

Written Testimony of Shai Akabas
Before the U.S. Senate Special Committee on Aging Hearing:
A Financially Secure Future: Building a Stronger Retirement System for All Americans
October 28, 2021

Good morning, Chairman Casey, Ranking Member Scott, and distinguished members of the committee. Thank you for inviting me to testify today about the current state of retirement security in America—who the system is serving well, what gaps exist, and where we go from here. I commend the committee for focusing on this critical issue in a bipartisan manner.

My name is Shai Akabas, and I am the director of the Economic Policy Project at the Bipartisan Policy Center, a non-profit organization that combines the best ideas from both parties to promote health, security, and opportunity for all Americans.¹ BPC drives principled and politically viable policy solutions through the power of rigorous analysis, painstaking negotiation, and aggressive advocacy.

The United States has a retirement system that works well for many people—particularly those with stable employment, sufficient income, and opportunities to save throughout their life. While the structures in place have room for improvement, they result in positive, financially secure outcomes for millions of households.

The primary focus for policymakers, however, should be on Americans for whom the system does not reach well or at all. The reality is that America has a piecemeal retirement system, and to bring the true promise of stability and security in retirement to all Americans, Congress needs to carefully look at the existing challenges and enact meaningful solutions.

My testimony will summarize the current state of retirement security in America, outlining six broad areas where policy can improve the system. I will then focus on several key solutions supported by BPC that this committee can address. I'll conclude by discussing how retirement security has been a bipartisan issue in the past and can continue to be moving forward.

I hope our conversation today leaves you with the following takeaways:

1. Too many workers lack the ability to save in a workplace retirement plan—especially workers who are historically disadvantaged or employed at small businesses or on a contract basis. Lawmakers can most effectively increase access by relaxing regulatory

burdens that deter small- and medium-sized businesses from starting retirement plans and by creating a nationwide minimum-coverage standard to harmonize the patchwork of rules being created at the state level.

2. Automatic enrollment and automatic escalation of employee contributions are critical features for retirement plans to incorporate. Widespread adoption will mean more savers and greater savings. Legislation that would increase the use of these features could significantly boost retirement outcomes.
3. Workers need emergency savings for short-term financial stability and to protect retirement savings from current spending needs. Congress can help Americans build emergency savings by clearing the way for firms to automatically enroll their employees in workplace emergency savings plans.
4. Retirement security has been a standout area of working across party lines. This issue can and should remain bipartisan to help Americans meet their retirement goals most effectively.

The Retirement Security Challenge

The majority of Americans worry about running out of money in retirement, making it the nation's top financial concern.ⁱⁱ Recent trends have made building a secure retirement both more important and more challenging. Over the past 20 months, the COVID-19 pandemic and recession have caused millions of Americans to lose their jobs or suffer lower earnings, leading them to save less for retirement or to raid savings they previously built. Even before COVID-19, rising health care costs have been eroding retirees' savings.ⁱⁱⁱ The general trend of increasing life expectancy for most Americans is wonderful, but it creates a greater risk of outliving one's assets. With defined benefit pensions now a rare breed, most workers have been left to build retirement savings on their own. While some have done so successfully, many are falling behind.

A plurality of Americans say that their retirement savings are not on track, and the Employee Benefit Research Institute projects that 41% of working-age households will run short of money in retirement.^{iv} Separately, Boston College's Center for Retirement Research estimates that three-quarters of low-income households are at risk of not being able to maintain their standard of living in retirement.^v When Social Security benefits are included, the U.S. elderly poverty rate is roughly 10% which is still too high but demonstrates the importance of the program.^{vi} Looming over this landscape, however, is the impending insolvency of Social Security, which would trigger a 24% cut in retirement benefits—a shortfall that many would struggle to bridge.^{vii}

Although these challenges affect all Americans, the ability to meet them varies significantly. The dominant tool for retirement savings—a tax-advantaged account through one's employer—works well for people who earn enough to put money away, whose employer offers them a retirement plan, and whose employment is stable enough that they seldom need to transfer their savings to

a new account with a new employer.

