



## **Retirement Security: Building a Better Future**

Good Morning. Thank you to Chairwoman Murray, Ranking Member Burr, and Members of the Committee, for inviting me to testify on the important topic of Retirement Security. The events of the past 14 months—including pandemic-related job loss, increased caregiving needs, and heightened stress—have, among other things, highlighted the need for savings and financial security.

The Employee Benefit Research Institute (EBRI) is a nonpartisan, tax-exempt organization created in 1978 for the purpose of contributing to sound employee benefit programs and public policy through independent, objective, fact-based research and education. We believe that retirement, health, and financial wellbeing benefits serve key functions: These programs support the security and well-being of U.S. workers, retirees, and their families; play key roles in many employers' compensation and talent strategies; and represent significant portions of the U.S. economy.

EBRI's mission is to produce and communicate independent, objective, nonpartisan data, research, and other information about employee benefits. We serve the public, employers, service providers, workers and their families, and policymakers.

As the U.S. employee benefit system has evolved, so too has EBRI. We continue to research existing programs, designs, and practices while also focusing on emerging trends and policies. Accelerating changes and uncertainties in the benefit system make our work more relevant than ever. We produce timely and relevant research and analysis. Our work supports employers, policymakers, service providers, and others in developing innovative solutions and making policy and design decisions.

## **The State of the Retirement System**

I want to start by thanking the Senate HELP Committee for the good work they've done in improving the U.S. retirement system over the years.

I believe that the best way to think of the U.S. retirement system is pre- and post- 2006 Pension Protection Act (PPA). Prior to the PPA, the defined contribution part of the retirement system relied on individual workers to be engaged and navigate their 401(k) plan on their own — and increasingly, as we'll see, the defined contribution system *was* the private-sector retirement system. The PPA, however, was heavily based on the recognition from many years of research on 401(k) participant behavior that workers are not well positioned to save and invest on their own. The PPA harnessed the concepts of behavioral finance to determine how to adjust the defined contribution system to allow workers to better succeed in it. But it's now been 15 years since the PPA, and we can identify areas that still need work: access to the system, leakage from the system, and post-retirement spending out of the system.

## **The Role of the Employer**

To underscore the importance of the employer in the retirement system, I'll note a statistic from the Retirement Confidence Survey<sup>1</sup>, which EBRI produces along with Greenwald Research. This survey provides insights into

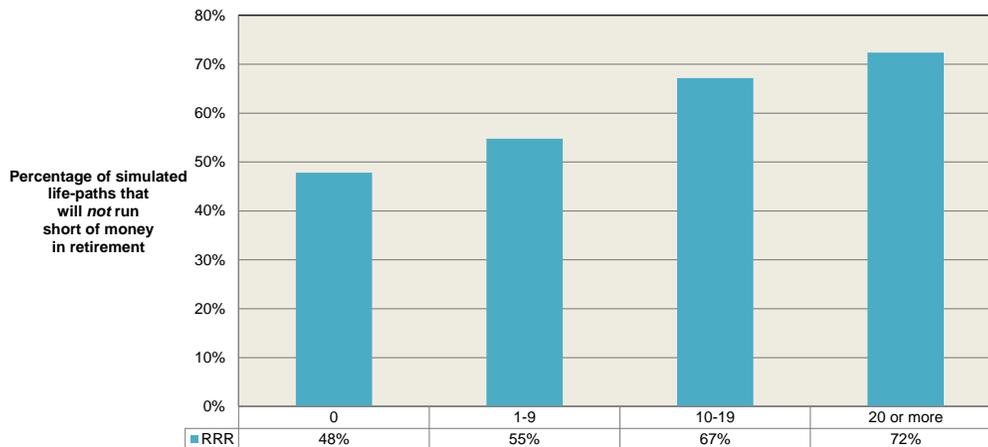
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<sup>1</sup> [https://www.ebri.org/docs/default-source/rcs/2021-rcs/2021-rcs-summary-report.pdf?sfvrsn=bd83a2f\\_2](https://www.ebri.org/docs/default-source/rcs/2021-rcs/2021-rcs-summary-report.pdf?sfvrsn=bd83a2f_2)

worker and retiree perspectives on financial security going back more than three decades. In the 2021 Retirement Confidence Survey, more than 8 in 10 workers said they were satisfied with their workplace retirement plan overall.

Further, EBRI’s *Issue Brief* “EBRI Retirement Security Projection Model® (RSPM) – Analyzing Policy and Design Proposals”<sup>2</sup> shows that the probability of a successful retirement depends to a great extent on whether employees are eligible to participate in a workplace defined contribution plan. For example, for Gen Xers, the Retirement Security Projection Model® estimated that those with **no** future years of eligibility in a workplace defined contribution plan have only a 48 percent probability of having enough money in retirement. In contrast, those who have 20 or more years of future eligibility in a workplace defined contribution plan (this may include years in which employees are eligible but choose not to participate) are simulated to have a 72 percent probability of having sufficient money in retirement. *In other words, merely having access to an employer-sponsored DC plan increases the chance that workers will have enough money to sustain themselves in retirement by 50 percent.*

**Impact of Future Years of Eligibility for a Defined Contribution Plan for Gen Xers on 2014 Retirement Readiness Ratings™**



Source: EBRI Retirement Security Projection Model® Version 1995.

Note: The values in this figure represent the percentages of simulated life-paths that will not run short of money in retirement assuming that 100 percent of simulated retirement expenses are paid.

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### About the Retirement Security Projection Model

EBRI’s RSPM® simulates retirement income adequacy for all U.S. households between the ages of 35 and 64. The model reflects the real-world behavior of 27 million 401(k) participants as well as 20 million individuals with individual retirement accounts (IRAs). RSPM® produces three important metrics for evaluating retirement income adequacy:

- Retirement savings shortfalls give the present value of the simulated retirement deficits at retirement age (in current dollars).
- Retirement savings surpluses give the present value of simulated retirement surpluses at retirement age (in current dollars).

