United States Senate Special Committee on Aging

Hearing on, "Securing America's Retirement Future: Examining the Bipartisan Policy Center's Recommendations to Boost Savings"

Wednesday, September 7, 2016

Testimony of Senator Kent Conrad and James B. Lockhart III

Co-Chairs of the Bipartisan Policy Center's Commission on

Retirement Security and Personal Savings

Good afternoon, Chairman Collins, Ranking Member McCaskill, and members of the committee. Thank you for inviting us here to discuss the recommendations of the Bipartisan Policy Center's Commission on Retirement Security and Personal Savings.

Millions of Americans are anxious about their preparation for retirement. A Gallup poll earlier this year found that 64 percent of Americans are either very worried or moderately worried about not having enough money for retirement, making it their top financial concern in the survey.[1] Recent economic headwinds — stagnating wages and weak economic growth — have heightened these anxieties and made it difficult for many individuals to save even for short-term needs, let alone retirement. A recent study by the Federal Reserve found that around half of adults would be unable to come up with even $400 in an emergency without borrowing or selling possessions.[2]

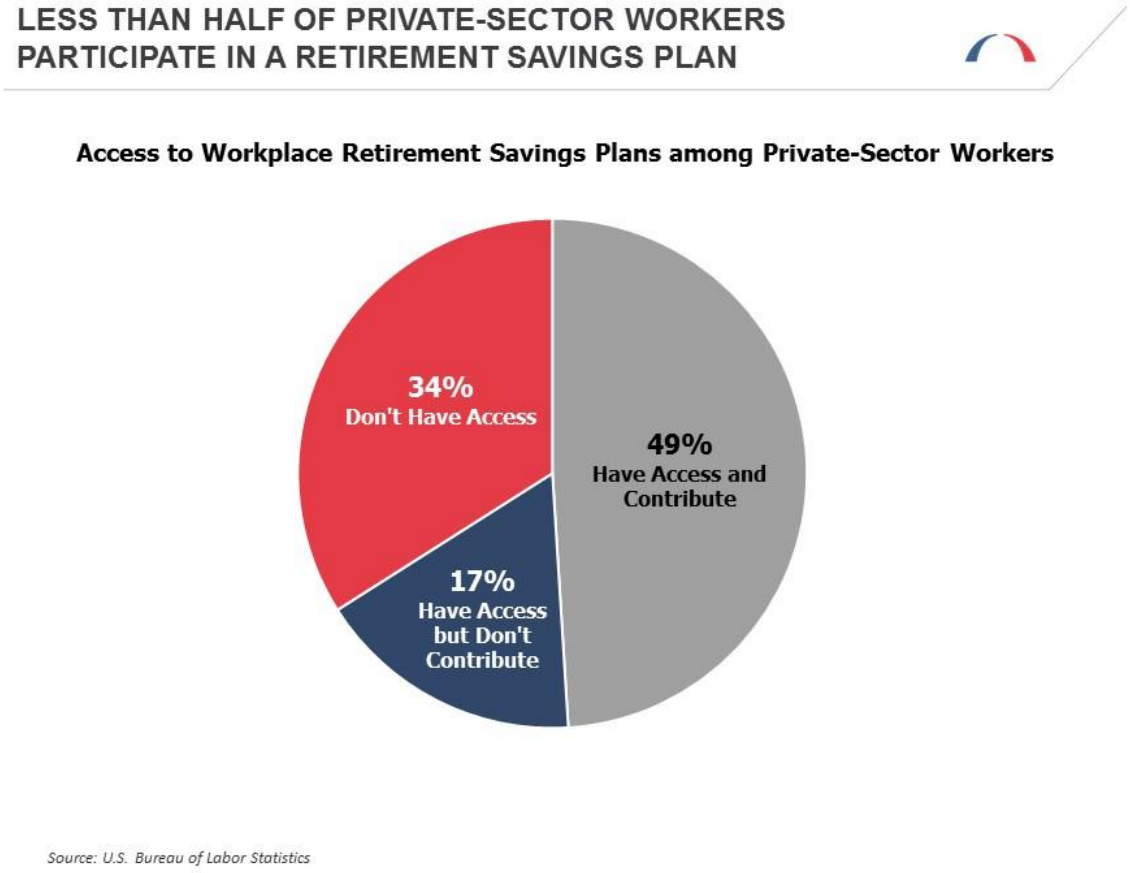
Several specific challenges are contributing to these outcomes. Less than half of private-sector workers are participating in a workplace retirement savings plan.[3] Many Americans lack the income or resources to save for short-term needs, forcing them to raid their retirement accounts for unexpected expenses. Even among those who do save, Americans are living longer, and many are increasingly at risk of outliving their savings. Home equity, when it lasts until retirement, is underutilized. Millions of Americans lack the basic knowledge to manage