The path to retirement security, however, is harder to reach for workers with low incomes, those without college degrees, people of color, and single women.^{viii} These Americans are more likely to live paycheck to paycheck and struggle to find excess income that they can devote to long-term saving. Even when these workers can and want to save, they frequently do not have access to a workplace retirement plan. For instance, a recent BPC survey found that while nearly 90% of households making at least \$100,000 report having access to a workplace retirement plan, the same is true for only half of households making less than \$50,000.^{ix}

I hope this committee will appreciate how the current retirement system often works well for people like us in this room and focus on how to make it work just as well for those it currently leaves behind.

Six Areas for Policy Focus

- Improve access to and the design of workplace retirement savings plans
- Facilitate lifetime-income options to reduce the risk of outliving savings
- Enable the use of home equity for retirement consumption
- Improve financial capability among all Americans
- Strengthen Social Security's finances and modernize the program
- Promote personal savings for short-term needs and preserve retirement savings for older age

In 2016, BPC convened a bipartisan Commission on Retirement Security and Personal Savings, co-chaired by former Senator Kent Conrad and Jim Lockhart, the former principal deputy commissioner and chief operating officer of the Social Security Administration. The commission spent two years studying the status of retirement security in the U.S. and highlighted six key areas. You can think of these areas as challenges, but they also represent six opportunities for policymakers to help millions of workers retire with security and dignity.

Improve Access to and the Design of Workplace Retirement Savings Plans

Far and away the most common tool Americans use to save for retirement is a plan offered through an employer. Only two-thirds of workers in private businesses, however, have access to a workplace retirement plan, and among those with access, only three-quarters participate.^x These two statistics mean only about half of private-sector workers are participating in an employer-sponsored retirement plan.^{xi}

Underneath these averages, however, are significant differences by income, education, race, and employer size. For example, workers in the top income quartile are more than twice as likely (88% vs. 42%) as workers in the bottom quartile to be offered a workplace retirement plan.^{xii}

Meanwhile, small businesses often find that setting up retirement plans for their workers costs too much and requires navigating too much red tape. For example, nearly 60% of small- and medium-sized business that do not offer retirement plans attribute the decision to the expense of setting one up or the lack of resources to administer a plan.^{xiii} Largely as a result, only 53% of workers at firms with fewer than 100 employees have access to a plan, compared to 83% of workers at firms with at least 100 employees.^{xiv}

In general, people with low incomes, people without college degrees, people of color, workers at small businesses, and—especially—part-time, temporary, and seasonal workers are far less likely to have access to this crucial way to save for retirement. For example, among middle-aged families, 65% of white households report owning at least one retirement account compared to 44% of Black and 28% of Hispanic households.^{xv}

Even among workers with access to workplace retirement plans, many do not contribute enough or at all. The median balance in a 401(k)-type account is just \$22,000.^{xvi} Many of these workers simply do not earn enough to have extra income left over for saving. Others, however, could participate and save more if they had access to savings tools and the wherewithal to use them effectively.

Alternatives to workplace defined contribution plans are far less common. Defined benefit pensions are dwindling, and although anyone with earnings can open an individual retirement account (IRA), few people save regularly into them. Only 28% of workers without current access to a workplace retirement plan report using other means to save for retirement, like an IRA or a 401(k) from a previous employer.^{xvii}

Policymakers should focus on how to reform the dominant form of retirement saving in America—a defined contribution plan through one’s employer—so that more workers can access it and those with access will be more likely to contribute to it.

Notably, there have been some promising recent developments in coverage options. Over the past few years, several states have started rolling out so-called Secure Choice programs—state-facilitated retirement savings plans—that include a requirement for all employers above a certain size to provide their workers with the opportunity to save for retirement. California, Illinois, and Oregon were the first states to establish plans, but many more have enacted legislation and are in the development stage. Employers can sign up for the state plan or comply by adopting a private-sector alternative (such as a 401(k)). These state programs take the form of an auto-IRA, where businesses sign up and automatically enroll their employees (who can opt out at any time). More than 400,000 workers currently have an account, and that number is expected to grow significantly as existing rollouts continue and other states study their adoption and create programs.^{xviii}

The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in 2019

opened the door to pooled employer plans (PEPs). These private-sector offerings pool assets from many different employers, thereby simplifying administration and potentially reducing per-participant costs for plan sponsors and employees alike. While smaller employers are currently more likely to take up PEPs, the plans remain in a nascent stage. It will take some time to see how they are working, whether they are reducing costs, and how much new coverage they are creating versus replacing existing employer plans.