<sup>2</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_451\\_rspm-31may18.pdf?sfvrsn=1a35342f\\_8](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_451_rspm-31may18.pdf?sfvrsn=1a35342f_8)

- Net retirement savings surpluses give the present value of simulated retirement surpluses less retirement deficits at retirement age (in current dollars).

### Access: The Haves and Have-Nots

Nevertheless, in EBRI's *Issue Brief* "Impact of the COVID-19 Pandemic on Retirement Income Adequacy: Evidence from EBRI's Retirement Security Projection Model,"<sup>3</sup> we find that about 4 in 10 workers are projected to fall short of what they need in retirement savings — resulting in an aggregate retirement deficit across all U.S. households ages 35–64 of \$3.68 trillion.

### EBRI Retirement Security Projection Model® Methodology

One of the basic objectives of RSPM® is to simulate the percentage of the population at risk of NOT having retirement income to adequately cover average expenses and uninsured health care costs (including long-term-care costs) at ages 65 or older throughout retirement in specific income and age groupings. RSPM® also provides information on the distribution of the likely number of years before those at risk run short of money as well as the percentage of preretirement compensation they will need in terms of additional savings in order to have a 50, 70, or 90 percent probability of retirement income adequacy.

VanDerhei and Copeland (2010)<sup>4</sup> describe how households are tracked through retirement age and how their retirement income/wealth is simulated for the following components:

- Social Security
- Defined contribution (DC) balances
- Individual retirement account (IRA) balances
- Defined benefit (DB) annuities and/or lump-sum distributions
- Net housing equity.

A household is considered to run short of money in this model if aggregate resources in retirement are not sufficient to meet average retirement expenditures, defined as a combination of deterministic expenses from the Consumer Expenditure Survey (as a function of income) and some health insurance and out-of-pocket, health-related expenses, plus stochastic expenses from nursing-home and home-health care (at least until the point such expenses are covered by Medicaid).

That's because many American workers — mainly those working for small employers — do not have access to employer-sponsored retirement plans. According to the Bureau of Labor Statistics (BLS), while nearly 90 percent of workers at companies with 500 or more employees have access to either a defined benefit or defined contribution plan, just over half (53 percent) of workers at companies with fewer than 100 employees have such access. This creates a retirement landscape that is divided into the "haves" and "have-nots," the "haves" being those workers who are employed by large companies offering defined contribution plans and the "have-nots"

<sup>3</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_505\\_2020crisis-21apr20.pdf?sfvrsn=b3423d2f\\_4](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_505_2020crisis-21apr20.pdf?sfvrsn=b3423d2f_4)

<sup>4</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_07-2010\\_no344\\_rrr\\_rspm1.pdf?sfvrsn=38da292f\\_0](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_07-2010_no344_rrr_rspm1.pdf?sfvrsn=38da292f_0)

being those employed by smaller companies that do not offer such plans (I will get into the details of why that is true later in my testimony).

### Workers’ Retirement Confidence and Financial Literacy

The 2021 Retirement Confidence Survey also paints a distinct picture of the importance of the employer when it comes to workers’ retirement confidence. According to the Retirement Confidence Survey, characteristics associated with retirement confidence include having a workplace retirement plan: 83 percent of confident workers report that their employer offers an employer-sponsored defined contribution plan, compared with 69 percent of less confident workers. Six in ten confident workers report expecting a workplace retirement plan to be a major source of retirement income, vs. just over a third of less confident workers.

## Who are confident workers? They are more likely to be...

DEMOGRAPHICS	SAVINGS	MAJOR SOURCES OF INCOME IN RETIREMENT
<b>70% Married</b> (vs. 40% less confident)	<b>82% Have saved for retirement</b> (vs. 45% less confident)	<b>60% From workplace retirement plan</b> (vs. 38% less confident)
<b>32% Graduate or Professional Degree</b> (vs. 17% less confident)	<b>94% Currently saving</b> (vs. 84% less confident)	<b>39% From personal savings or investments</b> (vs. 22% less confident)
<b>75% Employed full-time</b> (vs. 56% less confident)	<b>54% No debt problem</b> (vs. 24% less confident)	<b>32% From DB plan</b> (vs. 19% less confident)
<b>33% Expect retirement age will be &lt;65</b> (vs. 9% less confident)	<b>57% Calculated how much money is needed to live comfortably in retirement</b> (vs. 21% less confident)	<b>34% From an IRA</b> (vs. 16% less confident)
<b>70% Excellent/very good health</b> (vs. 35% less confident)	<b>38% Personal savings or investments for retirement \$250k+</b> (vs. 9% less confident)	<b>OTHER</b>
<b>50% Expect to live to age 85+</b> (vs. 33% less confident)	<b>RETIREMENT PLAN</b>	<b>12% got a promotion since Feb. 1<sup>st</sup> 2020</b> (vs. 5% less confident)
<b>57% Household income \$100k+</b> (vs. 18% less confident)	<b>83% Employer offers DC plan</b> (vs. 69% less confident)	<b>56% ability to save for retirement not impacted by COVID-19</b> (vs. 38% less confident)
<b>52% Men</b> (vs. 43% less confident)	<b>94% Contribute to DC plan</b> (vs. 83% less confident)	<b>69% parents had or are having a good retirement</b> (vs. 45% less confident)
<b>41% Have an advisor</b> (vs. 15% less confident)	<b>58% Have DB plan</b> (vs. 27% less confident)	
	<b>90% Satisfied with workplace retirement plan</b> (vs. 56% less confident)	

