more of the tax credit's target population to benefit from the Saver's Credit and build significant retirement resources. The most beneficial changes would be to make the credit refundable, increase the income thresholds, and to restructure the credit into a match similar to the matching contribution some employers offer in their retirement savings plans. In addition, simplifying the tax-filing requirements to give low- and moderate-income individuals overall greater ease of use would help to better balance the tax incentives for retirement across income levels.

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[11] Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Household Data Annual Averages, Table 8: Employed and unemployed full- and part-time workers by age, sex, race, and Hispanic or Latino ethnicity (Jan. 18, 2019), *available at https://www.bls.gov/cps/cpsaat08.htm.*

III. Protecting Retirement Income

For the millions of Americans who do have access to a workplace savings plan and have started to save for their retirement, Congress can do more to protect their hard-earned nest egg. All tax-preferred retirement savings must be prudently invested, with reasonable fees and without conflicts of interest. While ERISA is clear that any person who exercises discretion over employee benefit plan assets must do so in a fiduciary capacity, efforts to establish more lenient standards are frequently discussed. AARP continues to urge the Securities and Exchange Commission (SEC), as well as other relevant agencies like the Department of Labor, to maintain its mission of protecting investors preparing for retirement. A strong fiduciary standard should be based on the core principle that when providing personalized investment advice to customers, financial professionals must always act in the best interests of those customers. That fiduciary standard should be uniform for all financial professionals advising investors and retirees, and should apply to all types of accounts in order to rectify the existing confusion among investors in the marketplace as a result of standards that are not uniform. We welcome and encourage congressional efforts to hold hearings and ensure that financial advisers carry out their fiduciary duties to millions of retirement savers. These rules are especially important when workers terminate employment, and help protect workers from transferring their ERISA protected savings to often less prudent individual retirement investments.

Congress should also discourage pre-retirement cash-outs of retirement funds and instead encourage lifetime income streams, including periodic withdrawals and fixed lifetime annuities at retirement age. Too many workers cash out their savings when they change jobs or experience financial emergencies, which, while helpful in the present, creates significant risk for diminished financial security in the future. Most defined contribution plans do not offer adequate lifetime income options such as fixed annuities or periodic payment options. AARP looks forward to working with the committee and other groups to encourage asset preservation and to improve distribution and spend-down options that meet workers' needs. Towards that end, in addition to supporting the Retirement Enhancement and Savings Act, AARP also supports several other bills that build on ERISA's foundation of participant protections, including Senators Warren's and Daines's Retirement Savings Lost and Found Act, which will help workers to locate retirement accounts sponsored by former employers.

AARP has been strongly supportive of efforts to educate and better inform workers about their retirement savings plans. ERISA and the tax code require many disclosures to workers about the actions they need to take and the benefits they are earning. Employers already may automatically provide electronic disclosures to workers who typically work with computers, but most plan participants prefer paper delivery of retirement information. An AARP-commissioned national survey of over 1,000 retirement plan participants found an overwhelming preference for receiving retirement documents in paper format rather than in electronic, with 66 percent of respondents ages 25–49 and 84 percent of those 50-plus preferring paper document delivery. Similarly, Epsilon's 2012 Channel Preferences Survey found that paper mail was the top delivery choice and 73 percent of respondents stated that they do not open all emails. In addition, millions of individuals simply do not use computers or do not have reliable broadband access. Moreover, as of 2017, the Pew Research Center found that a third of individuals age 65 and older do not use the Internet, only half have broadband at home, and only approximately 40 percent own a smartphone. Among all adults, a third do not have high-speed Internet at home and 13 percent only own a smartphone. Disadvantaged populations have even less access—approximately only half of rural Americans, African Americans, and Americans with a high school degree or less have broadband Internet at home.

With such discrepancies in access, it is crucial that important material be distributed in paper form and that electronic disclosure not become the default method of delivery. AARP supports default paper delivery of disclosures and supports the availability of electronic disclosures when a participant chooses to opt into it. AARP has a long record of communicating our goal of making benefit communications shorter, simpler, clearer and timelier, while retaining default paper disclosure to relevant agencies, including the Department of Labor and the Securities and Exchange Commission. Equally, we stand ready to work with you to retain hard-won investor rights to written documents that they need not only to make informed decisions today, but which may be important to ensure benefit accuracy for 50 or more years.

Finally, AARP urges the committee to finish its work as soon as possible to find a fair solution for the millions of workers and retirees counting on multiemployer pensions for their retirement security. We commend Senators Portman and Brown

who, along with several other members of Congress, have focused their attention on this issue. While most of these multiemployer pension plans are well funded, there are at least 100 plans that do not have enough contributing employers to pay out full, earned retiree pensions. Many retirees have already experienced significant benefit reductions, and over one million retirees and their families are at risk of losing substantial needed retirement income. We strongly urge action that best protects the earned benefits of current retirees, who have no other options for financial security. AARP has supported legislation which would provide loans or transfer some unfunded liabilities to the PBGC, while a comprehensive legislative solution is worked out.

AARP would again like to thank Chairman Grassley and Ranking Member Wyden for recognizing the need to address the challenges of a secure retirement and for the opportunity to share our policy priorities to improve the retirement savings of Americans and their families. We stand ready to work with you as the committee moves forward.

QUESTIONS SUBMITTED FOR THE RECORD TO JOAN RUFF

QUESTIONS SUBMITTED BY HON. TIM SCOTT

Question. In South Carolina, we have a large—and growing—population of retirees, as well as a dynamic, diverse workforce—where retirement security is a high priority.

Now, one hurdle to ensuring a successful and stable retirement, in the past, has been a lack of portability as folks transition from one job to the next. Of the 14.8 million workers who change jobs each year, 6 million cash out of their retirement plans. This has been particularly difficult for some African American employees, who have a 401(k) cash-out rate of 63 percent.

For this reason, I have been strongly supportive of the private sector's efforts to address cash-outs and, in particular, the development of auto-portability, which would allow a person's retirement savings to move with them when they change jobs. I worked closely with Secretary Acosta and the Department of Labor on guidance to facilitate auto-portability, and it has the potential to help millions of families. Now, we just need to implement the system, and I'm hopeful we can move forward with that as efficiently as possible.

To what extent do you see cash-outs and leakage as threatening retirement security in the long term, and are there other steps we can take to build upon auto-portability?

Answer. Withdrawing accumulated retirement benefits upon changing jobs or at retirement can significantly harm workers' retirement security. Many workers may cash out funds because it is the easiest, least complicated, and often most tempting option. While some workers also do not repay loans or hardship withdrawals taken during their working careers, this is a small percent of the under-savings problem. AARP strongly supports greater efforts to enable participant directed automatic portability between retirement accounts when workers change jobs or retire. The easiest scenario is where the same firm manages the old and new accounts and both have similar investments and fees. It is not quite as easy if the firms, investments and fees vary significantly. Some employers are willing to accept roll-overs from other employer plans. At a minimum, the financial services industry could agree to a uniform roll-over form which would greatly simplify and standardize the process. In addition, creating a national retirement account database, as proposed by Senators Warren and Daines, would help insure that participants and firms can keep track of all accounts and maximize earned retirement savings.

Work and Save programs at the State level are generally portable—allowing workers to take their retirement savings with them when they leave a job. Ensuring that portability and preventing cash-outs is crucial to the long-term retirement security of savers.

Question. In recent decades, we've seen what I see as an exciting shift towards greater flexibility, control, and stability in retirement savings. Total retirement savings have risen from 48 percent of total employee wages in 1975 to a staggering 337 percent of wages in 2017. And in 2016, the Survey of Consumer Finances found that three-quarters of Americans over 65 reported retirement income that was at least enough to maintain their standard of living—up 14 percentage points since 1992.

That being said, the reality is, financial literacy remains a barrier to effective retirement savings for too many Americans. A 2018 report from the Board of Governors of the Federal Reserve System found that three-fifths of non-retired adults with self-directed plans reported having little or no comfort managing their investments. On a five-question assessment on basic finance, the average number of correct answers was just 2.8. As the co-chair of the Financial Literacy Caucus, I find this particularly troubling.

Clearly one piece of this puzzle is improving our educational system to ensure that financial literacy receives much more emphasis. Beyond that, however, what tools, resources, and programs are out there that might assist folks in planning for their financial well-being in the long term, and—more importantly—how can we connect workers to these programs?

Answer. One of the most important set of tools are effective default options, including automatic enrollment, automatic escalation of contributions, and defaults to fiduciary selected and appropriate investment options. Defaults can help those with little investment experience start down the right path of retirement savings. In addition, offering a manageable number of high quality investment options can help prevent "paralysis by analysis" where too many choices overwhelm an employee. Many of the State level Work and Save programs use default options that help remove many of the barriers that savers tend to face when opening a retirement savings account. For example, workers are 20 times more likely to save when they are automatically enrolled into a retirement savings option at work.

QUESTIONS SUBMITTED BY HON. MARIA CANTWELL

Question. The States are leading the way by creating new and innovative ways to expand retirement savings options. Oregon has enacted an "auto-IRA" system that allows workers to save through their employer's retirement savings plans or use the State program if an employer does not offer a plan. Many States have followed your lead and your model. In Washington, we chose a different model—a "marketplace" model, which lets small businesses and individuals shop around for the retirement savings plan that best meets their needs. New Jersey uses this model too.

What changes could Congress make to Federal law that would aid in the implementation of State-based auto-IRA programs?

Answer. States are currently experimenting with different options and varied approaches. Congress should encourage such State level action by ensuring no changes at the Federal level that will undermine or discourage activity at the State level. There is even activity with a State, such as New Jersey—which originally passed an auto-IRA program, later changed to a marketplace model, and then again repassed auto-IRA legislation.

Question. What are the key concerns of employers, and how have you addressed those concerns?

Answer. Small employers have told us time and again that they are interested in offering their employees a way to save for retirement, but they are focused on their business, and setting up a retirement plan is confusing, time-consuming, and costly. Work and Save programs at the State level work to eliminate these concerns for employers. They are simple for employers—they need only provide their employees with a packet provided to them by the program, and add a line-item deduction to employees' payroll. There are no additional costs or contributions required from employers.

Question. In 2015, Washington State became one of the first States in the country to authorize a Small Business Retirement Marketplace to make it easier and less expensive for small businesses to offer retirement savings options to their employees. Under Washington's program, employers with fewer than 100 employees will be able to voluntarily participate in this marketplace and offer low-cost, portable retirement savings plans to their employees.

What has been the impact of this type of marketplace on small business participation and their ability to offer retirement plans for their employees?

Answer. Initial anecdotal evidence is that the marketplace concept has generated less interest than, for example, Oregon's automatic payroll deduction option, but no real data has yet been made publicly available.

Question. What is the impact on employees' savings rates when their employer offers a retirement plan compared to those who do not?

Answer. Research shows that workers are 15 times more likely to save for retirement when they can do so out of their regular paycheck at work. Only one in 20 people will open their own individual retirement savings account if they don't have access to a retirement savings option at work. The number of people who contribute to a retirement savings account jumps to 75 percent when they have access to a way to save out of their regular paycheck at work. People want to save—having easy access to a paycheck deduction retirement savings option at work is the key.

Question. Portability of lifetime income products is another important issue. Many younger and lower-income workers actively saving for their retirements have to worry about transferring those balances to new plans when changing jobs. This results in leakage and lost accounts for many workers, which hurts them more in the long run because they also lose the interest income. These are the Americans who need more retirement savings than most.

What partnerships exist to make sure that there is adequate technology and support to ensure that we eliminate this ongoing problem?

Answer. Greater pension portability is needed to protect the value of earned benefits for workers who change jobs. Plan to plan roll-overs should be automatic, provided participants agree. Congress should review existing practices to determine how to make roll-overs easier and in participants' best interests.

Some employers are willing to accept roll-overs. At a minimum, the financial services industry could agree to a uniform roll-over form which would greatly simplify and standardize the process. In addition, creating a national retirement account database, coordinated by the private sector or government, would insure that participants and firms can keep track of all accounts and maximize earned retirement savings.

State Work and Save programs offer retirement savings that are portable—so it is important for their success that there be ease in transferring balances when changing jobs.

Question. I've worked on policies to ensure lifetime income portability and annuity selection safe harbors. Why are these provisions important?

Answer. Retirees need to ensure an income stream that will last throughout their retirement lives. Notably, Social Security provides the most important annuity to most retirees—a monthly benefit, with a built-in cost-of-living adjustment, that cannot be outlived. Annuities can provide lifetime income protection, and protect both the retiree and his or her spouse. However, there are many type of annuities and many can be complex and costly. Further, annuities may not be the best option for younger workers, workers with small retirement balances and workers with a terminal illness. The financial services industry is starting to provide many new services, including periodic payment options and lifetime managed accounts. The Federal Employee Thrift Savings Plan now offers a variety of payment options. AARP looks forward to working with Congress to provide families with affordable spend-down options that meet their lifetime retirement income needs.

Question. Too many people underestimate how much money they will need to save in order to comfortably retire. Individuals need a better understanding of the lifetime value of their current level of savings in their 401(k) plan. Understanding of the value of the total assets saved for retirement and how much those savings will translate to on a monthly basis will help to improve individual retirement savings levels. By helping workers better gauge how much they will need to retire, individuals will be better prepared for retirement and be able to make more educated decisions about their savings and investments.

How would providing an estimate of the monthly income distribution from their retirement savings on the individual's annual benefit statement help working people gauge their progress toward reaching the goal of a safe and secure retirement?

Answer. Empowering people to take control of their financial future is crucial to financial well-being later in life. Providing individuals with an estimate of the monthly income distribution from their retirement savings may help workers gauge their progress towards their retirement income goals by helping them to understand their income versus expenses on a more easily understood basis. It may also encourage workers to build their savings, thereby growing that monthly income in order to better prepare for what they will need later in life.

QUESTIONS SUBMITTED BY HON. MICHAEL F. BENNET

Question. Last year, the Fifth Circuit Court of Appeals vacated the DOL fiduciary rule, which protects Americans trying to save for retirement from bad financial advice. The Trump administration has refused to stand up for retirement savers by defending the rule.

What has been the impact of overturning this rule?

What role does reliable financial advice play in promoting retirement security?