Closing the coverage gap warrants an all-of-the-above approach to reach different segments of the market. With state plans, PEPs, and innovative providers using turnkey approaches to reach small businesses all progressing, each can play a role. But while these developments are steps in the right direction, much work remains.

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

America's average lifespan has increased much faster than the average retirement age, leaving older Americans with more years in retirement to finance.^{xix} Planning for a long retirement is challenging; uncertainty makes it even harder. No one knows how long they will live or what financial return their assets will earn. Moreover, some retirees will need long-term support services that can consume their savings: 17% of retirees will spend more than \$100,000 of their own or their family's money on these services.^{xx}

These risks mean that policy must look beyond the accumulation of retirement assets toward the decumulation phase. Giving people a pot of money at retirement and then expecting them to figure out how to make it last is not the right answer. Aging Americans need guidance on how to distribute their assets to protect against the financial risk of an unexpectedly long life or unexpectedly high costs in retirement. And they also need the tools to do so. Plan sponsors are increasingly including options that help participants handle their retirement assets. Hopefully, that progress will accelerate in the coming years.

Policymakers have similarly sought ways to help retirees convert their savings from a fixed sum that can run out to a lifetime stream of income. Reforms in the SECURE Act commendably removed some regulatory uncertainty that had been hovering over the annuitization of retirement savings.^{xxi} In particular, the legislation made it easier for more plan sponsors to offer lifetime income options to their participants.

As of 2019, in-plan annuities were available in fewer than 10% of plans, but this figure is likely to grow. Last month, JPMorgan Asset Management introduced SmartRetirement Plus, a product that combines its retirement investment funds with an annuity from AIG.^{xxii} And earlier this month, BlackRock announced that it is putting annuities in American workers' 401(k)s, with five employers already signed up for the new retirement product that will allow workers to receive a stream of payments for the rest of their lives. Notwithstanding these and other early actors, policymakers can and should do more to facilitate a variety of retirement income options.

Enable the Use of Home Equity for Retirement Consumption

Americans own \$21 trillion in home equity, a sum that could significantly supplement the nation's \$35 trillion of retirement assets.^{xxiii} For many retirees, home equity represents a significant portion of their wealth: Half of homeowners aged 62 or older hold most of their net worth in home equity. Notably, a majority of individuals aged 62 or older with no retirement savings or pension are homeowners, meaning that many of these older Americans can—and will have to—rely on home equity to supplement their Social Security benefits.^{xxiv}

Although the most obvious way that homeowners can convert this large stock of net worth into retirement income is to downsize to a less-expensive home, they can also borrow against the value of their home through a second mortgage, a home equity line of credit, or a reverse mortgage. Reverse mortgages, especially, offer a potentially useful tool to convert illiquid housing wealth into money to live on during retirement, but the market for them is currently quite small.^{xxv} Policymakers could work to improve this market and make it a simpler, more useful, and a more cost-effective tool for older, “cash poor” Americans to utilize their home equity.

The most important barrier to financing retirement with housing wealth, however, is housing debt. Over the past three decades, the share of households headed by someone aged 65 or older that have housing debt has doubled, from 15% to 32%.^{xxvi} The debt burden has grown even faster: In inflation-adjusted dollars, the average housing debt of older households more than quadrupled from 1989 to 2016.^{xxvii} Mortgage debt is thus a growing obstacle to older Americans' ability to tap their home equity in retirement. The Tax Cuts and Jobs Act of 2017 eliminated the tax deduction for interest on home equity loans.^{xxviii} This change may help, and Congress should explore other ways to reduce the use of home equity to fund pre-retirement consumption.