All percentages shown are statistically significant

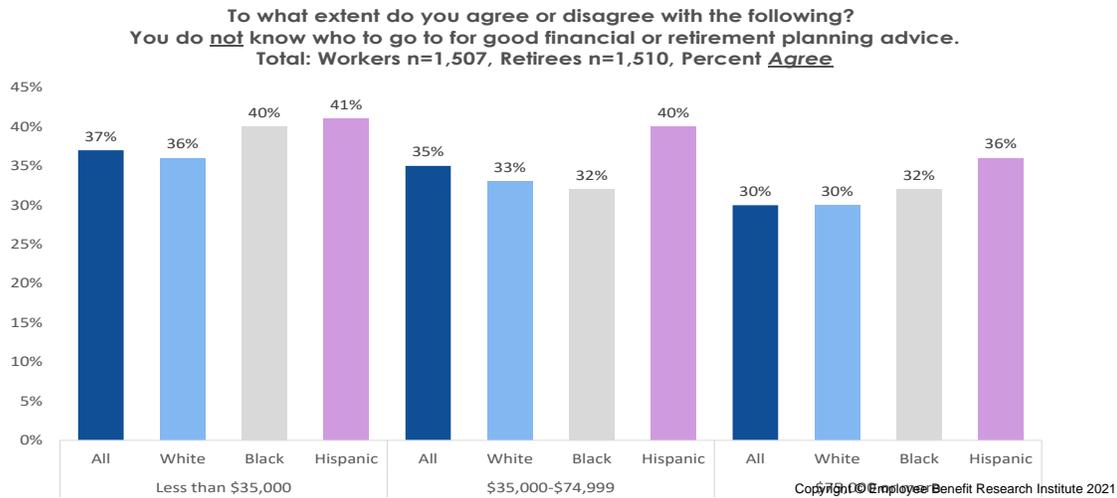
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The Retirement Confidence Survey also finds that workers who describe themselves as being confident about their retirement prospects are characterized as being engaged: 82 percent have saved for retirement, compared with 45 percent of less confident workers, and 57 percent report having calculated how much money they need to live comfortable in retirement, compared with 21 percent of less confident workers.

Yet, the Retirement Confidence Survey finds that workers are not as engaged in their own financial security as they could be. Only half of workers say they have tried to calculate how much money they will need in retirement—and despite decades of financial literacy efforts by employers, that number is not different than it was in 1999. The Retirement Confidence Survey also finds a disconnect between retirement confidence and potential retirement reality: While most workers report being confident they know how much monthly income

will be needed, half says they have actually estimated how much income they would need each month in retirement.

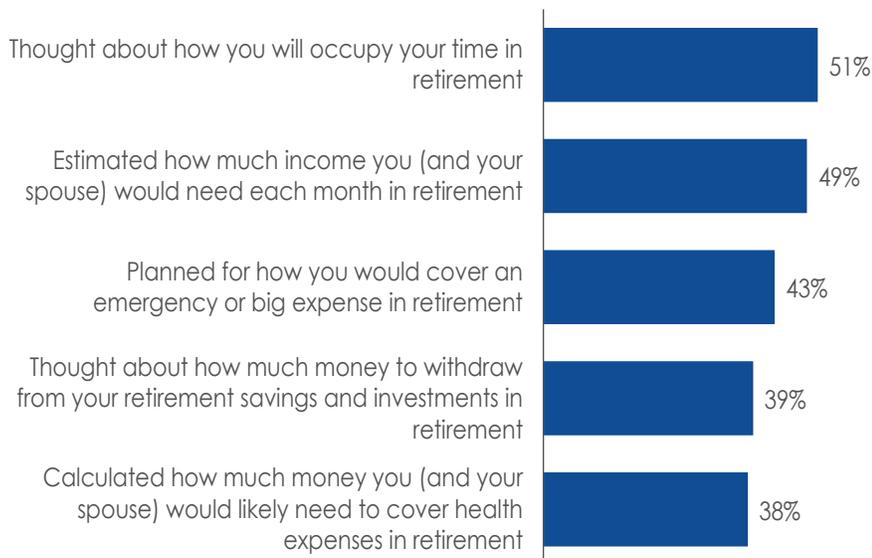
**Percentage Who Feel They Do Not Know Who to Go For Good Financial Advice, by Race/Ethnicity and Income**



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

The Retirement Confidence Survey also finds that many people struggle with how to find trusted sources of financial help. Four in ten workers and 2 in 10 retirees say they don't know who to go to for financial and retirement planning advice. This might even be more true for minorities. Black and Hispanic workers and retirees are more likely to say they do not know who to go to for good financial advice than their white counterparts.<sup>5</sup>

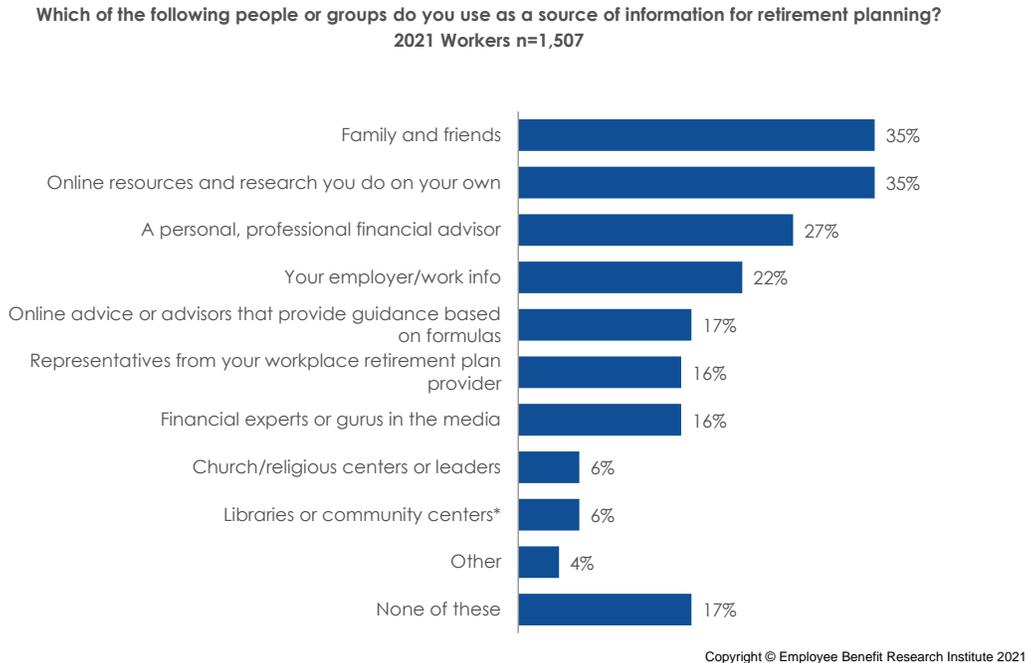
**To prepare for retirement, have you (and your spouse)...?  
 Workers n=1,507, Percent Yes**



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<sup>5</sup> Although the numbers were not statistically significantly different than for white respondents.