[1] McCarthy, Justin. 2016. "Americans' Financial Worries Edge Up in 2016." Gallup. http://www.gallup.com/poll/191174/americans-financial-worriesedge-2016.aspx.http://www.gallup.com/poll/191174/americans-financial-worriesedge-2016.aspx.

[2] Federal Reserve. "Report on the Economic Well-Being of U.S. Households in 2015." May 2016. P. 1. http://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf.http://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf.

[3] Bureau of Labor Statistics. Employee Benefits in the United States – March 2015. http://www.bls.gov/news.release/pdf/ebs2.pdf.http://www.bls.gov/news.release/pdf/ebs2.pdf.

their personal finances and prepare for retirement. Finally, Social Security is facing a significant financial shortfall and is in need of modernization for a 21st century workforce. It's no wonder that policymakers are concerned about the consequences of insufficient retirement savings for individuals, families, and the nation.



To address these challenges, the Bipartisan Policy Center launched the Commission on Retirement Security and Personal Savings in 2014. Over the past two years, our 19-member commission carefully reviewed the issues and explored many potential approaches that would boost savings and strengthen retirement security.

Members of the commission possess considerable expertise about the U.S. retirement system — including Social Security, employer-sponsored retirement plans, and personal savings. They have a variety of backgrounds and relevant experiences, including financial services businesses and sponsoring employee-benefit plans, administering state and federal government agencies, serving as elected officials, advocating for workers, advising large companies on their retirement plans, and conducting research on savings and retirement policy.[4]

[4] A full list of our commissioners can be found in the Appendix to our testimony.

Our deliberations were not easy. Commissioners came with diverse viewpoints and strongly held beliefs, some of which were challenging to reconcile. Many do not agree with every individual recommendation in our report. Nonetheless, 18 of the 19 commissioners came to a consensus that, as a package, our recommendations would be a significant improvement over the status quo and strengthen retirement security in the United States for both current and future generations of retirees.

We were aided in our deliberations by the Urban Institute's DYNASIM3 microsimulation model, which illustrated the impact of our recommendations on Americans aged 62 and older over several decades. Once fully phased-in, our package would increase retirement savings among middle-class Americans by 50 percent.[5] Our recommendations for strengthening Social Security specifically would also reduce the poverty rate among Americans aged 62 and older by one-third of today's levels – lifting well over a million people out of poverty. Steve Goss, Social Security's Chief Actuary, also conducted a complete scoring of our Social Security proposals and estimated that they would make the program fiscally sound for 75 years and beyond (referred to as "sustainable solvency").[6]

We achieved these results by:

- Improving access to workplace retirement savings plans;
- Promoting personal savings for short-term needs and preserving retirement savings for older age;
- Facilitating lifetime-income options to reduce the risk of outliving savings;
- Facilitating the use of home equity for retirement consumption;
- Improving financial capability among all Americans; and
- Strengthening Social Security's finances and modernizing the program.

Many of our specific proposals are described below. For the complete list, please refer to *Restoring America's Future*, the final report of the Bipartisan Policy Center's Commission on Retirement Security and Personal Savings.