Improve Financial Capability Among All Americans

The transition from defined benefit pensions to defined contribution retirement plans has forced workers to be largely responsible for their own retirement savings. Thus, understanding the basics of personal finance and knowing how to act on that information has become an essential tool for successful retirement planning. Workers not only need to decide how much to contribute to their retirement plans and how to manage them, but also how to build healthy finances that support retirement savings—avoiding debt, building emergency savings, and claiming Social Security at an optimal age.

It is therefore concerning that Americans demonstrate alarmingly low financial capability. The National Financial Capability Study asks respondents five basic but important questions to measure financial literacy—for example, testing their understanding of compound interest, inflation, and portfolio diversification. The study finds that two-thirds of Americans fail to answer more than three of the five questions correctly and that this number has worsened over time.^{xxix} In a similar vein, fewer than one-third of workers have tried in the past two years to figure out

how much retirement income they will need, even though most individuals need to decide for themselves how much to save for retirement.^{xxx}

Perhaps the most effective way to help Americans make better financial decisions is to deliver just-in-time interventions that give workers clear and visible information or behavioral “nudges” when it is most helpful—at the moment they make an important decision. Opportunities include when a worker has the option to enroll in a retirement plan or when the option arises to convert savings to an annuity. For example, requiring workers to actively choose among several options for their retirement income would likely produce better outcomes than defaulting them into taking a lump sum of cash.^{xxxi}

One of the key financial decisions facing older Americans is when to claim Social Security retirement benefits. This may offer the best example of how public policy could enhance retirement security simply by providing better information at better times.^{xxxii} Although these benefits are available as early as age 62, claiming later permanently raises monthly benefits, with the maximum benefits available to those who claim at age 70. Delaying claiming is thus equivalent to purchasing a greater inflation-adjusted annuity that will be paid for as long as the beneficiary lives. Most people, however, do not claim Social Security at their optimal age, usually because they claim too early.

One way that lawmakers could help would be by creating a safe harbor for retirement plan sponsors that help participants make informed decisions about when to claim Social Security benefits or about using their private retirement savings to bridge to a later claiming age. Congress could also instruct the Social Security Administration to rename the program’s claiming ages with terminology that better informs prospective beneficiaries or to revisit the efficacy of the Retirement Earnings Test, which is poorly labeled and often misunderstood in a way that discourages work. BPC is currently providing technical assistance to a bipartisan group of Senate offices with legislation that would help people make better decisions about when to claim Social Security. I would be happy to discuss this promising area further in the Q&A.

Strengthen Social Security’s Finances and Modernize the Program

Social Security is the foundation of retirement security in America. Among households headed by someone aged 65 or over, more than half rely on Social Security benefits for a majority of total income, while 19% depend on Social Security for at least 90% of income.^{xxxiii} Social Security provides not only income but also crucial protection against the risk of outliving one’s assets. This is particularly important today, as people are living longer than ever before, and rising health care costs often lead to unexpected expenses that can drain savings.

It has been clear for decades, however, that the Social Security program is financially imbalanced. Demographic and economic trends, especially an aging population, have raised the program’s costs and depressed its revenues. This past August, Social Security’s trustees projected that that

while COVID-19 did not dramatically affect the program's finances, its primary trust fund remains just over a decade away from fully depleting its reserves in 2033.^{xxxiv}

This challenge is solvable. BPC's Commission proposed a series of bipartisan reforms that would extend Social Security's solvency while modernizing the program and actually increasing benefits for the most vulnerable.

Promote Personal Savings for Short-Term Needs and Preserve Retirement Savings for Older Age

Saving for retirement requires excess income and enough financial security to lock that income away for years or decades in a long-term account. Workers' ability to do this depends on their overall financial health. If someone lives paycheck to paycheck, has credit-card or student-loan debt, has little job security, or has low financial literacy, that person will struggle to save. For instance, 58% of millennials say that debt is hindering their saving.^{xxxv} In sum, retirement security is one piece of the larger puzzle of financial security, which workers experience as a holistic challenge.