Many turn to non-professional sources, like family and friends (35 percent of workers and 22 percent of retirees) or go online to do their own research (35 percent of workers and 25 percent of retirees). Turning to the employer or work for information on retirement planning is relatively less common: just over 1 in 5 workers report this as a source of information, even though 73 percent say they are satisfied with the education materials they receive on their workplace retirement savings plan.



### The Success of Auto Features

As I started out noting, a major step forward for workplace defined contribution plans came with the 2006 Pension Protection Act, which created safe harbors for auto features such as automatic enrollment, contribution escalation, and target-date funds. Behavioral finance research has demonstrated that by harnessing people’s natural tendencies toward inertia, mental accounting, cognitive dissonance, etc., it is possible to improve outcomes. This is the case with auto features. Automatic enrollment essentially changes the equation so that workers don’t have to proactively *choose* to join the workplace defined contribution plan but instead are automatically placed in their savings plan and must opt out if they do not wish to save. Research has shown that most people — regardless of age, gender, race, income — tend to remain in the defined contribution plan when automatically enrolled.<sup>6</sup> Similarly, research has shown that by automatically increasing employee contributions to the defined contribution plan over time (e.g., by 1 percent of pay per year), it is possible to transform poor savers into robust savers.<sup>7</sup> Finally, making professionally managed diversified portfolios such as target-date funds the default investment vehicle in defined contribution plans results in more appropriate risk-taking by plan participants.<sup>8</sup>

<sup>6</sup> <https://www.nber.org/papers/w7682>

<sup>7</sup> <https://www.jstor.org/stable/10.1086/380085?seq=1>

<sup>8</sup> A Deeper Look at Asset Allocation: Plan Structure and Demography the Key to Effective Plan Design. Public Retirement Research Lab Report.

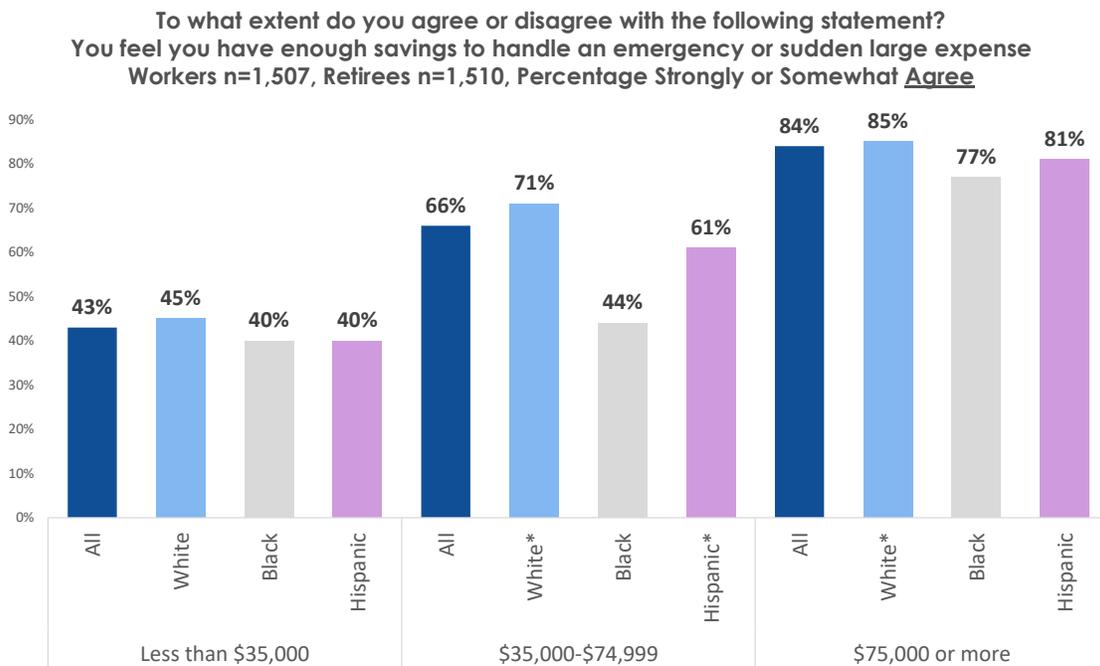
Today, 7 in 10 defined contribution plans offer automatic enrollment, and 76 percent offer automatic contribution escalation.<sup>9</sup> More than three-quarters of 401(k) plans, covering more than three-quarters of 401(k) plan participants, included target-date funds in their investment lineup. Just over one-quarter of the assets in the EBRI/ICI 401(k) database were invested in target-date funds, and more than half of 401(k) participants in the database held target-date funds.<sup>10</sup>

The increasing robustness of defined contribution plans has created an environment that has both positive and negative aspects. On the one hand, defined contribution plans are increasingly being a venue for offering financial wellness initiatives (more on that later). On the other hand, defined contribution plans are becoming ripe for being viewed as de facto emergency savings vehicles.

### Emergency Savings and DC Plans

Going back to the Retirement Confidence Survey, just over 4 in 10 low-income (earning less than \$35,000 per year) individuals who are either working or retired say they feel they have enough savings to handle an emergency or sudden large expense. And, while two-thirds of middle-income (\$35,000 to \$75,000 in household income annually) individuals report that they can handle an emergency expense, only 44 percent of such Black Americans report this.