Answer. AARP was extremely disappointed in the court's decision last year to vacate the fiduciary rule. AARP sought to protect the retirement advice provided to our members and other Americans saving for retirement by ensuring that financial advisers would act in the customer's best interest. This past year, we took our fight to the SEC. However, following the SEC's recent vote on their own rulemaking for financial conduct for advisers, AARP is even more alarmed by their action that will erode consumer protections. We are concerned that financial professionals will find new ways to recommend investments with higher fees, riskier features, and lower returns because they will be beneficial for the adviser, even if those investments are not the best choices for the customer. Bad advice is wrong, and we learned through the DOL rulemaking that bad advice can cost Americans up to an estimated $17 billion per year.

Question. AARP has raised serious concerns about the SEC proposal to include the fiduciary rule in its upcoming standards-of-conduct package that may be out as soon as a few weeks from now.

Can you discuss the most concerning differences between the SEC proposal and the original rule?

AARP completed two rounds of testing on the disclosures. Why did you feel it was necessary to do so?

What was the experience of testing like? What were the main outcomes?

Further, do you find it problematic that the SEC is moving forward with a revised disclosure without completing their own testing of the new proposal?

What needs to be done to ensure the SEC fiduciary rule lives up to investors' reasonable expectations?

Answer. The SEC has now voted on its final rule and AARP is concerned that the final product leaves retail investors worse off than even the draft proposal from April 2018. AARP asked for a fiduciary standard—that financial advice be solely in the best interest of retail investors. The SEC decided not to create an enforceable, uniform fiduciary standard, and did not require that all financial advisers act in the consumers' best interest. In addition, our independent usability studies demonstrated that consumers were still very confused by the proposed disclosure statements, and that mislabeling a standard as "best interest" leads investors to mistakenly believe that they are getting advice that puts their financial interests first, ahead of the interests of broker dealers.

Question. As the American workforce changes, the way we plan for retirement has to adapt as well. Often, people are working for multiple companies at once, or frequently changing employers throughout their careers. Unique work situations require us to think more creatively about how we can help people save.

One idea would be to create a 401(k) or 401(k)-like product that is detached from a specific employer. This would allow employees to maintain the same account as they go between employers, and allow those employers to match their contributions and follow other best practices, like auto-enrollment and auto-escalation, while applying the same protections that they receive in an employer-based 401(k).

What are your views on this idea?

Answer. AARP supports retirement savings options that are more easily accessible to employers and their employees, as well as key features such as portability, automatic enrollment, and low cost default investments. Costs should be kept low for the employee, and employer requirements should be simplified, especially for small employers. The percentage of the workforce with an employer-provide retirement savings plan has not expanded significantly sine the enactment of ERISA, and we support options—such as the Work and Save programs at the State level—that will expand coverage to the tens of million of workers currently without coverage.

Question. Besides addressing the multiemployer pension crisis and passing RESA, what do you think are the most important steps we can take to increase retirement security for working Americans?

Answer. Increasing access to payroll deduction retirement savings options at work for the tens of millions of workers currently without such an option—including part-time workers—is one needed measure to increase overall retirement savings for working Americans. Access to automatic payroll deduction is a key feature to ensuring that people save more for retirement. Most workers find it easiest to have money withheld from their paychecks—if they don't have it, they can't spend it. We have found that even lower-income workers are often eager to save. In OregonSaves, workers are saving at rates that are even higher than the default rate of 5 percent, meaning many are opting to save even more than they would if they took no action to set their savings rate. In addition, improvements to the Saver's Credit—such as increasing the thresholds and making the credit refundable—will both encourage savings and increase the amounts accumulated in retirement accounts.

QUESTION SUBMITTED BY HON. MAGGIE HASSAN

Question. Per reports from AARP's own policy institute, on average, women aged 55 and older see lower earnings than same-age men and have fewer years in the paid workforce because they are more likely to take time out to be caregivers. In turn, they also have lower Social Security benefits in retirement. And they are also more likely to live longer, stretching out retirement savings even further. All of these things lead to women being less secure in retirement than their male counterparts.

How can Congress help address this compounded problem of women both saving less for retirement and having smaller income streams in retirement?

Answer. The issue of women having less in retirement savings than men is significant, and means they are considerably more at risk for retiring into poverty. As you note, there are many causes, including lower wages and more time out of the workforce. Having access to a way to save for retirement at work is a crucial factor in helping anyone save and can have a positive impact on women's retirement savings. Covering part-time work would also be helpful, and AARP strongly supports proposals by Senators Portman, Cardin, and Murray to extend retirement coverage to part-time workers, many of whom are women and/or caregivers. An improved Saver's Credit—including higher thresholds and refundability—would also help, as women tend to have lower income levels and could benefit from an improved credit. In addition, AARP also supports requiring spousal protections in defined contribution plans so that retirement savings are treated as marital assets and cannot be dissipated without spousal consent. Women who are divorced or become widows tend to be even more vulnerable in retirement.

PREPARED STATEMENT OF JONI TIBBETTS, VICE PRESIDENT, RETIREMENT AND INCOME SOLUTIONS, THE PRINCIPAL FINANCIAL GROUP

As the Senate Finance Committee considers current challenges in the retirement system today, Principal Financial Group® (Principal®) is pleased to offer expertise based on our work with tens of thousands of retirement plan clients of all sizes and millions of their employees. Principal is based in Des Moines, IA and operates nationally and worldwide in 80 countries.

Principal assists businesses and individuals by offering comprehensive solutions that help grow and protect their assets. We specialize in providing solutions to protect against risk and loss, assist with succession planning and wealth transfer, and build and protect wealth for retirement. As a leading provider of retirement plans and a global investment manager, our expertise is based on more than 75 years in the retirement industry and our experience mostly with small to medium-sized employers and their employees. We currently provide retirement services to more than 45,500 retirement plans and 5.9 million employee participants, including more than 38,000 retirement plans of small businesses[1] and their 1.6 million participants. We are a top-5 recordkeeper of retirement plans,[2] #1 provider of Employee Stock Own-

[1] Retirement plans of small business defined as those with less than 500 participants.
[2] Based on number of plans and assets, Pension and Investments Annual Recordkeeper Survey, 2018.

ership Plans (ESOP),[3] #1 provider of Defined Benefit plans,[4] #1 provider of Non-Qualified deferred compensation plans,[5] and are on the leading edge of providing innovative products that allow savers to convert accumulated savings into a stream of guaranteed income. We also provide group dental, vision, life, and disability insurance.

Our retirement business expertise extends internationally. Principal is an industry leader in providing pension management and retirement savings in emerging markets. We are the largest pension provider in Latin America (by AUM) and operate long-term savings businesses in seven Asian markets. We work closely with international organizations such as the OECD and World Bank to ensure our approach to retirement policy continually incorporates the best global practices with respect to pension system design, behavioral economics, and financial education.

In addition to being proud of the communities that we serve, Principal is also incredibly proud of its engaged and educated workforce. We have a diverse range of employee resource groups, including the very active and passionate LGBTQQIA Employee Resource Group. In 2018, in its first ever ranking of the kind, *Forbes* named Principal the #1 employer for women, and the National Association for Female Executives named Principal as one of the top companies for female executives for the 17th year in a row. Our employee population boasts a 59-percent majority of women, with 55 percent of our executives also being women. Additionally, our board consists of 45 percent women.

We serve all size ranges of employers and have a significant presence in the small and medium-size business retirement plan market. Our experience gives us a unique perspective into the motivations, frustrations, and challenges of small and medium-sized employers and their employees. Our perspective is informed by a representative client council that holds annual client conferences to solicit feedback and gather information about what plan sponsors and their employees want and need for their retirement security. Additionally, we perform focus group testing of individuals, including those participating in plans and those who don't, to help us better understand how to effectively inform, engage, and encourage individuals to take action regarding retirement security. We also gather real-time feedback from plan sponsors through a new online portal, and plan to expand this capability to online and digital participant portals in the near future. Finally, we collect data to ensure that the technology we create and make available for our plan participants continues to drive outcomes in a positive way for their financial security in retirement.

What we learn from our clients and their employees through our client council, focus groups, real-time feedback, and data collection informs our innovation efforts that seek to better connect and engage with plan sponsors, eligible employees, and participants. Our ultimate goal is to consistently and positively improve participant outcomes, while maintaining flexibility to innovate as the needs of consumers change. Some examples of recent enhancements we've made to the participant experience include:

1. "Retirement Wellness Score"—Providing retirement income illustrations. As an example of how we are helping to change how individuals think about saving for their futures, Principal frames all account summaries online, digitally and on paper statements, not only in a traditional account balance perspective, but as an illustration of how much monthly income could be generated from an employee's accumulated savings at retirement. This income illustration is personalized to each participant, using their current account balance, contribution level, annual pay and estimates of income from other sources like Social Security, a pension or a Health Savings Account, including certain assumptions.

The retirement income estimate is compared to an estimate of the participant's pre-retirement income, giving the individual a basic understanding of whether they are saving enough. The measure of an individual's position relative to their income goal is known as their "Retirement Wellness Score" (Score). The Score uses a basic range of 1 to 100, with the number reflecting the percentage of pre-retirement income estimated to be replaced at retirement, and is accompanied by a green, yellow, or red depiction of the status, each with clear-cut action prompts. The online and digital tools and resources are interactive, and allow an individual to, as an exam-

[3] Based on number of plans, PLANSPONSOR Recordkeeping Survey, June 2017.
[4] Based on number of plans, PLANSPONSOR Defined Benefit Administration survey, May 2018.
[5] Based on total number of section 409A plans, PLANSPONSOR 2018 NQDC Recordkeeping Survey, June 2018.

ple, "dial up" contribution percentages to determine how changes may impact their Score, as well as add savings from another source or for a spouse or partner.

2. Engaging with individuals through newly redesigned online and digital experiences. When enrolling through our new, online enrollment experience:

- The average deferral rate for newly eligible employees is nearly 8 percent (that's more than 34 percent higher than other enrollment methods) and 29 percent of newly eligible employees defer 10 percent or more.
- For existing participants of plans that transition to Principal, nearly 1 in 4 participants opt to save 10 percent or more.
- When looking at all participants who have visited the website, average deferrals are 50 percent higher than those who do not engage online.

Specialized and personalized financial wellness education and planning is available to all clients' employees through our interactive financial wellness planner experience called My Virtual Coach.

- Those who enroll by taking the full planner experience have an average deferral rate of 8.26 percent.
- Those existing participants who elect and subsequently take part in future My Virtual Coach Checkups have an average deferral rate of 9.15 percent.
- 30 percent more participants increased deferrals after having access to their Wellness Scores and the Planner compared to participants who did not access the Planner.
- The Retirement Wellness Score among participants who use the Planner is more than 10 points higher than the average score (a score of 100 points signaling an expectation that you are on track to meet 100 percent of your retirement income goal).
- Access to a growing suite of financial wellness education and assistance addresses common challenges like dealing with student loan debt, building emergency savings, budgeting, and establishing a will.

THE STATE OF OUR RETIREMENT SYSTEM

In many respects, our Nation's Defined Contribution (DC) Retirement Plan System has been a great achievement. Assets invested in DC plans and IRAs, a majority of which originated in DC plans, total $16.3 trillion, making up 60 percent of total assets in the U.S. retirement system. The traditional, full-time worker has excellent opportunities to save in a worksite retirement plan (80 percent have employers that offer a plan and 80 percent of those workers participate).[6] The majority (96 percent) of employers who sponsor a 401(k) plan provide some form of additional employer contribution in excess of the worker's own contribution.[7]

The unique combination of the U.S. progressive Social Security system and employer-sponsored retirement plans has helped position millions of Americans for a secure retirement. A recent study coauthored by the Investment Company Institute and the Internal Revenue Service Statistics of Income Division staff found that most American workers maintain or increase their spendable income after claiming Social Security. The study also finds that, after claiming retirement, most get substantial amounts of both Social Security benefits and income from retirement savings sources (from employer-sponsored retirement plans, annuities, or IRAs). In fact, the median worker in the study had spendable income that was greater (103 percent) than spendable income in the year before claiming. Notably, median replacement rates were found to be highest for individuals in the lowest quintile of income (123 percent) and lowest for individuals in the highest quintile (93 percent).

It's been nearly 15 years since the Pension Protection Act of 2006. We need a retirement system that keeps up with changes in innovation, technology, workforce, and consumer needs and desires that offers a range of solutions within a competitive marketplace and is sensitive to the challenges of small employer plan sponsorship. The Retirement Enhancement and Savings Act (RESA) is a tremendous first step, and we offer our enthusiastic and full support for the work that both the House and Senate have done on RESA.

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[6] Bureau of Labor Statistics.
[7] Vanguard, "How America Saves," 2018.

Of course, more can always be done. As the committee has appropriately highlighted, we must find ways to enhance our current voluntary retirement system to provide even greater financial security to American workers. More Americans need access to worksite retirement plans. Those who do have access to plans need to save more. More near-retirees and retirees should consider securing guaranteed income from their account balances. To accomplish these goals, necessary enhancements must focus on expanding workplace retirement plan coverage to more Americans, increasing both participation and savings levels in workplace plans and encouraging plan sponsors to offer and participants to secure guaranteed income for their retirement.

Having worked with businesses of all sizes and their employees on their 401(k) and other DC plans for over 40 years, Principal has gained valuable insight about both employer motivations and worker behaviors. The insights make us bullish advocates for our robust retirement system and we offer our comments to both applaud the committee on their bipartisan efforts to advance the Retirement Savings and Enhancement Act (RESA) but to also offer new ideas to enhance retirement security for Americans.

RESA'S TIME IS NOW

Our economy is evolving at a rapid pace. Workers' needs, driven in part by advances in technology and generational differences, are also changing rapidly. The retirement industry, leveraging behavioral finance and intense study of 40 years of development in the defined contribution system, is creating innovative engagement techniques and products to meet the changing needs. Yet the legislative underpinnings of our retirement system have not kept pace.

We applaud the committee for working in a bipartisan manner to advance RESA, which consists of a collection of beneficial provisions, some of which have been considered in legislation as far back as 10 years ago. As the committee has rightfully concluded, it's past time to enact RESA's set of common-sense reforms, and to consider the next phase of reforms to keep pace with rapidly changing needs and solutions.

To reinforce the importance of RESA's enactment, we would like to highlight several key provisions of the bill that we believe will be extremely impactful in expanding coverage of worksite retirement plans to more workers, driving adequate levels of savings, and addressing the challenge of income in retirement.