An essential part of that challenge—both in the present and the long term—is emergency savings. In the short term, emergency savings create a buffer that can prevent a sudden loss of income or unexpected expense from upending the rest of a household's financial life. Without liquid short-term savings, financial emergencies can force workers to suffer hardship like food insecurity, falling behind on rent or credit-card payments, or turning to expensive alternative financial services like payday loans.

Emergency savings also shield retirement savings from immediate spending demands.^{xxxvi} When workers without liquid savings face an urgent financial need, they often raid their retirement accounts. Retirement leakage is widespread: The limited data available show that for every \$1 that people under age 55 contribute to retirement accounts, roughly 40 cents leak out through early distributions.^{xxxvii} It is also costly. Early withdrawals trigger fees and penalties and cause workers to lose out on decades of compound growth. Emergency savings insulate retirement accounts from day-to-day financial needs so that retirement savings can grow over the long term.

While emergency savings can protect against retirement leakage due to borrowing or withdrawals, two-thirds of all early distributions from retirement accounts happen when a worker changes jobs and cashes out their plan.^{xxxviii} Indeed, between 10% and 20% of workers who otherwise save enough to maintain their standard of living in retirement end up with insufficient savings because of plan cash-outs when they changed jobs.^{xxxix,xi}

With U.S. workers transitioning jobs every four years according to the Department of Labor, policymakers should focus on reforms that make plans easy to move from one employer to the next. The private sector is eager to support this effort, as 54% of plan sponsors report they are interested in auto-portability plans.^{xli} Vanguard has partnered with Retirement Clearinghouse to

offer an auto-portability service to its 401(k) participants beginning next year.^{xlii} Such programs have the potential to not only benefit employees by improving retirement outcomes, but employers, as well, through lessened administrative and financial costs posed by legacy or orphaned accounts.

While some workers may cash out their retirement accounts because they find it too burdensome to roll their plan over to a new job, others may cash out because they need to finance a gap in employment. Greater emergency savings would help American workers in these cases, as 25-40% say they have no emergency savings (depending on the survey).^{xliii} Even those with savings often have very little: More than 40% of families have less than \$750 of non-retirement savings.^{xliiv}

The lack of emergency preparedness is especially pronounced among workers with low incomes and people of color. For instance, the median Black household has one-sixth as much liquid wealth as the median white household, and a majority of Black and Hispanic households have no emergency savings whatsoever.^{xliv} This disparity is especially troubling because these Americans have income that is more volatile and job security that is more tenuous, leaving them particularly exposed to negative shocks, for which they are unable to save.^{xlvi} In other words, Americans who most need emergency savings find building them most difficult. A lack of liquid savings is, unsurprisingly, especially common at the bottom of the income distribution, but the problem extends into the middle class. One study from several years ago found that 41% percent of families in the bottom third of income had no emergency savings, but neither did 20% of families in the middle third.^{xlvii}

The COVID-19 pandemic and recession harshly spotlighted that emergency savings matter—and that they are alarmingly scarce. As 2020 began, Americans had enjoyed the longest economic expansion in the nation’s history, featuring a record-low unemployment rate and several years of solid wage growth. But even with the advantage of such a uniquely favorable period to build savings, a sudden loss of income pushed millions into immediate hardship. Although COVID-19 was a once-in-a-century national shock, similar financial emergencies—from losing a job to needing uninsured medical care—hit Americans every day. With smart policies, Congress can help workers build protection against the next crisis—whether national or personal—when it inevitably comes.

Key Policy Solutions

There is no silver bullet to America’s retirement security challenge. The BPC Commission report and current legislative proposals contain a host of reforms that could improve the picture. For today’s purposes, I will focus on three key areas where near-term bipartisan progress seems possible.

Reducing Burdens on Plan Sponsors and Advancing a National Minimum Coverage Standard

Many of the reforms recently enacted into law or under current consideration would be steps in the right direction to increase access and participation. Workers should be able to easily save for retirement with every paycheck. To close the access gaps that are especially pervasive for workers from disadvantaged communities, a more aggressive approach is needed—both to further minimize burdens on small and medium-sized plan sponsors and to require that the vast majority of employers are offering some type of retirement savings option to their workforce.