#### Percentage Who Agree They Have Enough Savings to Handle an Emergency Expense, by Race/Ethnicity and Income



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey. Copyright © Employee Benefit Research Institute 2021

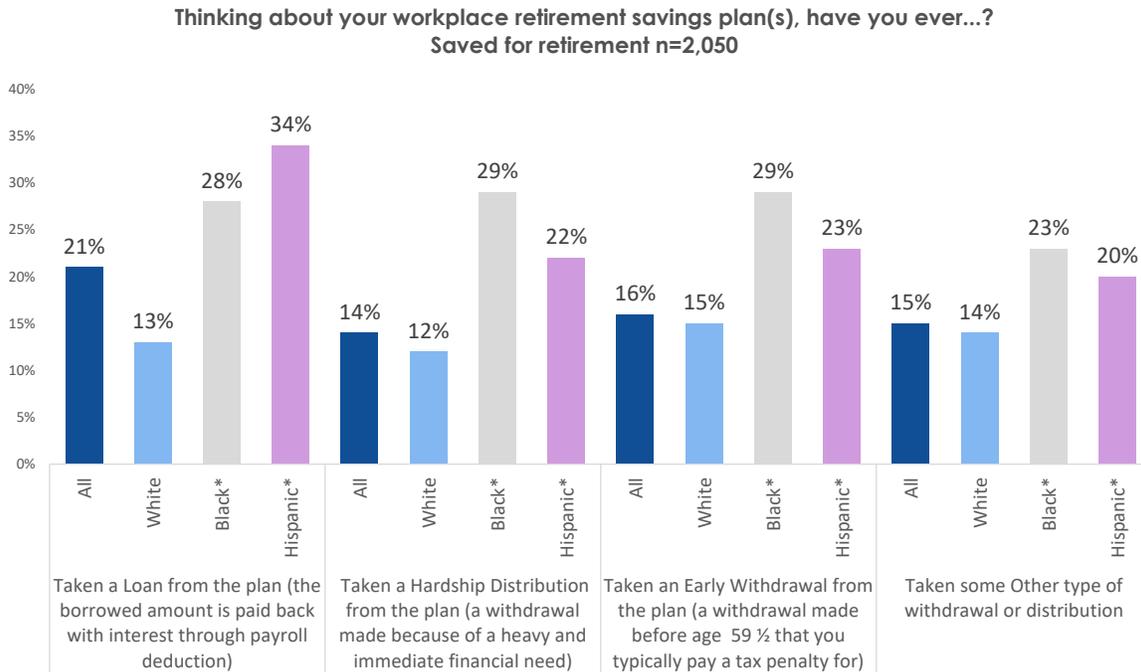
The Retirement Confidence Survey finds that while 21 percent of those who had saved for retirement say they have ever taken a loan from their retirement savings plan and 14 percent say they had taken a hardship distribution, that rose to 28 percent of Black workers and 34 percent of Hispanic workers taking a loan, and 29 percent of Black workers and 22 percent of Hispanic workers taking hardship distributions from their defined

<sup>9</sup> 2020 Callan DC Trends Survey

<sup>10</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_526\\_401kxsec.4mar21.pdf?sfvrsn=80823a2f\\_6](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_526_401kxsec.4mar21.pdf?sfvrsn=80823a2f_6)

contribution plan. The top three reasons that Black workers took a loan from their workplace retirement plan was to make ends meet, followed by buying a home, car, or other large purchase, and paying off credit card bills or credit card debt. For Hispanic workers, the top three reasons were to buy a home, car, or other large purchase; to pay off credit card bills or credit card debt; or to cover medical expenses.

### Percentage of Those Who Saved for Retirement Who Took a Loan or an Early Withdrawal, by Race/Ethnicity



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

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The extent to which defined contribution plans become de facto emergency savings vehicles will ultimately have a profound impact on workers’ retirement security. EBRI’s *Issue Brief “CARES Act: Implications for Retirement Security of American Workers”*<sup>11</sup> quantifies the potential impact on the future retirement security of American workers when legislation, such as the CARES Act, permits use of defined contribution plans as emergency savings vehicles.

In this analysis, EBRI again used its proprietary Retirement Security Projection Model® to evaluate a scenario in which employees take the full coronavirus-related distribution under the CARES Act — which is up to \$100,000, with a three-year payback. In this scenario, the overall median reduction in retirement balances as a multiple of pay at age 65 for those employees is estimated to be 2.3 percent. However, should these employees take the full coronavirus-related distribution up to \$100,000 with *no payback* (they fail to restore the \$100,000 to their plan balances), the overall median reduction in their retirement balances as a multiple of pay at age 65 is projected to be 20 percent.

The truly catastrophic scenario, however, is when workers are provided CARES-Act-like access to withdrawals from their defined contribution plan time and again during their life as various crises occur. In this scenario,

<sup>11</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_509\\_cares-30jul20.pdf?sfvrsn=1ac63d2f\\_6](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_509_cares-30jul20.pdf?sfvrsn=1ac63d2f_6)

assuming such access every 10 years, the overall median reduction in retirement balances as a multiple of pay at age 65 for such workers would be 54 percent.

Fortunately, a PSCA survey of plan sponsors on CARES Act provisions found that most defined contribution plan sponsors saw limited use of coronavirus-related distributions. Still, those who are encouraged to — or have no choice but to — use their defined contribution plan as an emergency savings vehicle are clearly likely to have an impaired retirement nest egg.