Expand coverage of worksite retirement plans to more workers. While access to worksite retirement plans is common for many in the workforce, there is still a significant portion of the working population that lacks access. The gap in workplace retirement plan coverage is most pronounced among employees of small employers. For workers without access to a workplace retirement plan, nearly 58 percent work for companies with fewer than 100 employees. Employers that do not offer plans pointed to the financial cost (37 percent) and organizational resources needed to start a plan (22 percent) as the chief barriers.[8] The same respondents most frequently said that increased profits and tax credits to offset the expenses of starting a plan would make offering retirement benefits more likely. Of course, there is no one-size-fits-all solution for helping small businesses start and maintain a workplace plan. Policy makers must take a holistic view of employees and employers.

RESA employs a multi-faceted approach which, collectively, will be a good step toward closing the retirement plan coverage gap for employees of small employers:

- Providing tax credit levels that are meaningful to small employers will help to offset retirement plan set-up costs and encourage more employers to sponsor a retirement plan.
- Eliminating outdated barriers to allow expansion of open multiple employer plans (MEPS) will provide opportunities for small employers to offer retirement benefits to their employees while effectively reducing the burdens of establishing a plan and outsourcing a significant amount of the administrative duties and fiduciary obligations incumbent on a plan sponsor. Open MEPs also afford small employers the ability to band together in a collective plan that can generate greater efficiencies and economies of scale than might otherwise be possible in a single employer plan.

[8] Pew Charitable Trust 2017 Employer Barriers to and Motivations for Offering Retirement Benefits survey.

Driving adequate savings levels. Research published in the American Society of Pension Professionals and Actuaries (ASPPA) Journal determined that savings rate is the primary driver of retirement success and, compared to other factors, is approximately five times more important than asset allocation, and approximately 45 times more important than investment quality.[9] An individual's savings rate is attributable to 74 percent of their retirement outcome, with asset allocation attributing to 20 percent, and the specific investment options utilized attributing to only 2 percent. We must encourage higher levels of savings within retirement plans.

Studies abound that prove the effectiveness of automatic plan design in driving and increasing both worker participation and savings levels. One published report found that 92 percent of employees participated in automatic enrollment plans while only 57 percent participated in voluntary enrollment plans.[10] Unfortunately, automatic plan design continues to be underutilized among small employers. Only 19 percent of plans between $1 and $10 million in assets use automatic enrollment. Even for plans between $10 and $50 million in assets, adoption rates are only around 35 percent. RESA offers an initial step by encouraging more small employers to adopt automatic enrollment through a tax incentive to do so. The bill also encourages more progressively minded plan sponsors who employ both automatic enrollment and automatic escalation of contributions through a safe harbor plan design to allow escalation to continue beyond 10 percent of pay by removing the existing 10 percent of pay cap.

Addressing the challenge of income in retirement. Many individuals simply do not have a realistic understanding of how much money they need in retirement or how much they can spend before they run out of income from their savings. And while many savers are attracted to the idea of a guaranteed income stream in retirement, few actually use their accumulated DC balances to purchase products like income annuities before or at retirement. Yet, increasing levels of annual guaranteed income is demonstrated to improve retirees' satisfaction levels in retirement, regardless of their level of wealth.[11] To solve the challenge, we must leverage more effective education techniques and expand access to lifetime income product solutions for plan participants.

We also must make it easier for individuals to access product solutions that provide guaranteed lifetime income. RESA includes two key provisions that will encourage broader adoption by plan sponsors of guaranteed lifetime income products within defined contribution plans:

- The most common reason plan sponsors don't offer an in-plan annuity option today is concern with fiduciary liability.[12] The annuity provider selection safe harbor establishes a realistic and workable set of obligations for plan sponsors to follow when selecting and monitoring an annuity provider for their plan.
- Permitting defined contribution plan sponsors to make a direct trustee-to-trustee transfer or distributions of lifetime income investments in the form of a qualified plan distribution annuity allows plan fiduciaries to fulfill their fiduciary obligations without fear of negatively impacting participants who have purchased lifetime income in their retirement plan.

LOOKING BEYOND RESA

We are encouraged by the number of new proposals from members of Congress related to retirement system enhancements. Given the time that has expired since the last comprehensive retirement reform was passed into law, there is opportunity for retirement law to catch up to developments in innovation that have occurred in the retirement marketplace.

As the committee looks beyond enactment of RESA, we would recommend the following areas of focus for additional congressional action:

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[9] *ASPPA Journal,* "Retirement Success: A Surprising Look Into the Factors That Drive Positive Outcomes," David M. Blanchett, QPA, QKA and Jason E. Grantz, QPA, 2011.

[10] Vanguard, "How America Saves," 2018.

[11] The Health and Retirement Study, conducted through the University of Michigan, surveys approximately 20,000 older Americans. The 2014 wave of the survey includes a question that asks retirees to estimate the amount of satisfaction they are experiencing with their life in retirement. At all levels of wealth, more guaranteed income had a strong positive impact on retiree satisfaction. *http://hrsonline.isr.umich.edu.*

[12] Alight 2019 Top Topics in Retirement and Financial Well-being: Building on the Past, Working Toward the Future.

Remove barriers to the adoption of best practice, automatic plan design safe harbors, particularly for small employers. Best practice, automatic enrollment and escalation plan features (commonly considered as those that use an automatic enrollment default percentage of at least 6 percent and automatically escalate participants to at least 10 percent) can have a dramatic effect on improving both employee participation in plans and contribution levels. Unfortunately, even basic automatic enrollment plan design is underutilized among small employers as noted earlier in our testimony.

We know from our work with small employers that a safe harbor from nondiscrimination testing can be an effective incentive. However, the safe harbor design must also be sensitive to employer costs. The existing Qualified Automatic Contribution Arrangement (QACA) safe harbor requires a specific, two-tier matching formula (100 percent of the first 1 percent of pay, 50 percent of the next 5 percent of pay) that equates to an employer contribution of 3.5 percent of pay.

However, the most common matching formula in use today is a single-tier match formula consisting of 50 percent match on 6 percent of pay, equating to a total employer contribution of 3 percent of pay. To conform with the safe harbor, a plan sponsor must consider not only a plan amendment but also an increase in their employer contribution. We believe the latter consideration is a major factor in the lack of adoption of QACA.

We propose establishing a new safe harbor that would require automatic enrollment at 6 percent of pay, automatic escalation each subsequent year to at least 10 percent of pay, and a flexible matching contribution requirement. At a minimum, the matching formula would require a 50 percent match on 6 percent of pay, conforming with the most widely used matching formula in practice today. The minimum requirement would result in participants saving 9 percent in the initial year capping at 13 percent total savings, assuming a participant doesn't opt out. Additional matching formulas could meet the safe harbor, but only if they (a) equate to at least a 3-percent employer contribution when the employee contributes 6 percent, and (b) the matching formula does not increase as employee contributions increase.

To further support our proposal, a recent study of more than 2,000 retirement plans found no discernable difference in opt-out rates between plans with a 3-percent default and plans with a 6-percent default (11.3 percent and 11.4 percent respectively).[13] The study also found no difference in opt-out rates among lower-income workers and higher-income workers.

Expand RESA's open MEP to 403(b) plans. Small non-profit organizations should similarly benefit as for-profits. We urge Congress to expand MEPs to 403(b) plans.

Recognizing workers burdened by student loan debt. Student loan debt nearly tripled between 2005 and 2017 [14] and through our conversations with our plan sponsor community, we know that employers are increasingly concerned about the impact that student loan debt has on their employees' ability to participate in their retirement savings plan. The Internal Revenue Service's recent Private Letter Ruling, PLR–131066–17, allows the submitting employer to make non-elective contributions of 5 percent of pay to the retirement plan account of employees who can demonstrate paying at least 2 percent of compensation to their student loan debt.

While a positive development for employers concerned about employees similarly limited by student loan debt, there are many questions regarding the subsequent impact on coverage, nondiscrimination, and contribution limits. There is the real potential for coverage and nondiscrimination failures. We urge Congress to explore options, like Ranking Member Wyden's Retirement Parity for Student Loans Act, to avoid harmful consequences of a policy aimed at helping struggling employees establish a foothold in retirement savings.

Reevaluate administrative requirements in the era of open MEPs and automatic plan features. We're all invested in the success of open MEPs and believe in their potential to provide efficient, professionally-managed defined contribution plans to small businesses. As plans expand in the marketplace, we should take a fresh look at the regime of administrative requirements, many of which were designed for a

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[13] Wells Fargo Institutional Retirement and Trust 2018 Driving Plan Health. Data was gathered from more than 2,000 plans representing more than 4 million eligible employees in a range of industries.

[14] Center for Retirement Research at Boston College, "Do young adults with student debt save less for retirement?", 2018 research brief.

single employer plan structure at a time when automatic plan features were not even a consideration.

In support of a fresh look, our own survey results from the Principal Financial Group Retirement Readiness Survey [15] found nearly half of plan sponsors felt easing reporting requirements (47 percent) and compliance burdens (42 percent) would help with plan operations. More than half of plan sponsors (52 percent) said allowing all employees to defer up to Internal Revenue Service limits would make it easier for employers to operate their plans.

Reevaluating requirements in the emerging context of the open MEP structure and auto-feature safe harbors may identify areas for simplification and reduction of administrative burdens, all of which will be beneficial to encouraging more small businesses to sponsor a defined contribution plan and improving the operating efficiencies of open MEPs.

CONCLUSION

Thank you for the opportunity to testify about the importance of and successes in our private retirement system. Principal Financial Group appreciates the effort and sincerity with which Chairman Grassley, Ranking Member Wyden, and all members of the Senate Finance Committee have undertaken the important considerations of Americans' retirement security. We commend the chairman, ranking member, and their dedicated staff for their thoughtful and deliberate leadership on RESA and look forward to continuing to work with the committee on future legislative efforts to help all Americans save for and realize a financially secure retirement.

QUESTIONS SUBMITTED FOR THE RECORD TO JONI TIBBETTS

QUESTION SUBMITTED BY HON. CHUCK GRASSLEY

Question. Individual retirement accounts, or IRAs, are an important part Americans' retirement savings, accounting for nearly a third of those savings. IRAs are subject to many of the same complex rules as employer plans, but individuals don't have resources equivalent to employer plans to comply with those rules. Also, the available IRS guidance with respect to IRAs is often less than that available to employer plans. Because of these disparities, IRAs are prone to common errors. One common mistake is failure to take required minimum distributions on time, which results in a staggering 50-percent excise tax. A recent Government Accountability Office report suggests that these kinds of mistakes are common—with mistakes in a single year affecting 1.5 million individuals. Such mistakes expose Americans' hard-earned retirement savings to exorbitant penalties and potentially the loss of favorable tax qualification.

Would better guidance for individuals on the use of IRAs and permitting self-correction of common IRA errors provide greater retirement security for Americans?

Answer. Required minimum distribution rules are complex and errors can be very costly for retired Americans. We support efforts to improve guidance and provide possible self-correction options to help retirees comply with the law and avoid large excise taxes that can jeopardize their retirement security.

We also support increasing the starting age for required minimum distributions (RMDs) to age 72, as reflected in the SECURE Act, and eliminating RMDs completely for smaller account balances and significantly reducing penalties, as laid out in the Retirement Security and Savings Act of 2019 from Senators Portman and Cardin.

QUESTIONS SUBMITTED BY HON. TIM SCOTT

Question. In South Carolina, we have a large—and growing—population of retirees, as well as a dynamic, diverse workforce—where retirement security is a high priority.

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[15] The 2011 Principal Financial Group Retirement Readiness Survey commissioned by Principal Financial Group conducted by Harris Interactive online. Data was gathered May 17–June 17, 2011 from 1,305 employers.

Now, one hurdle to ensuring a successful and stable retirement, in the past, has been a lack of portability as folks transition from one job to the next. Of the 14.8 million workers who change jobs each year, 6 million cash out of their retirement plans. This has been particularly difficult for some African American employees, who have a 401(k) cash-out rate of 63 percent.

For this reason, I have been strongly supportive of the private sector's efforts to address cash-outs and, in particular, the development of auto-portability, which would allow a person's retirement savings to move with them when they change jobs. I worked closely with Secretary Acosta and the Department of Labor on guidance to facilitate auto-portability, and it has the potential to help millions of families. Now, we just need to implement the system, and I'm hopeful we can move forward with that as efficiently as possible.

To what extent do you see cash-outs and leakage as threatening retirement security in the long term, and are there other steps we can take to build upon auto-portability?

Answer. With our increasingly mobile workforce, it's becoming more common for individuals to lose track of their retirement accounts with their former employer(s) plan(s). Senators Warren and Daines introduced a bill, the Retirement Savings Lost and Found Act of 2018, that would set up a Lost and Found online database that uses the data employers are already required to report, so that any worker can locate all of his or her former employer-sponsored retirement accounts. The bill would provide individuals with the ability to view contact information for the plan administrator of any plan with respect to which the individual is a participant or beneficiary, sufficient to allow the individual to locate the individual's plan. This type of free resource would be a beneficial new tool to help workers stay on top of their retirement savings.

Question. In recent decades, we've seen what I see as an exciting shift towards greater flexibility, control, and stability in retirement savings. Total retirement savings have risen from 48 percent of total employee wages in 1975 to a staggering 337 percent of wages in 2017. And in 2016, the Survey of Consumer Finances found that three-quarters of Americans over 65 reported retirement income that was at least enough to maintain their standard of living—up fourteen percentage points since 1992.

That being said, the reality is, financial literacy remains a barrier to effective retirement savings for too many Americans. A 2018 report from the Board of Governors of the Federal Reserve System found that three-fifths of non-retired adults with self-directed plans reported having little or no comfort managing their investments. On a five-question assessment on basic finance, the average number of correct answers was just 2.8. As the Co-Chair of the Financial Literacy Caucus, I find this particularly troubling.

Clearly one piece of this puzzle is improving our educational system to ensure that financial literacy receives much more emphasis. Beyond that, however, what tools, resources, and programs are out there that might assist folks in planning for their financial well-being in the long term, and—more importantly—how can we connect workers to these programs?

Answer. Americans are increasingly using digital and online interfaces to engage in virtually all aspects of their lives and they've come to expect and demand intuitive and engaging experiences. And these interfaces are the perfect environment to foster and improve financial literacy. In fact, we have found that individuals who engage online or through their phones to enroll and/or access financial planning have significantly improved retirement outcome measures relative to those who use more traditional hardcopy kits and forms.

When enrolling through our online enrollment experience:

- The average deferral rate for newly eligible employees is nearly 8 percent (that's more than 34 percent higher than other enrollment methods) and 29 percent of newly eligible employees defer 10 percent or more.
- For existing participants of plans that transition to Principal, nearly 1 in 4 participants opt to save 10 percent or more.
- When looking at all participants who have visited the website, average deferrals are 50 percent higher than those who do not engage online.