Improving Access to Workplace Retirement Savings Plans

Currently, one-third of private-sector workers don't have access to a workplace retirement savings plan, while others have access but are not contributing to their plan.[7] Traditional "defined benefit" pensions and 401(k)-style "defined contribution" plans can be challenging for smaller businesses to operate, as they often are not prepared or willing to take on large administrative, financial, and fiduciary burdens. To expand access and make it easier for individuals to save for retirement, we would create new Retirement Security Plans (which are

[5] The Urban Institute. 2016. DYNASIM3.
[6] SSA Chief Actuary Analysis of BPC Recommendations. Social Security Administration. June 2016. http://cdn.bipartisanpolicy.org/wp-content/uploads/2016/06/SSA-Analysis.pdf.
[7] Bureau of Labor Statistics. Employee Benefits in the United States – March 2015. http://www.bls.gov/news.release/pdf/ebs2.pdf.

similar to open multiple employer plans, or open MEPs) that would dramatically simplify the process of offering automatic-enrollment plans for small businesses.[8]

Retirement Security Plans would allow employers with fewer than 500 workers to band together and form well-run, low-cost retirement plans that defuse administrative expenses. Responsibility for operating and overseeing these plans would fall to a third-party administrator that would be certified by a new oversight board designed to protect consumers from bad actors.

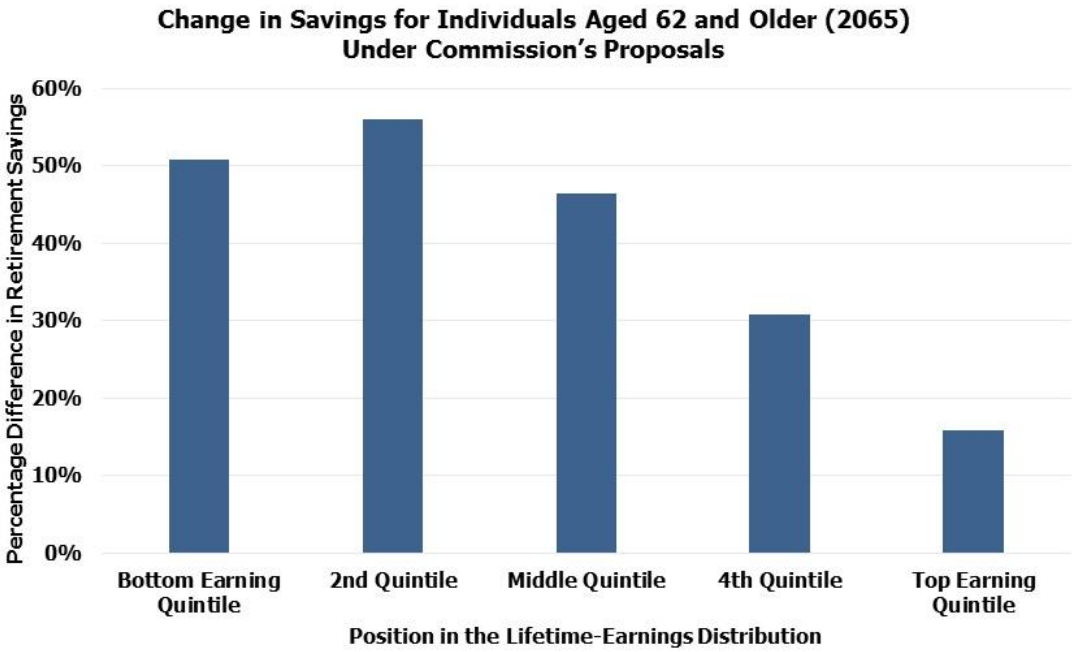
We would also encourage employers that are not already doing so to automatically enroll their employees. The incentive would be a new option ("safe harbor") for employers to bypass complex annual testing requirements, which are intended to ensure that the benefits of workplace retirement plans are broadly enjoyed by the workforce and not just advantaging highly compensated employees. This new safe harbor would provide flexibility in plan design to plan sponsors that use automatic enrollment.