## Some Solutions

### ***Expanding Access to Workplace Savings Plans***

Going back to the “haves” and “have nots” when it comes to workplace retirement plan access, in a survey of small businesses with and without retirement plans conducted by the Main Street Alliance/American Sustainable Business Council, 64 percent of respondents cited cost as the largest barrier to offering a retirement savings plan. Another survey, by the Small Business Majority in Illinois, found that of the 70 percent of small businesses that do not offer plans, 27 percent cited a lack of administrative capacity and 14 percent cited cost as the reason for doing so.<sup>12</sup> Simply put, smaller companies often cannot afford to offer traditional DC plans or may lack the capacity to administer them.

The recently passed SECURE Act recognized this and created an alternative: Pooled Employer Plans, or PEPs. PEPs build off of the Multiple Employer Plan (MEP) framework that allows different employers to offer a single 401(k). In this way PEPs combine contributions from many workplaces into a single pool, even as participants continue to have individual accounts as they do in traditional employer-sponsored defined contribution plans. This potentially allows small employers to have reduced costs, administrative burden and fiduciary duties—all of which could make it far easier for them to offer such plans to their employees. -

EBRI examined the impact of widening access through MEPs in its *Issue Brief* “How Much More Secure Does the SECURE Act Make American Workers: Evidence From EBRI’s Retirement Security Projection Model.”<sup>13</sup> We based our findings on several industry studies that reported adoption of MEPS by employers ranging from 7.3 percent in one study to as high as 66 percent in another. At the median, one study found that between 31 and 33 percent of employers with fewer than 500 employees were likely to adopt MEPs if such plans were made widely available.

Focusing on this middle-case scenario of approximately one-third of small employers adopting MEPs, EBRI’s Retirement Security Projection Model<sup>®</sup> estimates an 8.1 percent *decrease* in retirement savings *shortfalls* — or the amount of money that people will run short during retirement — for workers currently ages 34–39 employed by a small company (an employer with fewer than 100 employees). Clearly, if adoption were higher, so would be the impact on retirement savings shortfalls.

*However, the key to PEPs fulfilling their potential for expanding access to smaller employers not currently sponsoring a retirement plan is to streamline legal and compliance requirements—namely, nonessential reporting / audit / and compliance requirements may increase costs and thereby reduce employer adoption rates, plainly defeating the objectives for expanding PEPs. So, in short, PEPs may be viewed by smaller employers as a viable and more practical alternative to the current workplace retirement system, and can improve*

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<sup>12</sup> How States Are Working to Address the Retirement Savings Challenge An analysis of state-sponsored initiatives to help private sector workers save. Pew report. June 1, 2016

<sup>13</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_501\\_secure-20feb20.pdf?sfvrsn=db6f3d2f\\_4](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_501_secure-20feb20.pdf?sfvrsn=db6f3d2f_4)

*retirement outcomes for their employees—but only if we can reduce costs and administrative burdens for these employers.*

### **Reducing Plan Leakage**

Turning to workplace retirement plan leakage, the main culprit here is cash outs by employees when they leave their employer—which they may do 5 times between ages 25 and 34, if Bureau of Labor Statistics data is any guide.<sup>14</sup> Each year approximately 40 percent of terminated participants elect to prematurely cash out of their defined contribution plan—and these are mainly younger workers with small balances. And the cost is high. In its *Issue Brief “The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cash out Leakage,”*<sup>15</sup> EBRI estimated that in 2015 alone, \$92.4 billion was lost due to leakages from cash outs, representing a serious problem that affects the potential of 401(k) plans to produce adequate income replacement in retirement.

#### **401(k) Plan Options When Employees Leave their Job**

Under current rules, workers have a number of options regarding their 401(k) balances when they leave a job: They may be able to leave the money in their former employer's 401(k) plan, they may be able to move the money to a new employer's 401(k) plan, they can roll their money into an individual retirement account (which may occur automatically if the balance is small), or they can cash out of the retirement system altogether. According to a March 2019 Aflac report studying post-termination distribution behavior over 10 years, 40 percent of all terminated participants make the decision to cash out prematurely, accounting for 15 percent of all terminated participants' plan assets. That study also found that participants with lower balances tended to cash out much more frequently — up to 80 percent when savings are less than \$1,000 and remaining at levels over 50 percent until balances surpassed \$10,000. Under current rules, balances of less than \$1,000 may be cashed out by the employer when employees terminate; balances of \$1,000 to \$5,000 may be “forced out” into a safe harbor IRA by employers upon worker termination.

Part of the reasons cash outs are so high is that a cash out is often the easiest way for a terminated participant to move money out of their employer's plan. In contrast, under current rules, rolling over money into your new employer's plan can be extremely challenging. When workers in their twenties and thirties continually cash out their retirement plan balances each time they switch jobs—when it comes to retirement security—they are undoing all the good that's come of being automatically enrolled in their retirement plan in the first place.

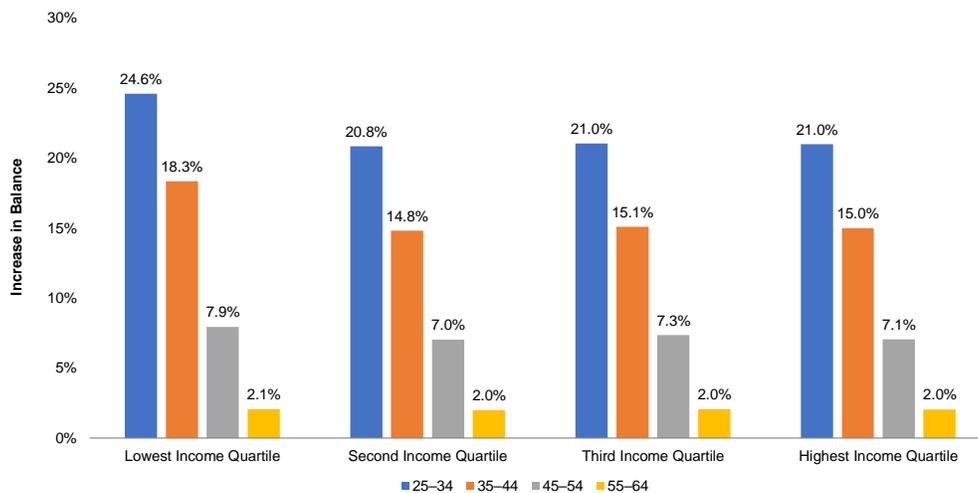
Considering auto portability as a stand-alone policy initiative, EBRI estimates the value of additional accumulations over 40 years (in current dollars) resulting from “partial” and “full” auto portability. Partial auto portability is when participant balances of less than \$5,000, adjusted for inflation, are automatically rolled into the new employer plan, eliminating cash outs. Full auto portability is when all participant balances are automatically rolled into the new employer plan. Under partial auto portability, the estimated value of additional accumulations (because of elimination of cash outs) is estimated to be \$1,509 billion in current dollars over 40 years. Under full auto portability, the value is estimated to be \$1,987 billion. Focusing on workers in the lowest income quartile who are currently 25–34 — in other words, workers who are most likely to cash out, and