Principal offers My Virtual Coach, an interactive financial wellness planner experience. We have noticed the following:

- Those who enroll by taking the full Planner experience have an average deferral rate of 8.26 percent.
- Those existing participants who elect and subsequently take part in future My Virtual Coach Checkups have an average deferral rate of 9.15 percent.
- 30 percent more participants increased deferrals after having access to their Wellness Scores and the Planner.
- The Retirement Wellness Score among participants who use our digital resources is more than 10 points higher than the average score (a score of 100 points signaling an expectation that you are on track to meet 100 percent of your retirement income goal).

We believe strongly that drawing more individuals to engage digitally or online for their retirement savings decisions will improve outcomes. One solution to encourage individuals to go to their retirement provider's website is to change the default delivery method of required retirement plan notices and statements from paper mailings to electronic notices, as outlined in the Receiving Electronic Statements to Improve Retiree Earnings (RETIRE) Act.

By providing notices in a way that more and more consumers prefer and expect, and that the data shows drives more positive participant outcomes, more individuals will take the opportunity to access engaging and intuitive education and planning resources that will make a difference in their retirement security.

QUESTIONS SUBMITTED BY HON. MARIA CANTWELL

Question. More Americans are reaching retirement age and many are facing the danger of outliving their savings. We should encourage guaranteed lifetime income options, including annuity products, as a part of our retirement security agenda. We should make open multiemployer plans more available so that more people have access to retirement plans. And these plans should include a lifetime income plan as an option.

How does a guaranteed lifetime income option help protect people from outliving their savings?

Answer. With defined benefit retirement plans becoming increasingly rare, most Americans with retirement savings have a defined contribution plan with an established account balance. As savers approach retirement, they must consider how to make their nest egg of dollars last the rest of their lives once they retire. The only product that can guarantee monthly income for life is an annuity. Annuities can provide a cost-effective and safe option to mitigate or eliminate market volatility risk while providing a guaranteed stream of monthly income for life.

Question. Do you believe Congress should provide more direction regarding the composition of a model plan?

If so, what recommendations would you make?

Answer. Congress should be engaged in encouraging employers to adopt best practice retirement plan design that drives improved retirement outcomes for their employees. Past Congresses have enacted nondiscrimination testing safe harbors to encourage adoption of prescribed auto-feature plan designs and we hope this Congress enacts the SECURE Act, which includes a new tax credit to incent small employers to adopt automatic enrollment.

We encourage Congress to look further into the reasons why small employers have not adopted automatic features, and specifically the Qualified Automatic Contribution Arrangement (QACA) safe harbor, in greater numbers. Only 19 percent of plans between $1 and $10 million in assets use automatic enrollment. Even for plans between $10 and $50 million in assets, adoption rates are only around 35 percent.

We believe the key factors in the lack of adoption of best practice, auto-feature plan design among small employers are the cost and complexity of the employer contribution requirements in QACA. The most widely used employer matching formula by small plans today is a 50 percent match up to 6 percent of pay (equivalent to 3 percent of pay). QACA requires two levels of matching, equating to 3.5 percent of pay. For small employers, any increase in benefit costs can be a dead-end.

We propose creating a new auto-feature safe harbor that is more accessible to small employers. The safe harbor would require enhanced automatic enrollment at a starting default of 6 percent of pay with annual escalations of 1 percent up to a minimum of 10 percent of pay. The employer contribution requirement would allow

a flexible range of matching formulas that meet the following parameters: the formula must deliver an employer contribution equal to *at least* 3 percent of pay when a participant contributes 6 percent of pay, and the matching percentage may not increase as a participant's contribution increases. Importantly, the required parameters would encompass the most commonly used matching formula among small plans, 50-percent match up to 6 percent of pay.

When combined with the auto-features, the minimum matching requirement would result in participants saving a total of 9 percent in their initial year capping at 13 percent total savings, assuming the participant does not opt out.

To further support the best practice auto-feature design of this proposal, a recent study of more than 2,000 retirement plans found no discernable difference in opt-out rates between plans with a 3-percent default and plans with a 6-percent default (11.3 percent and 11.4 percent respectively).[1] The study also found no difference in opt-out rates among lower-income workers and higher-income workers.

Question. Portability of lifetime income products is another important issue. Many younger and lower-income workers actively saving for their retirements have to worry about transferring those balances to new plans when changing jobs. This results in leakage and lost accounts for many workers, which hurts them more in the long run because they also lose the interest income. These are the Americans who need more retirement savings than most.

What partnerships exist to make sure that there is adequate technology and support to ensure that we eliminate this ongoing problem?

Answer. We believe the provision in the SECURE Act and RESA that allows for portability of lifetime income options effectively addresses the challenge. In the case of a plan fiduciary's decision to discontinue a guaranteed lifetime income option in their plan, the provision allows plan participants to retain the guaranteed lifetime income they have purchased by transferring the contract to an individual account without incurring early withdrawal penalties.

Question. I've worked on policies to ensure lifetime income portability and annuity selection safe harbors. Why are these provisions important?

Answer. Increasing the availability of guaranteed lifetime income options within defined contribution plans is a crucial step in helping working Americans make their defined contribution plan nest eggs last throughout their retirement years. Unfortunately, plan fiduciaries who are considering making these options available to their employees today face unrealistic obligations for evaluating annuity providers that lead to open-ended and dangerous liabilities. The fiduciary concerns are the chief reason that plan sponsors have chosen not to offer a lifetime income option to their plans.

The SECURE Act and RESA address the challenges by:

- Instituting a realistic and workable safe harbor for plan fiduciaries to follow when selecting an annuity provider for their plan.
- Allowing plan participants who have elected lifetime income to transfer those contracts to an individual account, without early withdrawal penalties, in the event the plan fiduciary discontinues the option.

Question. Too many people underestimate how much money they will need to save in order to comfortably retire. Individuals need a better understanding of the lifetime value of their current level of savings in their 401(k) plan. Understanding of the value of the total assets saved for retirement and how much those savings will translate to on a monthly basis will help to improve individual retirement savings levels. By helping workers better gauge how much they will need to retire, individuals will be better prepared for retirement and be able to make more educated decisions about their savings and investments.

How would providing an estimate of the monthly income distribution from their retirement savings on the individual's annual benefit statement help working people gauge their progress toward reaching the goal of a safe and secure retirement?

Answer. Monthly income illustrations are a crucial tool in helping individuals determine how much monthly income their accumulated retirement savings may generate and whether they are on track to meet a retirement income goal. As noted

[1] Wells Fargo Institutional Retirement and Trust, 2018, "Driving Plan Health." Data was gathered from more than 2,000 plans representing more than 4 million eligible employees in a range of industries.

in our written testimony, Principal frames all account summaries online, digitally, and on paper statements, not only in a traditional account balance perspective, but as an illustration of how much monthly income could be generated from an employee's accumulated savings at retirement. The income illustration is personalized to each participant, using their current account balance, contribution level, annual pay, and estimates of income from other sources like Social Security, a pension or a Health Savings Account, including certain assumptions.

The retirement income estimate is compared to an estimate of the participant's pre-retirement income, giving the individual a basic understanding of whether they are saving enough. The measure of an individual's position relative to their income goal is known as their "Retirement Wellness Score" (Score). The Score uses a basic range of 1 to 100, with the number reflecting the percentage of pre-retirement income estimated to be replaced at retirement, and is accompanied by a green, yellow, or red depiction of the status, each with clear-cut action prompts. The online and digital tools and resources are interactive, and allow an individual to, as an example, "dial up" contribution percentages to determine how changes may impact their Score, as well as add savings from another source or for a spouse or partner.

QUESTIONS SUBMITTED BY HON. MICHAEL F. BENNET

Question. As the American workforce changes, the way we plan for retirement has to adapt as well. Often, people are working for multiple companies at once, or frequently changing employers throughout their careers. Unique work situations require us to think more creatively about how we can help people save.

One idea would be to create a 401(k) or 401(k)-like product that is detached from a specific employer. This would allow employees to maintain the same account as they go between employers, and allow those employers to match their contributions and follow other best practices, like auto-enrollment and auto-escalation, while applying the same protections that they receive in an employer-based 401(k).

What are your views on this idea?

Answer. We believe the U.S. employer-based, defined contribution system has been a great success in many regards and we should remain focused on seeking to improve upon it, rather than seek to replace it. Unfortunately, it's been nearly 14 years since Congress has enacted any type of enhancement. We urge the Senate to enact the SECURE Act, which passed in the House by an overwhelming 417–3 margin, and further commit to timely and ongoing considerations of new ideas to enhance our retirement savings system for working Americans.

Question. Besides addressing the multiemployer pension crisis and passing RESA, what do you think are the most important steps we can take to increase retirement security for working Americans?

Answer. Both RESA and the SECURE Act contain important enhancements that will help to close the retirement coverage gap, particularly among small employers. One important provision of both bills is establishment of open multiple employer plans (MEPs). Open MEPs not only offer a more streamlined and efficient retirement plan solution for small employers, they could also serve to support elements of the nontraditional workforce who lack a formal employer. We urge Congress to also consider expanding the availability of open MEPs to non-profit organizations.

And while the SECURE Act also includes a beneficial, new tax credit to incent small employers to adopt automatic enrollment, we must look for other ways to improve adoption rates of not only automatic enrollment, but best practice, auto-feature plan design among small and mid-size employers. Only 19 percent of plans between $1 and $10 million in assets use automatic enrollment. Even for plans between $10 and $50 million in assets, adoption rates are only around 35 percent.

We believe the key factors in the lack of adoption of best practice, auto-feature plan design among small employers are the cost and complexity of the employer contribution requirements in the Qualified Automatic Contribution Arrangement (QACA) safe harbor. The most widely used employer matching formula by small plans today is a 50-percent match up to 6 percent of pay (equivalent to 3 percent of pay). QACA requires two levels of matching, equating to 3.5 percent of pay. For small employers, any increase in benefit costs can be a dead-end.

We propose creating a new auto-feature safe harbor that is more accessible to small employers. The safe harbor would require enhanced automatic enrollment at

a starting default of 6 percent of pay with annual escalations of 1 percent up to a minimum of 10 percent of pay. The employer contribution requirement would allow a flexible range of matching formulas that meet the following parameters: the formula must deliver an employer contribution equal to *at least* 3 percent of pay when a participant contributes 6 percent of pay, and the matching percentage may not increase as a participant's contribution increases. Importantly, the required parameters would encompass the most commonly used matching formula among small plans, 50-percent match up to 6 percent of pay.

Question. When combined with the auto-features, the minimum matching requirement would result in participants saving a total of 9 percent in their initial year capping at 13 percent total savings, assuming the participant does not opt out.

Answer. To further support the best practice auto-feature design of this proposal, a recent study of more than 2,000 retirement plans found no discernable difference in opt-out rates between plans with a 3-percent default and plans with a 6-percent default (11.3 percent and 11.4 percent respectively).[2] The study also found no difference in opt-out rates among lower-income workers and higher-income workers.

PREPARED STATEMENT OF HON. RON WYDEN,
A U.S. SENATOR FROM OREGON

This morning the Finance Committee takes a broad look at challenges with the retirement system. I want to begin my remarks with a word on Social Security.

According to the most recent trustees report, Social Security can pay full benefits until 2035. After that, retirees would be hit with a 20-percent cut. That means a 50-year-old worker who's paid into Social Security out of every paycheck faces the prospect of not receiving the full benefits that she has earned.

So let me be clear this morning. As long as I have anything to say about it, that cut is not going to happen. The Congress has solved fiscal challenges bigger than this one in the past, and it will do it again.

Furthermore, let's understand that no program has done more for Americans' economic well-being and stability than Social Security. The Congress must not do anything to undermine it. Social Security is not a piggy bank for lawmakers to smash when they're in search of funding for other priorities. Instead, let's protect Social Security for all workers and the generations to come. Let's also examine the other areas where our retirement system needs strengthening.

Across the country, more than 100 million Americans have no pension and no savings in a retirement plan. A dignified retirement is out of reach for many working Americans today. But there are a lot of ways this committee can take a leading role in changing that.

First, this committee worked on a bipartisan basis to put together the Retirement Enhancement and Savings Act. Our bill is all about making it easier for employers—particularly small businesses—to offer retirement plans to their employees. Giving those small businesses an opportunity to band together and offer a common retirement plan is a simpler and more cost-effective way of helping more people save.

It also ought to be easier for older Americans to save. Ever since I was co-director of the Oregon Gray Panthers, I've said that there's no good reason to cut somebody off from saving just because they've crossed an arbitrary age limit. In my judgment, changing this part of IRA law is a no-brainer.

I think of older working-class people who can't yet afford to retire and want to keep saving. With so many families dealing with the consequences of the opioid epidemic, I think of working grandparents who are supporting youngsters and want to keep saving. They ought to have that opportunity. Those are key parts of our bill, and I'm hopeful it'll get across the finish line soon.

In addition to RESA, there are a number of other ideas to discuss this morning. Yesterday I introduced the Retirement Parity for Student Loans Act. It's based on a simple proposition: somebody who's paying off student loans should not be denied the opportunity to start saving for retirement. The bill would allow employers to

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[2] Wells Fargo Institutional Retirement and Trust, 2018, "Driving Plan Health." Data was gathered from more than 2,000 plans representing more than 4 million eligible employees in a range of industries.

make "matching" payments into a retirement plan while their employees are making loan payments. The bottom line is, whether you're paying off loans or building up a nest-egg, you're making the right financial choices. You ought to be rewarded for it with an opportunity for more savings.

Next, the committee is fortunate to have Oregon Treasurer Tobias Read here with us this morning. Oregon is leading the Nation with its new auto-enrolled IRA program for people who don't have access to a retirement plan at work. It's called OregonSaves. It started with a successful pilot program. It went statewide in 2018. Hundreds of thousands of people in my home State are going to be saving for retirement when the program is fully up and running. In my view, this committee ought to look at expanding on this idea nationally. So I want to thank Treasurer Read for being here to talk with us about it.

One last point. This committee needs to act—and act now—on multiemployer pensions. There are 150 of these pension plans facing insolvency in the next decade or two. That's upward of a million Americans who could be thrown off a financial cliff. They've worked hard. They've paid into their plans. They're facing this crisis through no fault of their own. It's long past time to fix it. Congress cannot sit idly on the sidelines as many of these Americans fall into poverty.