Another retirement savings vehicle is likely more appropriate for many moderate-income, part-time, and seasonal workers. Last year, the Treasury Department rolled out its myRA program, which allows individuals to enroll in a low-cost account where all investment returns can be withdrawn tax-free in retirement (a "Roth-style" account). We would reform myRA by enabling employers to automatically enroll their employees and to make contributions on behalf of their employees if they so choose.[9]

Once these new and enhanced types of plans have been available to employers for several years, we recommend the establishment of a national minimum-coverage standard that would require all businesses with at least 50 employees to offer their workers some form of workplace retirement savings option. The burden on employers would be minimal – all they would need to do is select a plan (which could be a Retirement Security Plan, a standard 401(k) plan, a defined benefit plan, or myRA) and forward their employees' contributions to the plan administrator. No match would be required and employers would have no fiduciary responsibilities. A national minimum-coverage standard would also pre-empt an emerging patchwork of requirements at the state level, easing the process for businesses that operate across state lines.[10] Employees would always be free to choose whether or not to participate. The cost of such a standard to employers would be minimal, while the benefit to their employees would be significantly increased savings over their lifetimes.

[8] Please see page 39 of our report for more information about Retirement Security Plans.
[9] Please see page 44 of our report for more information about our changes to myRA.
[10] Please see page 45 of our report for more information about our national minimum-coverage standard.

MINIMUM-COVERAGE STANDARD INCREASES MIDDLE-CLASS SAVINGS BY ROUGHLY 50 PERCENT



Note: Retirement savings include savings in defined contribution plans, such as 401(k) plans, IRAs, and Keogh plans, which are available to self-employed individuals. Population is segmented based on lifetime earnings. Figure is presented on a per-capita basis.

Source: The Urban Institute -- DYNASIM3

Our proposals would also help build a culture of savings and improve the financial resilience of American families. For example, we propose a new Starter Saver's Match, which would replace the existing Saver's Credit for individuals under the age of 35. The current Saver's Credit reduces the income-tax burden for lower-income individuals who contribute to retirement accounts, but the credit is not refundable, meaning that individuals with no income-tax liability cannot benefit from it. The Starter Saver's Match would instead be a refundable credit of up to $500 deposited directly into the claimant's retirement account. This change would better encourage younger workers with lower wages (those who are least likely to save on their own) to start saving for retirement. It would also maximize the government's "bang-for-the-buck" by allowing the match more years to accumulate interest.[11]

Finally, many savers face the problem of having several retirement accounts scattered among their previous employers. For this reason, we recommend the creation of a Retirement Security Clearinghouse to ease the process of consolidating accounts.

[11] Please see page 53 of our report for more information about our Starter Saver's Match.

Promoting Personal Savings for Short-Term Needs and Preserving Retirement Savings for Older Age

Retirement is far from the only savings need that individuals face. Workers ought to have the necessary savings to cover short-term and emergency expenses. But as mentioned earlier, around half of adults lack even this minimal level of savings. Without adequate short-term savings to deal with the unexpected, people may have few alternatives to raiding their retirement accounts. This can mean early-withdrawal penalties and missing out on investment returns that would have accrued on the withdrawn funds.

To help ensure retirement savings actually last until retirement, we believe that employers should be able to automatically enroll their employees into two accounts — one meant for retirement savings, another for short-term savings. By building up these rainy day savings, individuals might be less likely to raid their retirement savings in the event of an unexpected emergency. We also recommend harmonizing the early-withdrawal rules for individual retirement accounts (IRAs) and 401(k) plans to discourage pre-retirement withdrawals from the former.[12]

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

Once workers reach retirement, they face the daunting prospect of making their savings last for the rest of their lives. With Americans increasingly living into their 80s and 90s, this challenge has only become more difficult. Currently, more than 4 in 10 Gen-Xers are projected to run short of money in retirement.[13]