<sup>14</sup> <https://www.bls.gov/news.release/pdf/nlsoy.pdf>

<sup>15</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_489\\_autoport-15aug19.pdf?sfvrsn=80723c2f\\_6](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_489_autoport-15aug19.pdf?sfvrsn=80723c2f_6)

whose cash outs are most damaging because they forfeit an entire career’s worth of investment gains on the cash outs — the Retirement Security Projection Model® estimates an increase in balances for those workers of 24.6 percent at retirement under partial auto portability.

**Increase in Aggregate Balances at Age 65 as a Result of Implementing Partial Auto Portability, by Age and Age-Specific Income Quartile**



Source: EBRI Retirement Security Projection Model,® versions 2913 and 2922.  
 Note: 40-year time horizon.

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Under the full auto portability scenario, where the benefits of auto portability would potentially accrue to anyone at job change (not just those with balances under the \$5,000 indexed threshold), those currently 25–34 in the lowest income quartile are projected to experience a 35.5 percent increase in balances at retirement.

*In short, policies that support solutions that reduce or eliminate cash outs from workplace retirement plans can improve outcomes, especially for lower-wage workers who are more likely to cash out their smaller balances as they change jobs.*

It is worth noting that participants whose balances are forced out of their defined contribution plan into an IRA currently are subject to a Department of Labor safe harbor that includes a requirement that the forced-out balances must be invested in a capital preservation vehicle with reasonable expenses. The EBRI *Issue Brief* “Comparing Asset Allocation Before and After a Rollover From 401(k) Plans to Individual Retirement Accounts”<sup>16</sup> finds that 76 percent of IRA balances less than \$5,000 reside in money funds. This compares to 25 percent of balances greater than \$5,000 in money funds. Further, the majority (52.9 percent) of traditional IRAs with balances between \$1,000 and \$5,000 are held by workers ages 25–44. This is not a demographic that financial planners generally recommend hold high allocations of money funds. For workers ages 25–29, 76.3 percent had all of their IRA balances of \$1,000 to \$5,000 in money assets even though the accounts were established at least seven years prior.

Keep in mind that at the same time that 401(k) plan assets that are forced out into IRAs are required to be invested in capital preservation funds, automatic enrollment safe harbors within 401(k) plans require that assets be invested in diversified investments such as target-date funds. Also, state IRA programs such as the Illinois

<sup>16</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_495\\_assetallocation-7nov19.pdf?sfvrsn=85cc3c2f\\_4](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_495_assetallocation-7nov19.pdf?sfvrsn=85cc3c2f_4)

Secure Choice Savings Program have successfully implemented default investment options that initially place worker savings into capital preservation vehicles, and then after a period of 90 days, if no action by the worker has been taken (such as withdrawing the money or moving it to another fund), the assets are automatically transferred to an age-appropriate target-date fund.

*Because of the strong evidence that inertia prevents people from moving their assets out of capital preservation funds — even if that money sits in the funds for many years and the individual has a very long time horizon — a policy that changes the forced-out safe harbor default so that money remaining in capital preservation funds after 90 days is transferred to an age-appropriate target-date fund, similar to what state programs like Illinois Secure Choice have in place, could result in a better alignment of individuals’ asset allocation within their rollover IRA and their time horizon.*

Finally, in the area of leakage, I’d like to address the emergency savings issue I outlined above. One way that the existing employer-based defined contribution system is increasingly being leveraged is to facilitate overall employee financial wellness. The 2020 EBRI Financial Wellbeing Employer Survey: COVID-19 Driving Benefit Offerings and Potentially Forcing Tough Budget Decisions<sup>17</sup> is a survey of larger employers that identifies the types of financial wellbeing initiatives that they are offering or exploring.

Not surprisingly, in 2020, emergency savings help was top of mind for many survey respondents. The most common emergency fund program employers reported offering was withdrawals from after-tax retirement funds (44 percent), while paid-time-off donations or leave sharing (38 percent) was the second most likely currently offered feature. The least likely emergency fund or employee hardship assistance programs to be offered were the relatively new sidecar or rainy day accounts (13 percent) and emergency savings vehicles via payroll deduction (20 percent). In other words, emergency savings vehicles most commonly come in the form of already-available money/funds. However, emergency savings vehicle via payroll deduction was the emergency savings vehicle that employers were most likely to plan to offer to their employees in the next one to two years (31 percent). Sidecar or rainy day accounts — which may be attached to or offered through the existing defined contribution plan — were cited by 26 percent of employers as something that they planned to offer in the next one to two years. In other words, employers are considering ways of leveraging the existing infrastructure of payroll deduction or defined contribution plans in order to help workers with emergency savings going forward.