COMMUNICATIONS

AMERICAN COUNCIL OF LIFE INSURERS
101 Constitution Avenue, NW
Washington, DC 20001

Statement of Susan K. Neely, President and CEO

The American Council of Life Insurers (ACLI) is pleased to submit this statement for the record on "Challenges in the Retirement System." The ACLI thanks Chairman Chuck Grassley (R–IA) and Ranking Member Ron Wyden (D–OR) for holding this important hearing. This statement will highlight the successes of the current retirement system, challenges that workers and retirees face and public policy proposals supported by ACLI that would enhance and build upon the successes of the retirement system .

THE AMERICAN COUNCIL OF LIFE INSURERS

The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers' financial and retirement security. Financial security is our core business, and retirement security for all Americans is a critical mission. We protect 90 million American families with financial products that reduce risk and increase financial security, including life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, dental and vision benefits and other supplemental benefits. As society and work changes, we are committed to 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 into retirement is a big challenge facing our country. We help people retire with security, with more products, availability, accessibility, and affordability for all.

ACLI members represent 95 percent of industry assets in the United States. Through a well-crafted partnership of the private solutions ACLI members provide, and public solutions that are necessary, we believe the benefits of financial security can be made available to all Americans. Accordingly, ACLI member companies offer insurance contracts and investment products and services to employment-based retirement plans (including defined benefit pension plans, 401(k), SIMPLE, SEP, 403(b), and 457(b) plans) and to individuals (through individual retirement accounts (IRAs) and annuities). ACLI members are also employer sponsors of retirement plans for their employees. As service and product providers, as well as employer plan sponsors, life insurers believe that adequately and consistently saving for retirement, effectively managing assets throughout retirement and utilizing appropriate financial protection products are all critical to Americans' retirement and financial security.

In 2017, American families received $364 billion in payments from annuities, $126 billion in payments from life insurance, $19 billion in disability income insurance benefits and $11 billion in long-term care insurance benefits. Americans are facing with significant financial security challenges, and the insurance industry is a vitally important part of how Americans are able to plan, save and guarantee themselves a secure retirement. No other industry provides Americans with the level of financial guarantees provided by the insurance industry.

THE RETIREMENT SYSTEM IN AMERICA

The retirement system for private-sector workers in America builds upon the contributions made to Social Security and is enhanced by employment-based retirement plans, IRAs, individual annuities, and other investments. These private-sector savings programs play a vital role in retirement security for millions of Americans. Current tax incentives, for pensions and retirement savings, encourage employers

to provide and maintain employment-based plans and have enabled millions of American families to accumulate savings, thereby improving their retirement security. According to the Bureau of Labor Statistics, more than 80 percent of full-time civilian workers have access to a retirement plan through their employer, and of these workers, 80 percent participate in a workplace plan. Yet, more can be done to ensure that everyone who can afford to save for retirement is saving for retirement.

While the current combination of Social Security and employment-based and private retirement arrangements has successfully demonstrated the ability of workers to attain retirement security, several legislative enhancements, including those with a focus on financial literacy, can build upon this success. ACLI supports the committee's commitment to improving retirement savings for all Americans.

CHALLENGES FACING RETIREMENT SAVERS

Closing the retirement savings gap is a big need—and it's becoming an even bigger need as society evolves. While workplace retirement plans are incredibly effective at helping people save, impediments still exist that prevent too many Americans from maximizing this important savings tool. For some, understanding the value of saving for retirement and the underlying concepts can prove to be daunting. Some of the mystery derives from the shift over time from defined benefit plans to defined contribution retirement plans. With greater choice and flexibility, plan participants must set personal savings goals, make informed investment decisions and plan for income throughout retirement.

Numerous segments of the population seem to have greater barriers to savings. While more than 80 percent of full-time workers have access to a retirement plan in the workplace, only 40 percent of part-time workers enjoy access to this benefit, in particular people who work for small employers and gig economy workers.[1] According to Betterment's study, *Gig Economy and the Future of Retirement,* nearly 40 percent of respondents feel unprepared to save enough to maintain their lifestyle during retirement.[2]

Additionally, millennials tend to be less prepared for retirement than earlier generations at the same stage in life with 40 percent having no dedicated retirement savings. Of those with dedicated retirement savings, a third have saved $15,000 or less.[3] Many are burdened with student loan debt and may delay saving for retirement. This segment may also face challenges related to access to a retirement savings plan in the workplace. According to Pew Charitable Trust's report, *Retirement Plan Access and Participation Across Generations,* younger workers are less likely than older workers to be offered retirement plans by their employers. And when they are, younger workers are less likely to participate.[4]

Adult caregivers are also in a perplexing situation. Many financially assist their children, while an estimated 9.7 million adult children over the age of 50 care for their parents as well.[5] Women act nearly twice as often as men as caregivers for their adult parents, which can have a significant impact on their retirement savings. The total individual amount of lost wages due to women leaving the labor force early because of caregiving responsibilities equals $142,693. The estimated impact of caregiving on their lost Social Security benefits is $131,351.[6] Additionally, woman caregivers, due to their caregiving responsibilities, are much less likely to participate in an employer's 401(k) program. Among single women 50 years old and older, the chance of participating in a 401(k) plan is35.8 percent for caregivers, compared to 43.6 percent for non-caregivers.[7]

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[1] Bureau of Labor Statistics, Employee Benefit Survey, *https://www.bls.gov/ncs/ebs/benefits/2018/ownership/civilian/table02a.htm.*

[2] Betterment, Gig Economy, and the Future of Retirement, *https://www.betterment.com/wp-content/uploads/2018/05/The-Gig-Economy-Freelancing-and-Retirement-Betterment-Survey-2018_edited.pdf.*

[3] ACLI analysis of Strategic Business Insights 2016–2017 MacroMonitor Household Survey.

[4] The Pew Charitable Trust, *Retirement Plan Access and Participation Across Generations, https://www.pewtrusts.org/-/media/assets/2017/02/ret_retirement_plan_access_and_participation_across_generations.pdf.*

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

[6] *Id.*

[7] Christian E. Weller and Michele E. Tolson, *Do Unpaid Caregivers Save Less for Retirement?, https://jor.iijournals.com/content/6/2/61/tab-article-info.*

Furthermore, mothers of young children, due to their absence in the labor force during child-rearing years, also experience gaps in opportunities to contribute to a workplace retirement plan. According to the Bureau of Labor Statistics, the labor force participation of mothers of young children was only 62 percent, compared to 80 percent of mothers with older children.[8]

POTENTIAL SOLUTIONS TO ADDRESS CHALLENGES IN SAVING FOR RETIREMENT

Effective public policy proposals, in addition to action by plan sponsors and providers, can address the challenges discussed above and help Americans save for a secure retirement. Public policy should seek to increase access to essential financial protections, retirement savings and guaranteed retirement income products. Through the Retirement Enhancement and Savings Act (RESA) (S. 972/H.R. 1007), Congress has an opportunity to enact comprehensive legislation that will help more people retire with peace of mind—increasing the availability, accessibility and affordability of retirement security products for all Americans. It represents sound retirement policy that has strong bipartisan and bicameral support. RESA is the bedrock of innovative and thoughtful proposals that have the potential to increase retirement savings for Americans. It is imperative the Senate Finance Committee take action and work to advance RESA as soon as possible.

Furthermore, policy proposals that seek to increase retirement savings that ACLI supports include:

1. Increased Access and Participation Through Small Plan Coverage

A sizable majority of full-time workers have access to a retirement plan in the workplace. Still, more could be done to expand access and coverage. While access is high for workers at larger employers, roughly 47 percent of all workers employed by businesses with fewer than 50 workers have access to a workplace retirement plan.[9] Many small businesses do not offer a retirement savings plan, but not for a lack of access to a marketplace of product offerings. The uncertainty of revenue is the leading reason given by small businesses for not offering a plan, while cost, regulatory and administrative burdens and lack of employee demand are other impediments.

Proposed legislation seeks to remedy this access challenge by facilitating retirement plan creation among small employers.[10] The expansion of private-sector sponsored multiple employer plans, also known as "open MEPs" or "pooled employer plans," can encourage and facilitate adoption by employers that are not prepared to sponsor their own stand-alone retirement plan. Open MEPs can be an important tool in reducing the costs and administrative burdens to small employers. Under an open MEP, many businesses can join together to achieve economies of scale and advantages with respect to plan administration and investment services, making plans much more affordable and efficiently maintained. This would encourage more businesses to offer their employees retirement plans. Additionally, eliminating the "one bad apple" rule, which punishes all participating employers if any one of the participating employers violates a qualification requirement, is vital. ACLI estimates open MEPs will lead to an additional 700,000 workers with access to workplace retirement savings.[11]

While the Department of Labor (DOL) has issued a rulemaking proposal relating to "Associate Retirement Plans," DOL's proposal falls far short of a real and viable way to expand small employer retirement plan coverage. DOL has a unique opportunity to allow for the creation of open MEPs in its current rulemaking project by removing the imposition of a "commonality" requirement which is unsupported by law. DOL's continued and incorrect interpretation of the law serves as an impediment to expanding coverage for employees of small employers.

Undoubtedly, the open MEPs model will make a considerable impact upon retirement plan coverage, but perhaps the biggest effect could be achieved through an em-

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[8] Bureau of Labor Statistics, *Employment Characteristics of Families—2017, https://www.bls.gov/news.release/archives/famee_04192018.pdf.*

[9] Bureau of Labor Statistics, National Compensation Survey, *https://www.bls.gov/ncs/*.

[10] Retirement Security Act of 2019, introduced in the 116th Congress by Senators Collins (R–ME) and Hassan (D–NH); H.R. 854, introduced in the 115th Congress by Representatives Buchanan (R–FL) and Kind (D–WI); S. 3219, introduced in the 115th Congress by Senators Cotton (R–AR), Young (R–IN), Heitkamp (D–ND) and Booker (D–NJ).

[11] ACLI estimate based on Joint Committee on Taxation, JCX–88–16, "Estimated Revenue Effects of the Chairman's Modification of the 'Retirement Enhancement and Savings Act of 2016.' Scheduled for markup by the Committee on Finance on September 21. 2016."

ployer requirement approach. Based on the BLS data, ACLI estimates that the possible impact of an employer retirement plan requirement proposal, similar to House Ways and Means Chairman Richard Neal's Automatic Retirement Act of 2017, could increase access to an employer-sponsored DC retirement plan by an additional 30 million workers, a 38-percent increase in access among private sector workers.[12] Assuming comparable take-up rates for those currently with access, the additional increase in access would lead to 22 million additional workers participating in a DC retirement plan, a 39-percent increase over current participation figures. For this reason, ACLI supports this approach, as a profound concept that could potentially change the landscape of retirement savings and improve the financial well-being of millions of Americans.

In addition to reforming and expanding open MEPs, other proposals to improve small business plan access include:

- Increased Start Up Credit: Under current law, small employers (up to 100 employees) that adopt a new retirement plan are entitled to an annual tax credit for 3 years equal to 50 percent of the costs of starting up the plan, up to a cap on the annual credit of $500. Pending legislation seeks to increase the credit and provide an additional credit for employers who automatically enroll employees in their plan.[13]
- Auto-IRA: Employers without a retirement savings plan should be encouraged to automatically enroll employees into a payroll deduction IRA. Employers that elect to sponsor an "Auto-IRA" should receive the same level of protection and state wage law pre-emption provided to employers sponsoring "Auto-401(k)s."[14]
- SIMPLE IRA Improvement: SIMPLE IRAs should be made more appealing to small businesses. Permitting a higher level of employer contributions and improving rollover rules could make the plans more valuable to employees.[15]
- Automatic Escalation Cap Removal: Under the current nondiscrimination safe harbor for automatic enrollment and automatic escalation, a retirement plan may not automatically enroll or escalate employees beyond a contribution rate that exceeds 10 percent of pay. The 10-percent limit has been widely criticized as unnecessarily restrictive and an impediment to encouraging plan participants to save more for retirement. Legislative efforts should focus on removal of this arbitrary cap.[16]

2. Facilitating Plan Participant Access to Lifetime Income Options

Many workers do not have access to an annuity option within their employer-provided plan. Annuities are the only financial product in the marketplace that guarantee income for life. To offer annuities in a 401(k) plan, employers are required to make a determination as to whether "an annuity provider is financially able to make all future payments under an annuity contract." This standard has been difficult to meet in part because it is hard for an employer to know how to draw this conclusion and has been an impediment to a broader inclusion of annuities in defined contribution plans.

ACLI supports proposals which improve upon the current annuity provider selection safe harbor rule.[17] When considering an insurer's financial capability, employers should be able to rely upon the work of state insurance commissioners with specific representations from the insurer regarding the plan's status in relation to state in-

[12] H.R. 4523, introduced in the 115th Congress by Representative Neal (D–MA).

[13] The Retirement Security and Savings Act of 2019, introduced in the 116th Congress by Senators Portman (R–OH) and Cardin (D–MD); S. 1383, introduced in the 115th Congress by Senators Collins (R–ME) and Nelson (D–FL); H.R. 4637, introduced in the 115th Congress by Representatives Kind (D–WI) and Reichert (R–WA); H.R. 3902, introduced in the 115th Congress by Representatives Bishop (R–UT) and Neal (D–MA).

[14] SIMPLE Plan Modernization Act, in the 116th Congress introduced by Senators Collins (R–ME) and Warner (D–VA); H.R. 4637, the SAVE Act of 2017, introduced in the 115th Congress by Representatives Kind (D–WI) and Reichert (R–WA).

[15] Retirement Security Act of 2019 (S. 321), introduced in the 116th Congress by Senators Collins (R–ME) and Hassan (D–NH); S. 2526, introduced in the 115th Congress by Senators Hatch (R–UT) and Wyden (D–OR); H.R. 4637, introduced in the 115th Congress by Representatives Kind (D–WI) and Reichert (R–WA); H.R. 5282, Representatives Kelly (R–PA) and Kind (D–WI).

[16] S. 2526, introduced in the 115th Congress by Senators Hatch (R–UT) and Wyden (D–OR); H.R. 4637, introduced in the 115th Congress by Representatives Kind (D–WI) and Reichert (R–WA), H.R. 5282, Representatives Kelly (R–PA) and Kind (D–WI).