Our recommendations would ensure that fewer retirees outlive their savings. In addition to greater accumulation of assets, many older Americans are in need of sustainable retirement incomes. We would reduce legal risk for plan sponsors and encourage them to offer their participants better options to turn their savings into a monthly stream of income.[14]

One of the safe harbors that we recommend would apply to plan sponsors that make it easy for savers to purchase annuities over time (an approach known as “laddering”). This helps savers turn their savings into guaranteed monthly income for life while protecting them from volatility in interest rates. Employers would also be explicitly permitted to require savers to make an affirmative decision from a personalized menu about how they want to withdraw their savings (known as an “active-choice framework”). No participant would be forced to take lifetime income, but everyone would have to confront the option before accessing their savings. Finally,

[12] Please see page 56 of our report for our full recommendations for reducing leakage from retirement accounts.
[13] VanDerhei, Jack. 2014. “What Causes EBRI Retirement Readiness Ratings to Vary: Results from the 2014 Retirement Security Projection Model.” Employee Benefit Research Institute Issue Brief, no. 396. Pp. 6-19. http://www.ebri.org/pdf/briefspdf/EBRI_IB_396_Feb14.RRRs2.pdf.
[14] Please see page 41 of our report for more information about lifetime-income safe harbors.

we propose ways to encourage Americans to claim Social Security benefits later, thereby locking in a higher monthly benefit for life.[15]

Facilitating the Use of Home Equity for Retirement Consumption

Our proposals would make home equity more readily available for retirement needs. Many Americans are "home-rich, cash-poor," meaning that their home is their largest asset. Americans own more than $12.5 trillion in home equity – almost as much as the $14 trillion they have in retirement savings.[16] Our policies would encourage individuals to preserve equity in their home during their working years and then make use of that equity to provide them with a more secure retirement.

We discourage the use of home equity for pre-retirement consumption by removing the deduction for interest on second mortgages and other lines of credit that reduce home equity before retirement. Individuals would still be able to take such loans, but the federal government should not be subsidizing this practice with an expensive tax expenditure. We also recommend expanding awareness of Federal Housing Administration (FHA)-insured reverse mortgages and establishing a low-dollar reverse-mortgage pool, allowing retirees to tap into a smaller portion of their home equity without incurring the large fees that accompany larger loans.[17]

Improving Financial Capability Among All Americans

We also seek to improve financial capability, which is the knowledge, ability, and opportunity of all individuals to manage their personal finances. The increased use of IRAs, 401(k)s, and other defined-contribution accounts means that today's workers have more responsibility for managing their personal finances than previous generations (who benefited more from defined-benefit pensions). Choosing not to save when one has the capacity and opportunity, or making poor financial decisions such as investing disproportionately in a single stock, can jeopardize an individual's economic security in retirement. Unfortunately, too many Americans – particularly younger people – lack sufficient levels of financial capability. The National Financial Capability Study included some questions on basic financial knowledge and found that no question was answered correctly by more than 75 percent of respondents, with some significantly lower.[18]

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[15] Please see page 61 of our report for our full recommendations to facilitate lifetime-income options.

[16] Board of Governors of the Federal Reserve System. 2016. Financial Accounts of the United States: Fourth Quarter 2015. P. 134. http://www.federalreserve.gov/releases/z1/Current/z1.pdf.
Investment Company Institute. 2015. Report: The U.S. Retirement Market, Fourth Quarter 2015 (xls). Table 1. https://www.ici.org/research/stats/retirement.

[17] Please see page 69 of our report for our full recommendations on facilitating the use of home equity for retirement consumption.

[18] Investor Education Foundation. 2012. National Financial Capability Study. Financial Industry Regulatory Authority. P. 3. http://www.usfinancialcapability.org/downloads/tables/U.S._2012.pdf.

