BIPARTISAN POLICY CENTER

UNITED STATES HOUSE OF REPRESENTATIVES
REPUBLICAN POLICY COMMITTEE

Hearing on, "Retirement Security Issues Facing Millennials"
Wednesday, September 12, 2018

Written Testimony of Shai Akabas
Director of Economic Policy, Bipartisan Policy Center

Introduction

Representative Stefanik, and members of the committee, thank you for the invitation to testify. As a Millennial myself, I look forward to discussing the issues our generation will face in retirement, and what Congress could do to help.

Millennials[1] will soon surpass baby boomers as the largest generation in U.S. history. Our generation is made up of more than 70 million Americans.[2] Moving through their working years, this demographic "wave" will power the U.S. economy for decades. But at some point, we too will retire. And as of right now, we are simply not preparing well for that moment. In fact, many Millennials haven't made any preparations at all.

The Problem

The Bipartisan Policy Center convened a Commission on Retirement Security and Personal Savings which spent two years studying these challenges. The commission

---

[1] The definition of "millennial" is a subject of significant debate. For the purposes of this testimony, I use the definition offered by the Pew Research Center that millennials are those born from 1981-1996 and are, thus, 22-37 years of age at the time this testimony is submitted. Definition accessed from: http://www.pewresearch.org/topics/millennials/.

[2] Fry, Richard. "Millennials projected to overtake Baby Boomers as America's largest generation." *Pew Research Center,* 2018, 1. http://www.pewresearch.org/fact-tank/2018/03/01/millennials-overtake-baby-boomers/.

was co-chaired by former Senator Kent Conrad and Jim Lockhart, the former principal deputy commissioner and chief operating officer of the Social Security Administration.

They didn't choose to label the current retirement security situation a "crisis," but their findings indicate we are headed in precisely that direction if many of the problems – like the looming insolvency of Social Security in just 16 short years – continue to be ignored. The challenges that the commission identified affect every generation, but some of them are particularly relevant for Millennials. I'll quickly touch on a couple:

1. **Low Retirement Savings.** Given the decline of defined benefit pension plans and the precarious state of Social Security's finances, personal savings will be more important to Millennials than any previous generation when it comes to planning a secure retirement. Yet, nearly 30 percent of Americans aged 30-39 report having no retirement savings whatsoever.[3] That represents tens of millions of Americans missing out on the opportunity to maximize their returns on early investments.

   It's important to recognize that many of those households can't afford to save much because they have low incomes and, in some cases, are living paycheck to paycheck. But the more significant problem for retirement policy is that many of these Millennials lack access to workplace retirement savings plans. According to the Bureau of Labor Statistics,[4] about one-third of private-

[3] Board of Governors of the Federal Reserve System. "Report on the Economic Well-Being of U.S. Households in 2017," 2018, 48. https://www.federalreserve.gov/publications/2018-economic-well-being-of-us-households-in-2017-retirement.htm.
[4] Bureau of Labor Statistics. "Employee Benefits Survey, Retirement Benefits," 2017, Table 2. https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table02a.pdf.

sector workers don't have access. Small businesses in particular find it difficult to offer retirement plans: While only 10 percent of workers at firms with over 500 employees lack access to a plan, over 50 percent of workers at businesses with fewer than 50 employees lack access.

This shouldn't be so complicated: Every American deserves the simple opportunity to save at the workplace so that they can prepare for retirement and benefit from the tax incentives in the code. Under the general parameters of today's system, anything less than universal access will guarantee shortfalls in retirement.

2. **Financial capability.** The ability to effectively manage one's personal finances is even more consequential now than it has been in the past. With the decline of defined benefit pension plans, Millennials in particular should be taking careful stock of what they have saved, how they're saving, and the choices they will need to make to ensure that their savings last in retirement. This is not an easy task, and unfortunately, many Americans struggle with even relatively simple concepts. According to a recent study, only 24 percent of Millennials demonstrate basic financial literacy. Nearly 50 percent also don't believe that they could come up with $2,000 within a month to cover an unexpected expense.[5] That represents an alarming level of financial fragility.

Of course, Millennials confront numerous other challenges in preparing for retirement, some of which disproportionately affect them – such as the exploding

---

[5] PricewaterhouseCoopers and George Washington Global Financial Literacy Excellence Center. "Millennials & Financial Literacy—The Struggle with Personal Finance," 2015, 11. http://gflec.org/wp-content/uploads/2016/09/pwc-millenials-and-financial-literacy-3.pdf?x87657.

student debt burden and early withdrawals from retirement accounts upon leaving an employer. Other challenges affect every generation, like the risk of outliving savings and being adversely impacted by Social Security's looming insolvency.