[17] S. 2526, introduced in the 115th Congress by Senators Hatch (R–UT) and Wyden (D–OR); H.R. 1439, introduced in the 116th Congress by Representatives Blunt Rochester (D–DE) and Walberg (R–MI).

surance regulation and enforcement. Plan sponsors should not have to second-guess the determinations of state insurance departments concerning the ability of a licensed provider to satisfy its long-term financial obligations. By improving the current safe harbor provision, the legislation will mitigate employer concerns regarding selecting an annuity provider and encourage them to add an annuity option to their retirement plan offerings.

In addition to an improved annuity safe harbor regulation, participants would benefit from lifetime income portability protections. ACLI supports legislation and regulation that focuses on expanding the annuity product portability rules to maintain participants' access to lifetime income benefits. Participants could confidently diversify their portfolio into an annuity vehicle, a key tenant to financial planning. When the termination of a plan's annuity contract would lead to the loss of access on the part of plan participants to the contract's guaranteed lifetime benefits, the rules should permit the distribution to be made via a qualified plan distributed annuity contract or a direct rollover to an IRA or other eligible retirement plan. Participants need the means to maintain access to these important benefits. ACLI supports legislative proposals that would enhance the portability of guaranteed lifetime income products.[18]

3. Additional Plan Innovations

Employers and plan providers, understanding the value of education in the workplace, have been working for decades to design and implement effective financial literacy programs that incentivize employees to save for retirement. Employers recognize that financial strain on their employees can decrease productivity and increase stress. To combat this challenge, more employers are offering financial wellness programs that include investment and savings advice. The *Benefits and Beyond: Employer Perspectives on Financial Wellness,* a report from Prudential Financial Inc., found that the percentage of employers offering financial wellness programs rose from 20 percent in 2015 to 83 percent in 2017.[19] Additionally, employers offering one-on-one retirement plan investment advice rose by 14 percentage points to 55 percent in 2017.[20]

Employers have instituted other valuable mechanisms as well that aim to increase plan utilization and balances. Tools such as automatic enrollment, automatic escalation and employer matches have become invaluable to participants. Nearly 73 percent of employers now automatically enroll new participants, compared with 68 percent in 2014 and 52 percent in 2009. Additionally, 60 percent provide an auto-escalation feature, up from 54 percent in 2014.[21]

Creative policy approaches that would assist employees in saving for retirement are also under consideration. One legislative approach ACLI supports would enable employers to contribute a "match" to an employee's 401(k) account in the amount that the employee is contributing to their student loans.[22] This would apply to 403(b) and SIMPLE plans as well. Another approach seeks to provide home health care workers with a path to save. As noted above, these workers may not have taxable income due to their caregiving duties. A current legislative proposal seeks to remedy this by allowing home health care workers to contribute to a plan or IRA by amending the Employee Retirement Income Security Act in order to allow "difficulty of care" payments as compensation when determining retirement continuation limitations.[23]

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[18] S. 2526, introduced in the 115th Congress by Senators Hatch (R–UT) and Wyden (D–OR); H.R. 3910, introduced in the 115th Congress by Representatives Neal (D–MA) and Bishop (R–UT).

[19] Prudential Financial Inc., *Benefits and Beyond: Employer Perspectives on Financial Wellness, https://www.prudential.com/media/managed/rp/32467.html.*

[20] The Society for Human Resource Management, *2018 Employee Benefit Report, https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2018%20Employee%20Benefits%20Report.pdf.*

[21] Willis Towers Watson, 2017 Defined Contribution Plan Survey, *https://globenewswire.com/news-release/2018/02/26/1387421/0/en/U-S-employers-enhancing-defined-contribution-retirement-plans-to-help-improve-workers-financial-security.html.*

[22] S. 1428, introduced in the 116th Congress by Senators Wyden (D–OR), Cantwell (D–WA), Cardin (D–MD), Whitehouse (D–RI), and Brown (D–OH); the Retirement Security and Savings Act of 2019, introduced in the 116th Congress by Senators Portman (R–OH) and Cardin (D–MD).

[23] S. 972, introduced in the 116th Congress by Senators Grassley (R–IA) and Wyden (D–OR); H.R. 1994, introduced in the 116th Congress by Representatives Neal (D–MA), Brady (R–TX), Kind (D–WI), and Kelly (R–PA).

In addition to efforts undertaken by employers to increase financial literacy, legislative proposals supported by ACLI would leverage financial literacy to improve retirement savings by informing participants of their account balances through a lifetime income disclosure illustration.[24] These types of policy proposals would help individuals think of their retirement plan savings as not only a lump sum balance, but also as a source of guaranteed lifetime income. Coupled with their Social Security income statement, a lifetime income disclosure illustration on their benefit statement would let workers see how much monthly income they could potentially receive in retirement. Workers can better decide whether to increase their savings, adjust their 401(k) investments or reconsider their retirement date, if necessary, to assure the quality of life they expect in retirement. Currently, federal workers have the benefit of such an illustration in the federal Thrift Savings Plan annual statement.

Additionally, as technology improves, so do the methods and practices for delivery of information. Policy efforts should focus on facilitating the most effective, efficient delivery practices for providing employees with information about their retirement benefits by making it easier for employers to communicate with employees electronically. Legislative proposals that support electronic delivery methods ensure retirement savers will have greater access to needed information and online tools to assist them as they save and plan to retire and allow employers to set electronic delivery as their default communication method.[25] By establishing important consumer protections, such as an employee's right to opt-out of electronic delivery at any time and receive paper statements at no direct cost coupled with a required annual paper notice that summarizes the various communications delivered over the year along with information about how to change the delivery method, participants are ensured they will receive plan material by a method of their choosing.

CONCLUSION

Providing workers with greater access to employment-based retirement savings arrangements will help them better prepare for retirement. Many retirees can expect to live another 20–30 years or longer in retirement. In fact, the first generation of workers who largely have self-funded for retirement are nearing the age when they will start drawing down on their savings. They need to understand how to manage their savings to ensure it lasts their lifetime. Facilitating lifetime income solutions and communicating how retirement savings translate into a guaranteed monthly income benefit empowers and educates participants to make better decisions. Nearly all the public policy proposals detailed in this statement are included in RESA. They will improve the current retirement system and guarantee a financially secure retirement for millions of Americans. Through taking action on RESA, Congress has an opportunity to enact comprehensive legislation that will help more people retire with peace of mind—increasing the availability, accessibility and affordability of retirement security products for all Americans. ACLI continues to urge policymakers to support and make every effort to enhance the current retirement system. We and our members stand ready to assist the Congress in this worthwhile endeavor.

AON

May 24, 2019

The Honorable Chuck Grassley
Chairman
U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Grassley and Ranking Member Wyden,

I write to you on behalf of Aon, a global professional services firm that offers a wide range of retirement services, including actuarial consulting, investment consulting, and plan administration and design. Aon is one of the leading providers in each of

[24] S. 868, introduced in the 115th Congress by Senators Isakson (R–GA) and Murphy (D–CT); H.R. 2367, introduced in the 116th Congress by Representatives Pocan (D–WI), Budd (R–NC), Krishnamoorthi (D–IL), Suozzi (R–NY), and Meadows (R–NC).

[25] S. 3795, introduced in the 115th Congress by Senators Brown (D–OH), Enzi (R–WY), Peters (D–MI), Portman (R–OH), Isakson (R–GA), and Jones (D–AL); H.R. 4610, introduced in the 115th Congress by Representatives Polis (D–CO), Roe (R–TN), Kind (D–WI), and Kelly (R–PA).

these areas and is committed to helping clients navigate retirement risk while providing new levels of financial security. We appreciate the Committee's ongoing efforts to better position the American workforce to save for retirement. Updating current retirement savings policies will benefit American employers, workers, and retirees, in addition to providing greater overall financial security and reducing reliance on Social Security and other entitlement programs.

Countless studies document a retirement savings gap among American workers. This is a concern for employers of all sizes, but particularly for small and mid-sized companies, which do not traditionally offer tax-qualified retirement plans for their employees. The key reasons that more employers have not offered retirement plans and employees have not fully participated when those plans are available include:

- Cost to the employer (including distraction from core business operations);
- Fees to the participant;
- Employees' lack of disposable income for plan contributions;
- Lack of access to cutting-edge programs, communication materials, and administration platforms;
- Employees not aware of available retirement programs and failure to demand as part of recruitment/retention discussions; and
- Fiduciary risks.

At Aon, we see a growing need for additional retirement income options. One key reform to address this issue centers on finding the most efficient and effective way to facilitate Open Multiple Employer Plans (Open MEPs). Open MEPs will bring new employers and savers into the retirement savings market and better value to current participants and their employers. Specifically, we believe that these savings arrangements will result in:

- *Greater participation in tax-qualified retirement programs.* It will be far easier for small and mid-sized employers to allow their employees to participate in retirement programs.
- *Improved results on a dollar-for-dollar basis.* Plans and participants will see lower costs from reduced administrative and investment fees and professional and consistent plan administration and recordkeeping. The plans will also provide increased levels of sophistication around investments and lifetime income solutions provided by the pooled plan providers.
- *Increased opportunity for retirement readiness.* The general public will have greater awareness of retirement savings plan vehicles and the importance of early savings through communications from their employers and pooled plan providers. In addition, participants will have more access to best practice forms of distribution, including lump sums and annuities, safe harbor hardship withdrawals, and plan loan provisions.

Analysis by Aon experts shows that retirement savings can experience a 15 to 75 percent or greater improvement in lifetime income opportunity following participation in the Open MEPs arrangements contemplated by the Committee. Aon is supportive of these savings arrangements and encourages Congress to act swiftly to facilitate Open MEPs by passing the Retirement Enhancement and Savings Act (RESA).

In response to the Committee's hearing on March 14, 2019, Aon wishes to express appreciation for your efforts to continue examining "challenges in the retirement system." We believe that enactment of RESA will significantly improve retirement security for millions of Americans. As it relates to Open MEPs specifically, we believe the current legislative language could be enhanced further to make Open MEP savings arrangements even more attractive to employers and fiduciary service organizations.

In particular, we believe that the Open MEPs language in RESA could include a provision that further enables the transfer of retirement account balances from an ongoing qualified defined contribution plan to a pooled employer plan. This slight modification will enhance development of a streamlined administrative platform and attract a range of employers to pooled retirement programs—ensuring a successful start. This accommodation will help create a base of existing account balances upon which future programs can be built and expanded upon and provide immediate cost efficiencies benefiting individual participants. We would be happy to provide further detail on these modest modifications as helpful.

In closing, thank you to the Committee for the important work it has done to improve retirement savings outcomes for American taxpayers.

Sincerely,

Richard E. Jones
Senior Partner
Retirement and Investment

CENTER FOR FISCAL EQUITY
14448 Parkvale Road, #6
Rockville, MD 20853
fiscalequitycenter@yahoo.com

STATEMENT OF MICHAEL BINDNER

Chairman Grassley and Ranking Member Wyden, thank you for the opportunity to submit comments to the subcommittee, which reflect comments we made to Ways and Means in March.

To strengthen the retirement system, we must understand the purpose of social insurance and how tax reform and employee-ownership can bring people into the middle class and keep them there.

Care for the retired was provided by families prior to the establishment of Social Security. Extended families provided shelter, income and health care because they had to. Allowing seniors to live independently freed the nuclear family to move without taking everyone with them. This led to a crisis in health coverage for those seniors left behind.

The logic of social insurance led to both Social Security, Medicare and Medicaid. This provided care for everyone regardless of accidents of birth or death. Without it, families with no surviving parents or grandparents would pay nothing, where only children might have to pay for both parents and their in-laws. This inequality still happens with housing and it strains many marriages.

Our comments on who belongs in the middle class are omitted. Our latest comments on Family Income and Employee-Ownership before the Subcommittee on Worker and Family Support on Leveling the Playing Field for Working Families: Challenges and Opportunities, Thursday, March 7, 2019 are repeated in Attachment One. Attachment Two restates our Social Security reforms last attached to our comments on the 2016 Trustees Report.

Our employee-ownership comments are based in two elements of our four-part approach to tax reform, the employee contribution to Old-Age and Survivors Insurance and our Net Business Receipts/Subtraction Value-Added Tax.

The employee contribution will feature a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive. This contribution is only retained if a tie between retirement income and wages is necessary to preserve broad based support for the program. There should be a floor, however, because most of the heavy lifting to support retirees will come from the NBRT, with these contributions to FICA credited on an equal dollar basis, rather than as a tie to wage levels. Doing so makes contributions less regressive, both because they tax all value added and because there is no upper limit to their collection. This ends the need for the Earned Income Tax Credit and its replacement with a high child credit.

The NBRT/SVAT includes additional tax expenditures for family support, health care and the private delivery of governmental services. It will fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

Covering retirement will also be part of the NBRT. Employee-ownership is the ultimate protection for worker wages. Our proposal for expanding it involves diverting an ever-increasing portion of the employer contribution to the Old-Age and Survivors fund to a combination of employer voting stock and an insurance fund holding the stock of all similar companies.

At some point, these companies will be run democratically, including CEO pay, and workers will be safe from predatory management practices. This is only possible if the Minority quits using fighting it as a partisan cudgel and embraces it to empower the professional and working classes.

Sadly, many people are trapped in poverty until they retire into a life of less poverty. Bringing families into the middle class through adequate family wages and building financial and real assets through employee-ownership. The dignity of ownership is much more than the dignity of work as a cog in a machine.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment One, March 2019

Family Income

The most important factor in leveling the playing field is an adequate wage for work. Ideally, this should come from a higher minimum wage, which puts the burden on employers and ultimately customers for fair pay, rather than a tax support for low wage workers (regardless of parental status). The market cannot provide a fair wage for families, as there will always be more desperate employees who can be taken advantage of to force wages lower for everyone else. A minimum wage protects those employers who would do the right thing by their employees if not for their competitors.

A $15 per hour minimum wage is currently being demanded by a significant share of the voters. Perhaps it is time to listen. If the marginal productive product of these employees is more than this rate, job losses will not occur—of course, the estimates of this product can be easily manipulated by opponents who believe that managers provide much more productivity than people who actually work, so such estimates should be examined critically.

Internally, management usually have the correct number, but are loath to share it if doing so hurts their political point. A higher minimum wage puts the burden on employers and ultimately customers for fair base wages, rather than subsidies to low wage employers.

The engine of redistribution for families will be the NBRT. For those who are new to our comments, the NBRT is collected from employers but is not visible on purchase receipts, making it an SVAT.

It is designed to redistribute income within companies rather than having the government do it through more overt subsidies. The child tax credit will be paid out, as it is now, through wages, but doing so will not require any tax filing, save to verify that what is reported to the government matches what is distributed to workers. Setting it to $1,000 per child per month makes it adequate to provide what the Department of Agriculture estimates to be the actual cost of raising a child.