We recommend expanding personal financial education at all levels, including in both K-12 and higher education curricula, to help improve financial capability. We also stress the importance of "just-in-time" interventions, in which individuals are provided with important information at the moment that they are making major financial decisions, such as when to leave the labor force, when to withdraw savings, or when to claim Social Security benefits. Some of these interventions would be conducted by employers and plan sponsors, while others would fall to government agencies. For example, two specific changes that could improve decision-making for prospective Social Security recipients are: 1) improving the Social Security benefit statement to clearly reflect projected benefits and the how they are affected by claiming age; and 2) renaming the Social Security claiming ages to make clearer the advantages to waiting to collect benefits.[19]

Finally, while not specifically tackled in our report, the committee should be commended for its bipartisan efforts on the Senior$afe Act to protect seniors from financial fraud and exploitation – an important issue for ensuring older Americans' finances are secure in retirement.

Strengthening Social Security's Finances and Modernizing the Program

No discussion of retirement security would be complete without addressing Social Security, the foundation on which Americans across the economic spectrum build their retirement. While the program continues to serve as an essential safety net for nearly all American workers, its financial troubles put that position at risk. Under current projections by the program's trustees, the Old Age and Survivors Insurance (OASI) Trust Fund – which pays benefits to older Americans, their dependents, and their survivors – is projected to be exhausted by 2035.[20] At that point, beneficiaries would face an across-the-board benefit cut of 23 percent.[21] While that may seem far off, Social Security is already paying out more in annual benefits than it collects in taxes. Waiting to address this shortfall increases uncertainty for beneficiaries and makes the policy fixes more difficult. Beyond its financial challenges, scheduled Social Security benefits are by themselves inadequate for too many Americans, and the program's structure has not been updated to reflect a changing 21st century workforce.

Our package would make Social Security solvent for 75 years and beyond, avoid the 23-percent cut that is set to take effect, and give Americans certainty about what to expect in benefits from the program as they prepare for retirement. The Chief Actuary of Social Security found that our plan would achieve sustainable solvency, meaning that the program's reserves would be increasing even after 75 years. We achieved this outcome through a balanced of revenue increases and benefit savings. Our policies include gradually increasing the payroll-tax rate, raising the amount of income subject to Social Security taxes, very gradually raising the full

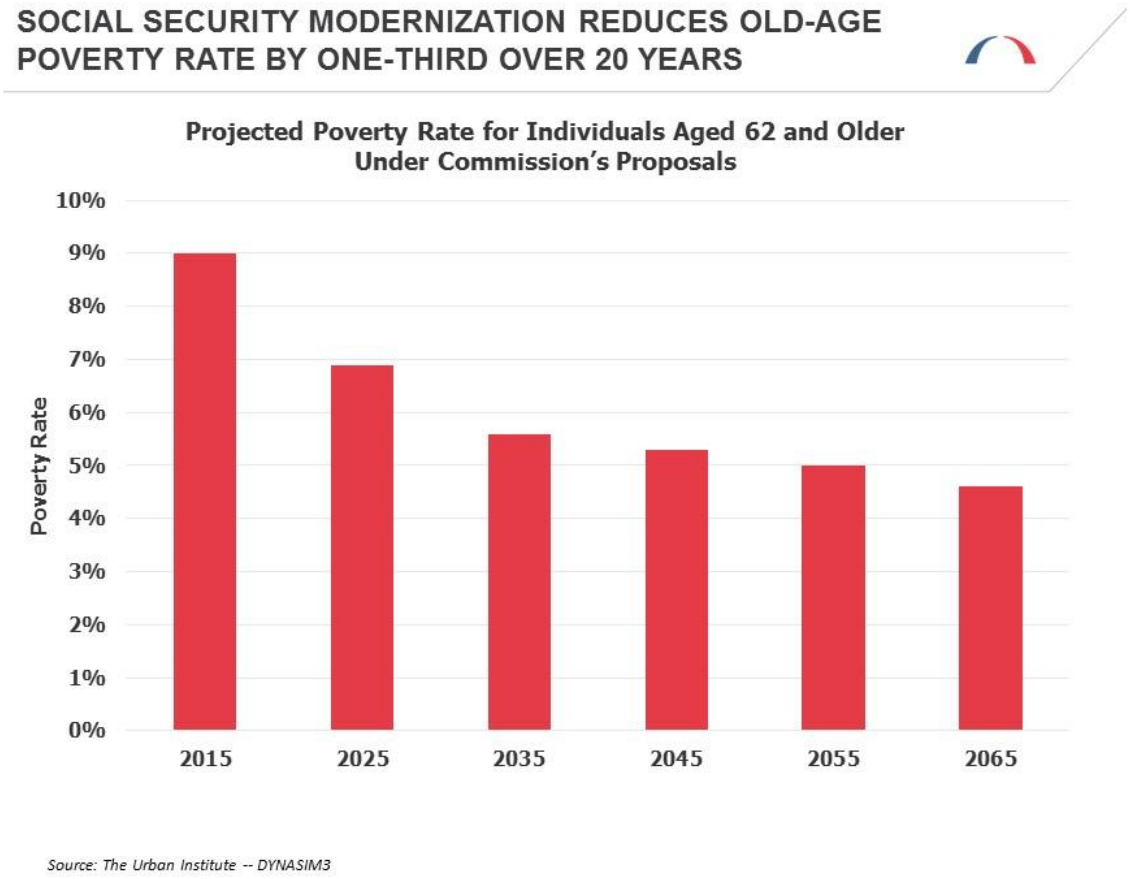
[19] Please see page 74 of our report for our full recommendations on improving financial capability.
[20] The Congressional Budget Office expects the OASI Trust Fund to be exhausted in 2030 – four years sooner than the projection of the trustees.
[21] Committee on Ways and Means. 2016. "The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds." United States House of Representatives. 114th Congress. H. Rep. 114-145, P. 6. https://www.ssa.gov/oact/TR/2015/tr2015.pdf.