Most employers wishing to adopt a retirement plan today must accept the fiduciary responsibility that goes along with it. This means that they are legally required to act in the best interest of plan participants, prudently selecting and monitoring the provider of the plan to ensure that fees are reasonable, investments are appropriate, and contributions are being handled responsibly. For businesses with small or non-existent HR departments, this is a daunting task and one for which they are ill-equipped. External advisors can help, but they, of course, come with a cost.

Instead of pretending that smaller employers can effectively execute these obligations—and having them bear the cost of doing so—policymakers should rethink this equation. It would be naïve to suggest that a simple solution exists; this is a thorny issue. Nonetheless, some combination of increased fiduciary responsibility from other private-sector entities and additional regulation and oversight from the Department of Labor ought to be able to relieve smaller employers from these inappropriate duties.

On the flip side, several states have now enacted laws to require that employers automatically enroll workers in some form of retirement savings account, with more expected to follow.^{xlviii} Because each state has slightly different requirements, these state actions could frustrate efforts to implement a consistent employee-benefit policy for retirement across the country—one that provides workers with strong consumer protections while offering uniform regulation to employers, many of which conduct business in multiple states.

A nationwide minimum-coverage standard for all employers over a certain size would expand access to workplace retirement savings in a manner that would be less burdensome for businesses. The standard could take effect a few years down the road, once fiduciary responsibilities have been relaxed for some employers, and easy-to-adopt plan structures—such as PEPs, state auto IRAs, and other simplified offerings—have permeated the system.

Workers who are automatically enrolled would always retain the ability to opt out. To eliminate overlapping regulations, this new standard should pre-empt the multitude of mandates emanating from the states.

Employers that prefer not to select a plan for their employees could simply forward contributions along with their payroll taxes. Those contributions would be separated and directed into one of several default plans. Providers could apply to serve as a default, either nationwide or in a particular region.

Modeling from the Urban Institute shows that such a system, once fully phased in, would increase average retirement savings for middle-income earners by roughly 50%.^{xlix} These results show why this nuanced approach could be the most important reform policymakers could undertake to improve outcomes in the public-private retirement savings system.

Expanding Automatic Features in Workplace Retirement Plans

It is well documented that automatic features raise employee participation and saving levels at workplaces that offer retirement plans, and it is time to build on that success. Pending bipartisan legislation (discussed in the final section of this testimony) would require that most new workplace defined contribution retirement plans incorporate automatic enrollment and automatic escalation of employee contributions.ⁱ This important reform could further boost participation and saving rates, particularly among workers in disadvantaged communities.

When combined with current law, however, the new policy would mean that most employers introducing 401(k)-type plans would either have to conduct complex nondiscrimination and top-heavy testing or make employer matching or non-elective contributions utilizing the current law safe harbor, thereby adding costs.ⁱⁱ These rules may deter some—particularly small- and medium-sized—businesses from adopting a plan.

To draw more of them in, as well as incentivize existing employers to incorporate automatic features, a companion reform deserves serious consideration: The Retirement Security Flexibility Act was introduced in 2019 by Senators Cory Booker (D-NJ), Todd Young (R-IN), Tom Cotton (R-AR), and former Senator Doug Jones, and reintroduced this year by Senators Young and Booker.^{iii,iiii} In exchange for adopting best practices when it comes to automatic features—including, for example, auto re-enrollment, which would make sure that employees opting out when hired are not left on the retirement savings sidelines indefinitely—the bill would offer key flexibility to plan sponsors seeking to avoid testing requirements.^{iv} Most notably, it would allow small- and medium-sized business owners to decide how much (if any) they could afford in employer contributions and then set annual contribution limits commensurate with that decision. Such an approach would retain the incentive for employers to help fund their workers' accounts but also acknowledge that some are unable to do so.

The primary focus of policy in this area should be on making workplace retirement plans more available to workers and maximizing participation and adequate savings within those plans. These two reforms, paired together, would increase access to and participation in well-designed retirement savings plans at the workplace.