None other than Milton Friedman suggested a negative income tax and both Republican and Democratic Presidents have enacted and expanded the Child Tax Credit.

This can be called a Pro-Life measure, not because it elects Republicans, but because it distributes enough money to families, including single mothers, to end the need to resort to abortion, or even contraception, for economic means. It is part of what Catholic Social Teaching calls a fair wage.

The fair wage is the essence of the Seamless Garment of Life as discussed by Cardinal Bernardin. The Center urges the National Right to Life Committee to make adoption of these recommendations a scored life issue. Failure to do so proves the point of NARAL-Pro-Choice America that abortion restrictions would be all about controlling sexuality. If the Minority wishes to prove NARAL wrong they can adopt these recommendations.

Employee-Ownership

Employee-ownership is the ultimate protection for worker wages. Our proposal for expanding it involves diverting an ever-increasing portion of the employer contribution to the Old-Age and Survivors fund to a combination of employer voting stock and an insurance fund holding the stock of all similar companies. At some point, these companies will be run democratically, including CEO pay, and workers will be safe from predatory management practices. Increasing the number of employee-owned firms also decreases the incentive to lower tax rates and bid up asset markets with the proceeds.

Establishing personal retirement accounts holding index funds for Wall Street to play with will not help. Accounts holding voting and preferred stock in the employer and an insurance fund holding the stocks of all such firms will, in time, reduce inequality and provide local constituencies for infrastructure improvements and the funds to carry them out.

NBRT/SVAT collections, which tax both labor and profit, will be set high enough to fund employee-ownership and payment of current beneficiaries. All employees would be credited with the same monthly contribution, regardless of wage. The employer contribution to Old-Age and Survivors Insurance will continue to provide income sensitive payments to current retirees, which will bolster the political acceptance of the entire system.

ESOP loans and distribution of a portion of the Social Security Trust Fund could also speed the adoption of such accounts. Our Income and Inheritance Surtax (where cash from estates and the sale of estate assets are normal income) would fund reimbursements to the Fund.

Attachment Two—Hearing on the 2016 Social Security Trustees Report, Lessons From the Great Recession

The only observation I will make regarding the Trustees report is that the 2008 Recession triggered by our continuing asset-based Depression has both temporary and permanent effects on the trust fund's cash flow. The temporary effect is a decline in revenue caused by a slower economy and the temporary cut in payroll tax rates to provide stimulus.

The permanent effect is the early retirement of many who had planned to work longer, but because of the recent recession and slow recovery, this cohort has decided to leave the labor force for good when their extended unemployment ran out. This cohort is the older 77ers and 99ers who needed some kind of income to survive. The combination of age discrimination and the ability to retire has led them to the decision to retire before they had planned to do so, which impacts the cash flow of the trust fund, but not the overall payout (as lower benefit levels offset the impact of the decision to retire early on their total retirement cost to the system).

When Social Security was saved in the early 1980s, payroll taxes were increased to build up a Trust Fund for the retirement of the Baby Boom generation. The building of this allowed the government to use these revenues' to finance current operations, allowing the President and his allies in Congress to honor their commitment to preserving the last increment of his signature tax cut.

This trust fund is now coming due, so it is entirely appropriate to rely on increased income tax revenue to redeem them. It would be entirely inappropriate to renege on these promises by further extending the retirement age, cutting promised Medicare benefits or by enacting an across the board increase to the OASI payroll tax as a way to subsidize current spending or tax cuts.

The cash flow problem currently experienced by the trust fund is not the trust fund's problem, but a problem for the Treasury to address, either through further borrowing—which will require a quick resolution to the debt limit extension and preferable through higher taxes for those who received the lion's share of the benefit's from the tax cuts of 1981, 1986, 2001, 2003 and 2010.

The cost of delaying actions to address Social Security's fiscal challenges for workers and beneficiaries.

Actions should be taken as soon as possible, especially when they must be phased in, as it is a truism that a little action early will have a larger impact later.

This should not be done, however, as an excuse to use regressive Old-Age and Survivors Insurance payroll taxes to subsidize continued tax cuts on the top 20% of wage earners who pay the majority of income taxes. Retirement on Social Security for those at the lowest levels is still inadequate. Any change to the program should, in time, allow a more comfortable standard of living in retirement.

The ultimate cause of the trust fund's long term difficulties is not financial but demographic. Thus, the solution must also be demographic—both in terms of population size and income distribution. The largest demographic problem facing Social Security and the health care entitlements, Medicare and Medicaid, is the aging of the population. In the long term, the only solution for that aging is to provide a decent income for every family through more generous tax benefits.

The free market will not provide this support without such assistance, preferring instead to hire employees as cheaply as possible. Only an explicit subsidy for family size overcomes this market failure, leading to a reverse of the aging crisis.

The recommendations for raising net income are within the context of comprehensive tax reform, where the first 25–28 percent of personal income tax rates, the corporate income tax, unemployment insurance taxes, the Hospital Insurance payroll

tax, the Disability Insurance payroll tax and the portion of the Survivors Insurance payroll tax funding survivors under the age of 60 have been subsumed by a Value-Added Tax (VAT) and a Net Business Receipts Tax (where the net includes all value added, including wages and salaries).

Net income would be adjusted upward by the amount of the VAT percentage and an increased child tax credit of $500 to $1000 per child per month. This credit would replace the earned income tax credit, the exemption for children, the current child tax credit, the mortgage interest deduction and the property tax deduction. This will lead employers to decrease base wages generally so that the average family with children and at an average income level would see no change in wage, while wages would go up for lower income families with more children and down for high income earners without children.

Gross income would be adjusted by the amount of tax withholding transferred from the employee to the employer, after first adjusting net income to reflect the amount of tax benefits lost due to the end of the home mortgage and property tax deductions.

This shift in tax benefits is entirely paid for and it would not decrease the support provided in the tax code to the housing sector—although it would change the mix of support provided because the need for larger housing is the largest expense faced by growing families. Indeed, this reform will likely increase support for the housing sector, as there is some doubt in the community of tax analysts as to whether the home mortgage deduction impacted the purchase of housing, including second homes, by wealthier taxpayers.

Within 20 years, a larger number of children born translates into more workers, who in another decade will attain levels of productivity large enough to reverse the demographic time bomb faced by Social Security in the long term.

Such an approach is superior to proposals to enact personal savings accounts as an addition to Social Security, as such accounts implicitly rely on profits from overseas labor to fund the dividends required to fill the hole caused by the aging crisis. This approach cannot succeed, however, as newly industrialized workers always develop into consumers who demand more income, leaving less for dividends to finance American retirements. The answer must come from solving the demographic problem at home, rather than relying on development abroad.

This proposal will also reduce the need for poor families to resort to abortion services in the event of an unplanned pregnancy. Indeed, if state governments were to follow suit in increasing child tax benefits as part of coordinated tax reform, most family planning activities would be to increase, rather than prevent, pregnancy. It is my hope that this fact is not lost on the Pro-Life Community, who should score support for this plan as an essential vote in maintaining a perfect pro-life voter rating.

Obviously, this proposal would remove both the mortgage interest deduction and the property tax deduction from the mix of proposals for decreasing tax rates while reducing the deficit. This effectively ends the notion that deficit finance can be attained in the short and medium term through tax reforms where the base is broadened and rates are reduced. The only alternatives left are a generalized tax increase (which is probably necessary to finance future health care needs) and allowing tax rates for high income individuals to return to the levels already programmed in the law as of January 1, 2013. In this regard, gridlock is the friend of deficit reduction. Should the President show a willingness to let all rates rise to these levels, there is literally no way to force him to accept anything other than higher rates for the wealthy.

This is not to say that there is no room for reform in the Social Security program. Indeed, comprehensive tax reform at the very least requires calculating a new tax rate for the Old-Age and Survivors Insurance program. My projection is that a 6.5% rate on net income for employees and employers (or 13% total) will collect about the same revenue as currently collected for these purposes, excluding sums paid through the proposed enhanced child tax credit. Th1s calculation is, of course, subject to revision.

While these taxes could be merged into the net business income/revenue tax, VAT or the Fair Tax as others suggest, doing so makes it more complicated to enact personal retirement accounts. My proposal for such accounts differs from the plan offered in by either the Cato Institute or the Bush Commission (aka the President's Commission to Save Social Security).

As I wrote in the January 2003 issue of *Labor and Corporate Governance,* I would equalize the employer contribution based on average income rather than personal income. I would also increase or eliminate the cap on contributions. The higher the income cap is raised, the more likely it is that personal retirement accounts are necessary.

A major strength of Social Security is its income redistribution function. I suspect that much of the support for personal accounts is to subvert that function—so any proposal for such accounts must move redistribution to account accumulation by equalizing the employer contribution.

I propose directing personal account investments to employer voting stock, rather than an index funds or any fund managed by outside brokers. There are no Index Fund billionaires (except those who operate them). People become rich by owning and controlling their own companies. Additionally, keeping funds in-house is the cheapest option administratively. I suspect it is even cheaper than the Social Security system—which operates at a much lower administrative cost than any defined contribution plan in existence.

Safety is, of course, a concern with personal accounts. Rather than diversifying through investment, however, I propose diversifying through insurance. A portion of the employer stock purchased would be traded to an insurance fund holding shares from all such employers. Additionally, any personal retirement accounts shifted from employee payroll taxes or from payroll taxes from non-corporate employers would go to this fund.

The insurance fund will save as a safeguard against bad management. If a third of shares were held by the insurance fund than dissident employees holding 25.1% of the employee held shares (16.7% of the total) could combine with the insurance fund held shares to fire management if the insurance fund agreed there was cause to do so. Such a fund would make sure no one loses money should their employer fail and would serve as a sword of Damocles to keep management in line. This is in contrast to the Cato/PCSSS app roach, which would continue the trend of management accountable to no one. The other part of my proposal that does so is representative voting by occupation on corporate boards, with either professional or union personnel providing such representation.

The suggestions made here are much less complicated than the current mix of proposals to change bend points and make OASI more of a needs based program. If the personal account provisions are adopted, there is no need to address the question of the retirement age. Workers will retire when their dividend income is adequate to meet their retirement income needs, with or even without a separate Social Security program.

No other proposal for personal retirement accounts is appropriate. Personal accounts should not be used to develop a new income stream for investment advisors and stock traders. It should certainly not result in more "trust fund socialism" with management that is accountable to no cause but short term gain. Such management often ignores the long-term interests of American workers and leaves CEOs both over-paid and unaccountable to anyone but themselves.

Progressives should not run away from proposals to enact personal accounts. If the proposals above are used as conditions for enactment, I suspect that they won't have to. The investment sector will run away from them instead and will mobilize their constituency against them. Let us hope that by then workers become invested in the possibilities of reform.

All of the changes proposed here work more effectively if started sooner. The sooner that the income cap on contributions is increased or eliminated, the higher the stock accumulation for individuals at the higher end of the age cohort to be covered by these changes—although conceivably a firm could be allowed to opt out of FICA taxes altogether provided they made all former workers and retirees whole with the equity they would have otherwise received if they had started their careers under a reformed system. I suspect, though, that most will continue to pay contributions, with a slower phase in—especially if a slower phase in leaves current management in place.

CHURCH ALLIANCE

May 28, 2019

The Honorable Chuck Grassley
Chairman
U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Grassley and Ranking Member Wyden:

The Church Alliance is pleased to submit the following statement for the record in response to the Senate Committee on Finance's May 14, 2019 hearing on *Challenges in the Retirement System.* As you know, churches, synagogues, and other religious organizations are at the heart of communities across our nation. We appreciate the Committee's commitment to ensuring all Americans, including clergy, lay workers, and their families, are prepared for a financially secure retirement and look forward to continuing the discussion on retirement reform in the 116th Congress.

ABOUT THE CHURCH ALLIANCE AND CHURCH BENEFIT PLANS

The Church Alliance is a coalition of chief executive officers of thirty-seven (37) denominational benefit programs covering mainline and evangelical Protestant, Catholic, and Jewish faith traditions. Church Alliance members provide employee benefits to approximately one million clergy (including ministers, priests, rabbis, and other spiritual leaders), lay workers, and their family members, serving over 155,000 churches, synagogues, and affiliated organizations.

By way of background, denominational benefit plans are typically maintained by a separately incorporated church benefit organization (often called a pension board or benefit board) designated as the entity that sponsors or administers and maintains the benefit programs for eligible employees within the denomination. These benefit plans are generally multiple-employer in nature and cover thousands of church and synagogue employers throughout the country, many of which are located in rural communities. These programs often also cover foreign mission organizations and their missionaries. Church benefit organizations thus typically provide retirement and welfare benefits to thousands (or, in the case of the larger denominations, tens of thousands) of clergy and lay workers at multiple locations. Retirement benefits may be provided through a defined contribution (typically 403(b)(9)) plan, a defined benefit plan or both. Having a centralized program sponsored by one organization serving multiple church employers helps ensure continuity and consistency of employee benefits for the many clergy who move from one church or church-related organization to another to fulfill the ministry of a denomination.

Many of the participating employers covered under these church benefit plans are small, local churches with few employees. Oftentimes, the local church's pastor may be that church's only employee. If there are other employees, they are often part-time workers who assist with secretarial or bookkeeping duties or perhaps provide for building maintenance. In addition, many small local churches are staffed by bivocational pastors (clergy who work for a secular employer part-time or full-time and pastor a church or churches on the side). Denominational plans also provide benefits to self-employed clergy.

In addition to serving local churches and synagogues, denominational benefit plans cover other church related organizations that historically have been viewed by denominations as an extension of the ministry and are considered to be within the bounds of the particular denomination with which they are affiliated. For example, participating employers can include church-related nursing homes, daycare centers, summer camps, preschools, colleges, universities, hospitals, and other social service organizations. All of these organizations typically are considered as fulfilling the ministry and mission of the church.

Local churches are typically run by volunteer trustees, vestries, boards of directors, boards of deacons, boards of elders, parish councils, or the like. The individuals who hold these volunteer leadership roles are focused on fulfillment of their church's ministry and have the burden of allocating both human and monetary resources to direct ministry, which leaves them with little time to focus on employee benefit compliance issues. In the case of small to medium-sized churches and synagogues, these individuals may, and usually do, lack the expertise required to understand the various employee benefit legal requirements that must be met. Except in the largest

churches, the typical church budget does not support the hiring of outside experts required to assist the local church with employee benefits compliance. As a result, absent the availability of the programs provided through church benefit organizations and church associations, many of these employers would be unable to provide adequate retirement or welfare benefits to their employees.