retirement age, and using a more-accurate measure of inflation for Social Security's annual cost-of-living adjustments.[22]

Perhaps most importantly, our proposal would increase Social Security benefits by 35 percent (compared to what is currently scheduled, and by 65 percent compared to what is currently payable with projected trust fund revenues) for the 20 percent of beneficiaries with the lowest lifetime earnings.[23] These are individuals who inevitably rely almost entirely on Social Security for their retirement income, and today's benefit levels leave too many of them below the poverty line. Our recommendations increase the progressivity of Social Security's benefit formula and create a new "basic minimum benefit," which would supplement standard Social Security benefits for the most vulnerable beneficiaries, such as those who worked for very low wages.[24]

We also enhance the Social Security survivors benefit. Under current law, household Social Security benefits can be reduced by up to half following the passing of one spouse. But under our recommendations, upon the passing of a spouse, the survivor would keep his or her full benefits plus three-quarters of the deceased spouse's benefits. This would improve living standards and dramatically reduce poverty among widows and widowers, who suffer from some of the highest poverty rates today.[25] As mentioned earlier, these changes together would reduce poverty among older Americans by one-third from today's levels by 2035.

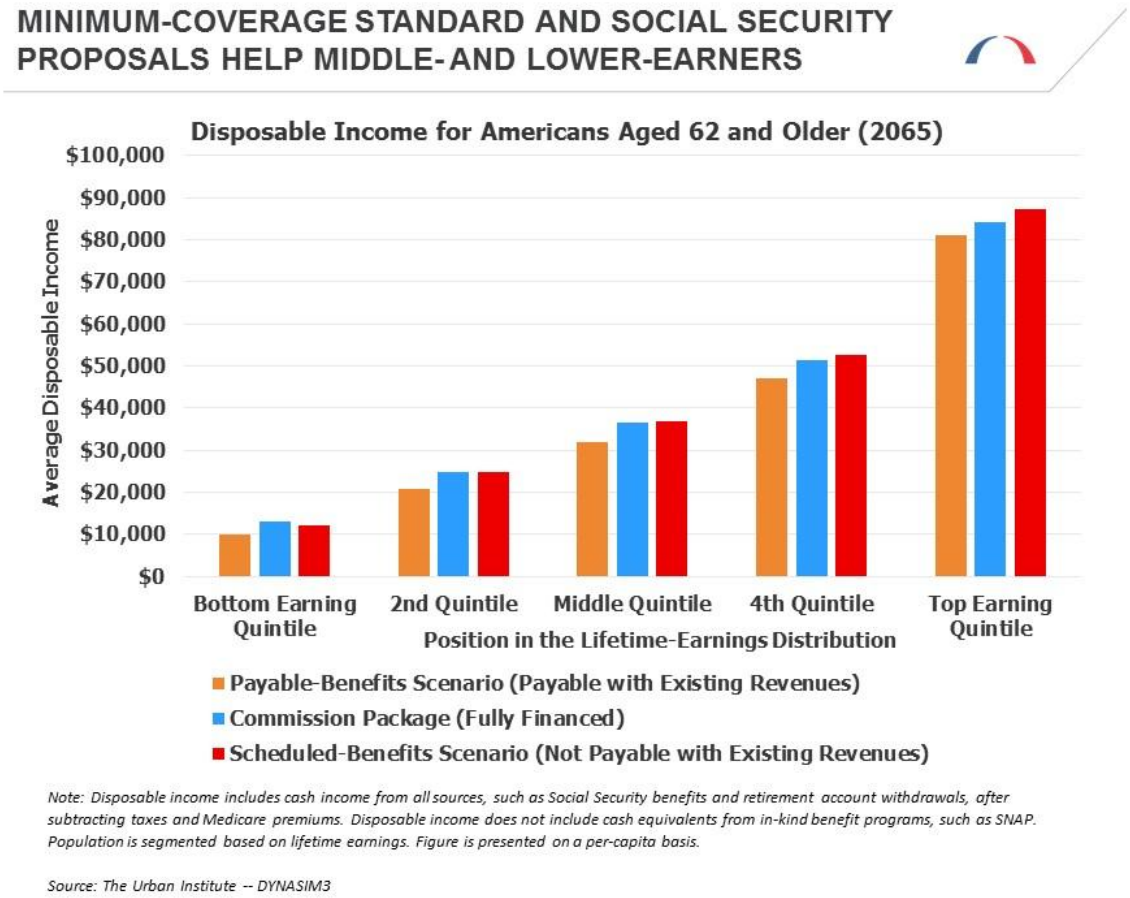
[22] Please see page 78 of our report for our full recommendations on strengthening Social Security's finances and modernizing the program.
[23] Please see page 114 of our report for the more information about the Urban Institute's modeling of our Social Security recommendations.