Facilitating Automatic Enrollment into Emergency Savings Accounts

Given the strong link described earlier between emergency preparedness and retirement security, what can we do to help people accumulate savings for short-term needs? There are strong

lessons from the field of retirement savings. The first is to connect any solution to payroll deduction. When individuals are left to their own devices to proactively open their own IRA, few do so.^{lv} Moreover, saving requires the willpower to forgo spending for the present moment. This discipline is nearly impossible to summon with every paycheck, but automatic payroll deduction allows a worker to decide to save only once and then automate their desired behavior in the future. Thus, the second lesson is to erect an opt-out approach. When an employer facilitates a 401(k)-type plan and automatically enrolls employees, participation rates for new hires can rise above 90%.^{lvi}

Interest in workplace emergency savings is accelerating. So is action.¹ In 2019, the BlackRock Foundation announced a \$50 million commitment to advance the issue.^{2,lvii} As part of that initiative, the non-profit organization Commonwealth has been working with employers to set up these accounts, with UPS announcing last fall that it would offer this benefit to 90,000 non-union employees.^{lviii} Employers are increasingly recognizing that employee financial wellness is not just a warmhearted gesture but rather an investment that can add to the bottom line of the business. Financially stable employees are more productive and less likely to miss work.^{lix}

Largely due to inertia, however, participation among workers in these emergency savings plans remains low, and further progress is tangled up in regulatory barriers.^{lx} Specifically, the law is unclear for employers that want to adopt automatic enrollment for these accounts. Employers need regulatory clarity with regard to the application of state wage garnishment laws and know-your-customer rules and permissible default investments.^{lxi} Providing that clarity, as well as reasonable consumer protections, will open the doors to employer innovation, and with it, better savings outcomes.

Changes along these lines were reintroduced this summer by Senators Young and Booker.^{3,lxii} The purpose of the legislation is to let employers experiment and refine their offerings—within reasonable regulatory guardrails—to figure out the best design for this relatively new tool. It carries strong support from a diverse group of external stakeholders, including retirement industry leaders, financial security experts, and anti-poverty advocates. With emergency savings accounts just recently becoming more prevalent and the power of automatic enrollment potentially on the way, we should not presume to know what works best for employees or what employers will be inclined to offer. This flexibility, combined with a Government Accountability Office study and outside researchers eager to measure impact, will help reveal the answers.

Perhaps most importantly, workers are saying they want to be offered this benefit. One survey

¹ The U.K. is also active in this policy space. Their national retirement saving program, NEST, has rolled out an emergency savings companion account in a scheme called "[jars](#)."

² The BlackRock Foundation supports BPC's research and educational work on emergency savings.

³ The concept in this legislation continues to be refined to ensure that the regulatory regime for these accounts matches their structure.

found that 71% of respondents would likely contribute to an emergency savings account if offered.^{lxiii} Another survey that BPC conducted with several partner organizations found that 42% of workers want to be automatically enrolled, including 57% of millennials and a majority of workers of color.⁴ These figures are significantly larger than the 22% who say they have access to an account through their employer today—none with automatic enrollment.^{5, lxiv}

Emergency savings accounts are a critical tool in the evolution of retirement security policy. People do not view their financial challenges in discrete silos—their situation is often dynamic and must be confronted holistically. For example, a recent study found that having emergency savings entering the COVID-19 pandemic not only improved people’s ability to maintain their financial health, but also significantly reduced their likelihood of withdrawing from their retirement savings.^{lxv} A committed effort to dramatically boost emergency savings accounts could preserve retirement assets for the long term while also providing a cash buffer for those struggling to get by.⁶

The Need for Bipartisan Action

Translating innovative policy ideas to real-world impact requires the sustained attention of members of Congress and the political will to legislate. After our BPC Commission report was released in 2016, we recognized the challenge of elevating retirement security amidst all the other issues grabbing headlines and sitting atop Congress’ agenda. We also saw that businesses and organizations across the country were pushing for improvements to retirement and savings policy with only limited coordination among them. Yet, there was so much common ground to leverage: Everyone wants to give more people in this country the opportunity to save and invest in their future; no one is satisfied with the status quo of elderly poverty and households depleting their savings in retirement.