The benefits provided by church benefit organizations or church associations may be mandated by the denominational polity (the operational and governance structure of a denomination). Over the years, church denominations have organized themselves in a variety of ways reflecting their own theological beliefs. Some denominations are organized in a "hierarchical" polity, in which a "parent" church organization sets the policy for the entire denomination. Other denominations have organized themselves in a diocesan, synodical or Presbyterian structure under which policy-making is carried out on a local or regional level, through representatives drawn from the various churches within the geographic area served by a particular level of governance. Several other denominations, composed of autonomous churches and synagogues, or conventions or associations of churches, cooperate in a "congregational" form of governance in which churches and church ministry organizations are associated by voluntary and cooperative participation.

It is these diverse sets of church polities, and the differing levels of control exercised over churches and church ministry organizations under a particular polity, that present difficulties with employee benefit requirements of the tax code, ERISA, and other laws, most of which were designed with a for-profit, corporate structure in mind. Together with the Constitutional proscription against excessive government entanglement with religion, these considerations have led to the development of a legal framework for church plans that reflects their unique characteristics.

Clarification for § 403(b)(9) Plans

Clarification of the rules governing church retirement plans is urgently needed to reaffirm current Jaw dating to 1980, and more than 30 years of administrative practice, to ensure that all church-affiliated organizations can participate in a church § 403(b)(9) plan. Throughout their history, the advantages of church retirement plans have been open to church clergy and lay workers serving individual churches, as well those of affiliated organizations that advance the mission of the denomination, such as children's homes, daycare centers, summer camps, nursing homes, retirement centers, preschools, colleges and universities, and other religious nonprofit entities.

The broad availability of these plans is now under threat by a recent IRS and Treasury position that departs from longstanding precedent, and restricts the retirement plan options available to employees of certain religiously affiliated organizations. Under this new position, employees of these organizations will no longer be able to participate in § 403(b)(9) plans. This creates significant issues for church retirement plans, but most importantly, for the beneficiaries they serve.

The IRS and Treasury position could mean that clergy and church lay workers lose access to important § 403(b)(9) features, such as access to socially screened investment options that reflect a particular denomination's faith and beliefs, as well as to annuitization choices that can be provided directly by the church benefit program. Moreover, this approach would inevitably lead to higher costs with fewer § 403(b)(9) plan participants over which to spread plan expenses.

Recognizing these implications, bipartisan, broadly supported legislation was introduced in the Senate this year (S. 836) to clarify the appropriate and intended broad availability of § 403(b)(9) plans. The clarification has also been included in the Retirement Enhancement and Savings Act (S. 972/H.R. 1007), the Setting Every Community Up for Retirement Enhancement Act (H.R. 1994), and the Family Savings Act (H.R. 1084). We strongly urge enactment of this clarification at the earliest possible opportunity, either independently or as part of a moving vehicle. Urgent resolution of this issue is critical to the retirement security of clergy and church lay workers across the nation.

Support for Additional Retirement Reform Efforts

The Church Alliance appreciates the Committee's commitment to continuing its work on retirement reform throughout the 116th Congress. In particular, the Church Alliance applauds the recent introduction of the Retirement Security and Savings Act (S. 1431) by Senators Rob Portman (R–OH) and Ben Cardin (D–OH). Most notably, S. 1431 supports plan harmonization that would set retirement plans on even footing with individual retirement accounts. We look forward to continuing

the discussion on S. 1431 and other pieces of legislation to improve retirement security in the coming months.

Conclusion

In closing, the Church Alliance greatly appreciates the opportunity to submit these comments. We are pleased to serve as a resource to the Congress and the Committee on these and related matters. We look forward to our continued work together on retirement reform. Thank you for your consideration.

Sincerely,

James F. Sanft
Chair of the Church Alliance

ERISA INDUSTRY COMMITTEE (ERIC)
701 8th Street, NW, Suite 610
Washington, DC 20001
(202) 789–1400
www.eric.org

Chairman Grassley, Ranking Member Wyden, and Members of the Committee, thank you for this opportunity to submit a statement for the record on behalf of The ERISA Industry Committee (ERIC) regarding Challenges in the Retirement System. ERIC is the only national association that advocates exclusively for large employers on health, retirement, and compensation public policies at the federal, state, and local levels. ERIC's members are leaders in every industry sector and provide comprehensive retirement benefits to tens of millions of active and retired workers and their families across the country. As such, ERIC has a strong interest in policies that impact the ongoing viability of the private retirement system and shares your interests in addressing challenges in the retirement system.

Introduction

ERIC thanks you for holding this hearing to address retirement security in America. As discussed more fully in our comments below, there are a number of issues that, if addressed, could strengthen retirement security. We are encouraged by the introduction of the Retirement Enhancement and Savings Act of 2019 (RESA) and the Retirement Security and Savings Act of 2019 as they both include provisions that are critical to removing unnecessary burdens and modernizing the current system. In particular, we support the following:

- A permanent fix for nondiscrimination testing for frozen plans;
- More flexible options in providing lifetime income disclosure notices to avoid one-size-fits-all mandates;
- A comprehensive resolution to the multiemployer pension plans crisis;
- Measures to facilitate electronic delivery to modernize notice and disclosure rules;
- Provisions that would allow employers to assist workers in saving for retirement while paying off student loan debt; and
- Expanding the allowance of pension transfers to retiree health and welfare plans to protect retirees.

Comments

We offer the comments below and look forward to continued discussions on addressing the challenges to the private retirement system.

ERIC Supports the Permanent Fix for Non-discrimination Testing for Frozen Plans. RESA includes an important measure that provides permanent relief from ongoing nondiscrimination testing for frozen defined benefit plans, subject to certain conditions. This provision protects older, longer-serving participants by providing an exception to nondiscrimination testing and allowing frozen defined benefit plans to apply the nondiscrimination rules to the closed class of participants as of the freeze date and beyond. Therefore, if the plan passed the nondiscrimination testing requirements as of the date of the freeze applicable to the closed class of participants, a plan would no longer be required to apply the nondiscrimination testing requirements to the closed class of participants (unless a plan amendment applied to and changed the benefits of the closed class of participants). ERIC supports this RESA provision as a critical tool for the continuation of benefits under defined benefit plans.

ERIC Continues to Encourage Flexibility in Lifetime Income Disclosures. While ERIC supports RESA, we continue to call for modifications to the Lifetime Income Disclosure Act (LIDA) provision currently contained in the legislation to allow plan sponsors to choose the lifetime income disclosure tool that best supports plan participants and relates most specifically to its retirement plan. Since LIDA was first introduced in 2009, plans sponsors have voiced serious concerns about the specific mandated lifetime income disclosure obligation imposed on communications between the employer and employee-participants. The rigidity of the mandated disclosure would create needless confusion and additional costs, as well as stifle innovation.

Each year plans are implementing and offering more educational tools, such as on-line calculators, that allow participants to input their individual assumptions and receive lifetime income disclosures and other information that is tailored to their unique circumstances. LIDA will present plan participants with complex illustrations that will likely have very little relevance to their personal circumstances. We agree with the primary public policy goal of LIDA to increase plan participant understanding of the importance of saving for a lifetime of needs but believe strongly that there are better ways to achieve it than the proposed rigid, limited approach, which calculates lifetime income based solely in the form of an annuity payment. These better ways would not need a wholesale rewrite of LIDA, rather just allow options for plan sponsors that would allow them to choose the annuity disclosure or to provide other, more relevant information for plan participants.

We would like to work with you to enhance retirement savings opportunities, including lifetime income options, but in a more effective and flexible manner than LIDA currently would provide. We have shared alternative approaches with Committee staff that would encourage plan participants to consider lifetime income streams and we are committed to continuing these conversations.

ERIC Encourages Congress to Address the Multiemployer Pension Crisis. The multiemployer pension system is a looming crisis that Congress needs to address immediately and comprehensively. The multiemployer system is underfunded by 36 billion dollars with 1.3 million workers at risk of losing their retirement benefits. Moreover, the backstop for multiemployer plans, the Pension Benefit Guaranty Corporation ("PBGC") multiemployer fund, is predicting its insolvency by 2025 resulting in the loss millions of dollars in retirement benefits.

This crisis does not impact just participants or retirees—there will also be an adverse impact on employers in these plans. Because of the current rules, employers cannot leave these plans without paying large sums or claiming bankruptcy. Both of these results negatively impact the ability to provide jobs, make capital investments, and increase salaries.

There will not be any easy solutions to this crisis but, if nothing is done, the consequences will be devastating. Retiree benefits, future jobs, and businesses are at stake if a solution is not found. Therefore, it is essential to find a solution that restores the solvency of the multiemployer pension system while protecting the U.S. economy as soon as possible.

ERIC Encourages the Use of Electronic Delivery. ERIC supports the modernization and stream lining of mandated retirement and health care notices to beneficiaries. One way to easily ensure better communication between a plan sponsor and its beneficiaries is to allow for the plan sponsor to use electronic delivery of notices through either email or a website, while still allowing for the beneficiary to fully opt out and receive all notices by mail, should they so choose. Updating the process on how mandated disclosures are delivered to participants would allow plan sponsors to enhance the disclosures to include more interactive features as well as to tailor information to the beneficiaries such as with links to options the participant can elect to increase retirement savings. Electronic disclosure would make it easier for plan participants to save and search the documents for relevant information. Electronic disclosure will also save plans and plan sponsors money on materials and administrative costs if required disclosures were to be more frequently delivered electronically over mail. At a minimum electronic disclosure should be allowed as the default if the employer plan sponsor already has the email address of the plan participant.

Employers Would Like to Assist Workers With Student Loan Debt Repayment and Retirement Savings. Workers in the United States are increasingly dependent on a 401(k) or other defined contribution plan as their principal means of retirement savings. In this environment, workers who are unable to set aside a suf-

ficient amount of their own money for their retirement are less likely to have a financially secure retirement. This problem is compounded by the fact that many employers match workers' contributions in their retirement plans, meaning that workers who fail to set aside a sufficient amount of money also lose out on the matching contributions. This problem is particularly acute for workers who get a late start on retirement savings. Workers who do not begin setting aside money for retirement early in their careers often are not able to "catch up" in their retirement savings.

Student loan debt plays into both of these problems by preventing workers from electing to participate in 401(k) plans or reducing the amount that a worker can contribute to a 401(k) plan. Many employers recognize the burden that student loan debt can have on their workers' ability to save for retirement and would like to help these workers. However, while we believe that current law allows employers to make contributions to their retirement plans on behalf of workers who repay student loan debt, the IRS has yet to clearly articulate that such contributions will not affect the tax-qualified status of an employer's retirement plan. The Private Letter Ruling recently issued by the Internal Revenue Service is a significant step in this direction but we believe that more employers would be encouraged to implement programs similar to the one described in the PLR if there is legislation of general applicability on this issue.

Congress Should Encourage the Continued Funding of Employer-Provided Retiree Welfare Benefits. Congress should extend and modify Section 420 of the Internal Revenue Code, which allows employers with generously overfunded pension plans to use a portion of the plans' surplus assets to fund retiree welfare benefits (health care benefits and group life insurance coverage) for the same population of pension retirees. Doing so ensures that companies with such plans can continue to provide retiree welfare benefits in a financially prudent manner, without jeopardizing pension security, consistent with Congressional intent.

To ensure that pension assets are protected, we support not only keeping the existing safeguards under Code section 420 but also adding additional modifications to further safeguard pension benefits. These additional safeguards include a de minimis transfer limit, which limits the transfer amount to a de minimis percentage of the pension plan's assets, and a 2-year look-back requirement to ensure the stability of the pension plan assets.

Conclusion

We applaud the Committee's efforts to strengthen and improve the private retirement plan system. As noted above, we support RESA, introduced by Chairman Grassley and Ranking Member Wyden, with certain modifications. In addition, the Retirement Security and Savings Act of 2019, recently introduced by Senators Portman and Cardin, includes very helpful provisions that recognize the cost and compliance burdens imposed on pension and retirement plans as well as numerous proposals that address these challenges and support employers in their efforts to provide critical voluntary benefits to their employees, retirees, and families. In addition, ERIC is working on a comprehensive list of new measures to modernize and update the retirement system and looks forward to discussing these ideas with you soon.

Thank you for the opportunity to share our concerns. If you have any questions, please contact either Aliya Robinson, Senior Vice President for Retirement and Compensation Policy, or me, at 202–789–1400.

Sincerely,

Aliya Robinson
Senior Vice President, Retirement and Compensation Policy

LETTER SUBMITTED BY THOMAS AND BARBARA LABAGH

May 14, 2019

U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg.
Washington, DC 20510–6200

To Whom It May Concern:

After 25 years at Yellow Freight, I was preparing for my retirement. We had many discussions with the Pension department at Local 707. We were advised as to what we were going to be receiving monthly, electing to take the pension benefit that would guarantee that my wife would receive my same benefit, should I pass first. This election decreased our pension payment by about $400 a month, but we felt the fact that my wife would be left with a good income, it was worth it for that assurance.

Our retirement life was based according to what we had worked for and what we were promised. At no time during these discussions was there any indication that the Pension Fund was in trouble. We were very careful in our retirement planning, and felt that between our pension and social security, we would be very comfortable.

Our pension payment has now been cut to about ¼ of our original benefit, from around $2,800.00 to $724.00 a month.

Based on our pension at retirement, we built a retirement home in Virginia. That home is now in jeopardy. We may have to sell the home we love, because we can no longer afford it.

We have a disabled adult daughter that we try to help financially as much as possible with her many medical expenses. We aren't able to do as much for her as we would like to make her life better.

I now, an almost 71 year old man, get up at 1 a.m. daily to go to work, hauling mail, loading and unloading the trailer with 600 lb. mail bins. I've had a triple bypass, and recently had to have a stent. My wife has Type II diabetes. This is not the retirement life I worked so hard for. This is not the retirement I had planned so long for or deserve. This is HELL. There is a constant worry about finances. I really don't feel now that I will ever be able to not work; I can't afford not to. It would mean financial ruin for my family if I have to stop working, because OUR PENSION FUND has robbed us of what we worked so hard for.

We can't have a quality retirement, being free to travel, help our children, enjoy our retirement home, or just do nothing but relax. That dream was stolen from us.

Sincerely,

Thomas R. and Barbara LaBagh

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