This is not by any means a comprehensive list, but suffice it to say, the evidence paints a complex and troubling picture for which there will be no silver bullet.

Solutions

BPC's commission put forth a package of bipartisan recommendations designed to improve retirement security for all Americans. I'm going to quickly mention several that could be especially helpful to Millennials, and then I'm glad to follow up on those or others in Q&A:

1. **Allow for Multiple Employer Plans**
    a. These plans would lower administrative and fiduciary costs for small businesses, allowing multiple firms to band together to utilize economies of scale while still offering high-quality retirement savings options.
2. **Focus on "just-in-time" interventions when it comes to financial literacy**
    a. Using insights from behavioral economics on how people make decisions can improve how we design public policy. For example, research shows that providing and appropriately framing quality information at the moment of major financial decisions can significantly improve financial outcomes. This is a relatively easy way to give Millennials the tools they need to make better decisions about their retirement savings and student loan burden.
3. **Simplify the Process of Transferring Savings**

    a. The Employee Benefit Research Institute has estimated that roughly two-thirds of all leakage occurs when people change jobs.[6] We need to make it easier for individuals to move their retirement savings from one plan to another when they change employers, reducing the number of "cash outs" that occur.

4. **For lower-income Americans, exclude modest retirement account balances from asset tests**
    a. Some means-tested federal programs use asset tests to measure an individual's need for federal, or state, assistance, amounting to a retirement savings penalty.
5. **Facilitate Easy Access to Short-Term Savings Accounts**
    a. Lack of short-term savings is a chronic problem for too many Americans, and it also leads to more leakage out of retirement accounts. We should eliminate regulations that prevent employers from automatically enrolling their employees into rainy-day savings accounts.

Congressional Efforts and Funding Our Future

This is just a small selection of what could and should be done. With no major retirement legislation enacted since the Pension Protection Act of 2006, we are overdue. Thankfully, this Congress seems intent on taking action. The bipartisan Retirement Enhancement and Savings Act of 2018 is now under serious consideration in both chambers. Congresswoman Stefanik – I know you, and perhaps others here, are co-sponsors of this important legislation. The bill includes many good proposals, that would improve access to workplace retirement accounts, reduce leakage, and facilitate lifetime-income options, among other reforms.

---

[6] Employee Benefits Research Institute. "The Largest Leakage Culprit: Job Change Cashouts." 2014, 1. https://www.ebri.org/pdf/FF.290.Leakage.17July14.pdf.

Another set of proposals, recently introduced by a bipartisan group of Senators, would: further reduce barriers that prevent small businesses from joining multiple employer plans; further incentivize sponsors of retirement plans to adopt automatic enrollment and automatic escalation; allow employers to automatically enroll their employees in "rainy-day" savings accounts (as discussed earlier); and allow individuals to pre-commit to saving their tax refund for later in the year.

President Trump also recently issued an executive order along similar lines, instructing executive branch agencies to explore regulatory changes that would simplify the retirement system, including expanded access to multiple employer plans.

While the details of these regulations and all of the legislation mentioned above are important, above all, it's clear that a significant bipartisan agreement is emerging that these issues need to be addressed.

To build on this momentum, BPC has just launched Funding Our Future, a campaign to improve retirement security in America. We plan to engage both policymakers and the public to ensure that this issue continues to receive attention from our elected leaders – like we're seeing here today. We're excited to already have an alliance of more than 30 organizations – including think tanks, trade associations, stakeholder groups, and financial services firms – all of which are dedicated to raising the profile of retirement security as an issue. Our hope is to make it easier for members of Congress and others to take the steps necessary to improve retirement security for all.

The campaign is centered around three simple pillars on which we all agree: 1) Make it easier to save at all ages; 2) Help people transform their nest eggs into a lifetime of income; and 3) Save Social Security.

We'd encourage anyone who is interested to visit us at www.fundingourfuture.us and get involved. We're also particularly eager to find ways to work with the members here today, as one of the primary audiences for the campaign will be our Millennial generation. We have perhaps the most to lose from today's system that isn't working for far too many Americans, but also the most to gain from reforms that can flip the script in time for us to have better outcomes.

Conclusion

Retirement security is a complex problem, and Millennials in some ways face the brunt of those challenges. But with bipartisan cooperation, and innovative solutions, Congress can and should help millions more retire with dignity and financial security.

Thank you again for inviting me to testify before you today. I look forward to your questions.