[24] Please see page 92 of our report for more information about our basic minimum benefit.
[25] Please see page 96 of our report for more information about our reforms to the spousal benefit.



Conclusion: A Comprehensive Package of Proposals to Improve Retirement Security

Our Social Security recommendations complement the recommendations throughout the rest of the commission's report. If the package was enacted in its entirety, lower- and middle-earning Americans would have incomes in retirement greater than or roughly equal to what they would receive if Social Security was able to pay full benefits as scheduled – and Americans across the economic spectrum would have higher incomes than if Social Security benefits are limited to what is payable with existing trust fund revenues.[26]

[26] Please see page 101 of our report for the results of the commission's modeling of our combined recommendations.



We are encouraged that the issues of savings and retirement security have attracted bipartisan interest among business leaders, the media, members of Congress, the administration, and the states, as well as from candidates seeking public office. We hope that our work can inform these efforts and can contribute to meaningful action by individuals, businesses, and governments to improve retirement security in the United States.

Finally, we want recognize Chairman Collins, Ranking Member McCaskill, and others on this committee for your bipartisan work on legislation in this area. The Retirement Security Act of 2015, in particular, informed our commission's work on increasing access to workplace retirement plans.

We look forward to working with the committee on these important retirement security challenges moving forward. Thank you for inviting us to be here today, and we look forward to answering your questions.