Out of that reality, we launched the Funding Our Future initiative in 2018, in partnership with Ric Edelman of Edelman Financial Engines, to showcase the broad and collaborative base of support that retirement security has and requires.^{lxvi} The U.S. retirement system’s shortcomings are significant and will not disappear overnight. Our coalition’s strength is directly tied to the bipartisan nature of this issue, allowing many voices to come together with the shared goal of making long-term financial security a reality for households across the country. Because of this

⁴ Another 14% of the total say they are unsure about whether they would want to be automatically enrolled. Evidence regarding auto-enroll shows that many of those who are unsure will end up staying in the account. Any who do not want their savings in the account can always opt out or transfer the funds.

⁵ Anecdotal evidence indicates the true share is lower. Emergency savings accounts are new and haven’t been adopted widely, suggesting that respondents may not have learned to distinguish them from direct deposits into their checking accounts.

⁶ Field research shows that this “mental accounting” can make a significant difference in people’s saving and spending habits: <https://www.jstor.org/stable/23033462?seq=1>.

broad tent, we now have more than 50 organizations involved in this effort, spanning the academic, nonprofit, trade association, and corporate sectors. Our work also recognizes that retirement security cannot be viewed in a vacuum—preparing for retirement is a lifelong pursuit that can get knocked off course by all sorts of financial pressures.

Although the coalition does not take a stance on legislation, the effort strives to elevate the solutions available—at both the federal and state levels and within the private sector—to tackle these challenges. Three key goals representing the financial lifecycle are shared by all our partners: (1) make saving easier for Americans at all ages; (2) help them transform nest eggs into retirement income; and (3) ensure that Social Security continues to be financially stable, both for current and future retirees.

The function of our coalition is to highlight the gaps in our existing system, encourage more people to save, advance financial literacy, and promote solutions that ultimately improve financial security for all Americans as they age. We have been honored to collaborate with several members of Congress from both parties in our work, and we welcome the opportunity to engage further with any of you who are looking to advance this issue.

Indeed, in just the past few years, Congress has already rolled up its sleeves. Retirement security has seen big policy wins, which have been the result of strong bipartisan cooperation. The SECURE Act was long in the making and passed in 2019 with overwhelming support and countless congressional champions.^{lxvii} It increased workplace retirement savings by reducing barriers for small businesses to offer retirement plans, expanded 401(k) coverage to more part-time workers, made lifetime income options easier to include in retirement plans, and paid for these changes, in part, by closing a tax loophole that benefitted those with large inheritances.

More progress came in May this year, as under the leadership of Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX), the House Ways & Means Committee unanimously passed the Securing a Strong Retirement Act of 2021, commonly known as SECURE 2.0.^{lxviii} This bill has many important provisions, including:

- Requiring automatic enrollment for most new workplace retirement plans,
- Increasing plan access for some long-term, part-time workers,
- Exempting many retirement savers from required minimum distributions, and
- Further facilitating lifetime income tools in retirement plans.

BPC hopes this promising bill will continue to be refined and improved as it advances toward passage. The prospect of legislation along these lines is strong in the Senate, as well, partially due to the legwork done by Senators Ben Cardin (D-MD) and Rob Portman (R-OH), who reintroduced their Retirement Security and Savings Act in June, which shares many similarities with SECURE 2.0.^{lxix} Their bill further helps Americans struggling to save by making the Saver's Credit refundable (and thereby available) to many more low- and moderate-income savers who do not

benefit from the current tax deduction for retirement contributions.

To make the retirement savings system more progressive and offset the cost of this change, a limit could be imposed on the tax preference for retirement savings once an individual has amassed a certain large sum in their account(s). Millionaires should be able to save as much of their income as they want, but at some point, other taxpayers need not continue subsidizing their wealth accumulation.

I want to conclude by thanking the Committee once again for convening this hearing. Retirement security is a critical topic that is often overlooked, but with your continued leadership and bipartisan collaboration, further progress is possible this year. I look forward to your questions.

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