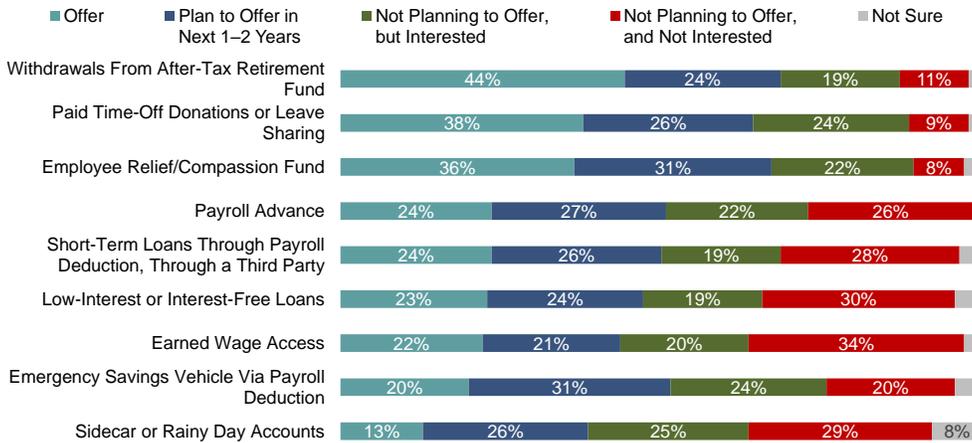
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<sup>17</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_515\\_fwes2020-22oct20.pdf?sfvrsn=34693a2f\\_8](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_515_fwes2020-22oct20.pdf?sfvrsn=34693a2f_8)

*Given employers' interest in facilitating emergency savings, policies that promote adoption of such solutions, including those through the defined contribution plan structure, could lead to wider availability of these offerings by employers — which could also take pressure off core defined contribution assets to serve as de facto emergency savings during times of crisis.*

### Emergency Fund or Employee Hardship Assistance Programs

*Among Those Offering or Planning to Offer Emergency Fund or Employee Hardship Assistance Programs*



- 27% of all firms offered an emergency fund or employee hardship assistance program.
- 29% planned to offer this benefit.
- Among those who already offered an emergency fund, they offered an average of 3.5 emergency benefits in this category. They were also planning on or interested in offering an additional 3.1 emergency fund offerings on average.

Q18. Which of the following are or will be offered in your company's emergency fund or employee hardship assistance program? (Offers or plans to offer emergency fund or employee hardship program. n=140)

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### Spending in Retirement

I want to conclude with a discussion of financial security *in* retirement. This is an increasingly important area of focus for the retirement industry, plan sponsors, and policymakers as more individuals enter retirement. EBRI's *Fast Fact "A Tale of Three Retirement Lifestyles"*<sup>18</sup> notes that in the third quarter of 2020, about 28.6 million Baby Boomers — those born between 1946 and 1964 — reported that they were out of the labor force due to retirement. Yet not enough is understood about how retirees spend their money and, just as importantly, why they spend the way they do. Further, recent research by EBRI has found a great deal of heterogeneity when it comes to retirement lifestyles, with some very specific driving forces behind financially comfortable vs. struggling retirees.

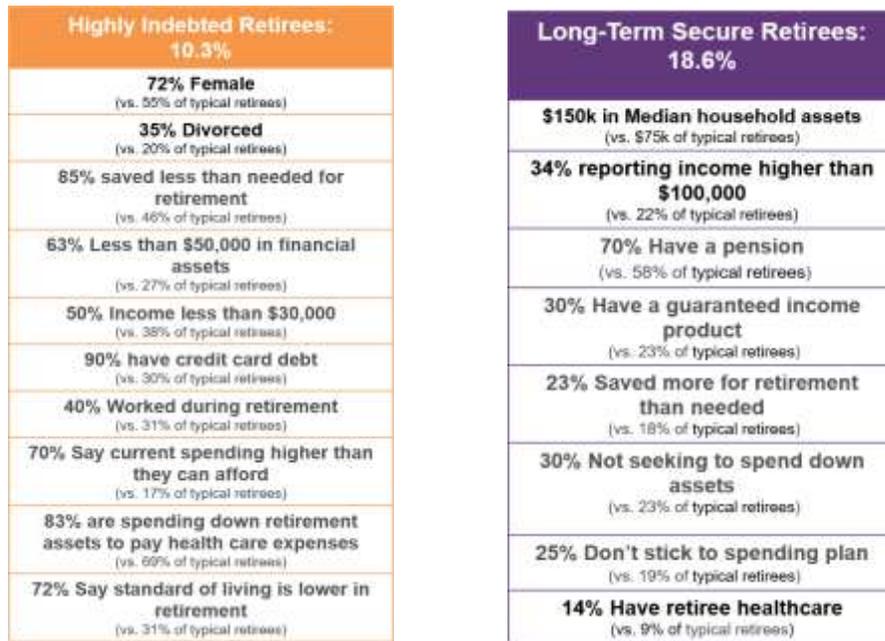
Examining the spending habits and situations of 2,000 individuals ages 62 to 75 at and during retirement in EBRI's Spending in Retirement Survey<sup>19</sup> identifies two types of retirees that stand in stark contrast to one another: highly indebted retirees who described their debt as unmanageable or even crushing, and long-term secure retirees, or those retirees who reported they had long-term care insurance.

Focusing on highly indebted retirees, we note that 1 in 10 (10.3 percent) of the respondents to the Spending in Retirement Survey reported that their debt was either unmanageable or crushing. These highly indebted

<sup>18</sup> [https://www.ebri.org/docs/default-source/fast-facts/ff-386-spendinginretirement-4mar21.pdf?sfvrsn=d9823a2f\\_6](https://www.ebri.org/docs/default-source/fast-facts/ff-386-spendinginretirement-4mar21.pdf?sfvrsn=d9823a2f_6)

<sup>19</sup> <https://www.ebri.org/publications/research-publications/issue-briefs/content/why-do-people-spend-the-way-they-do-in-retirement-findings-from-ebri-s-spending-in-retirement-survey>

retirees were characterized as predominantly female, divorced, people of color, and in poor health, with relatively low household financial assets. Indeed, one-fifth had no financial assets, compared with 6 percent of



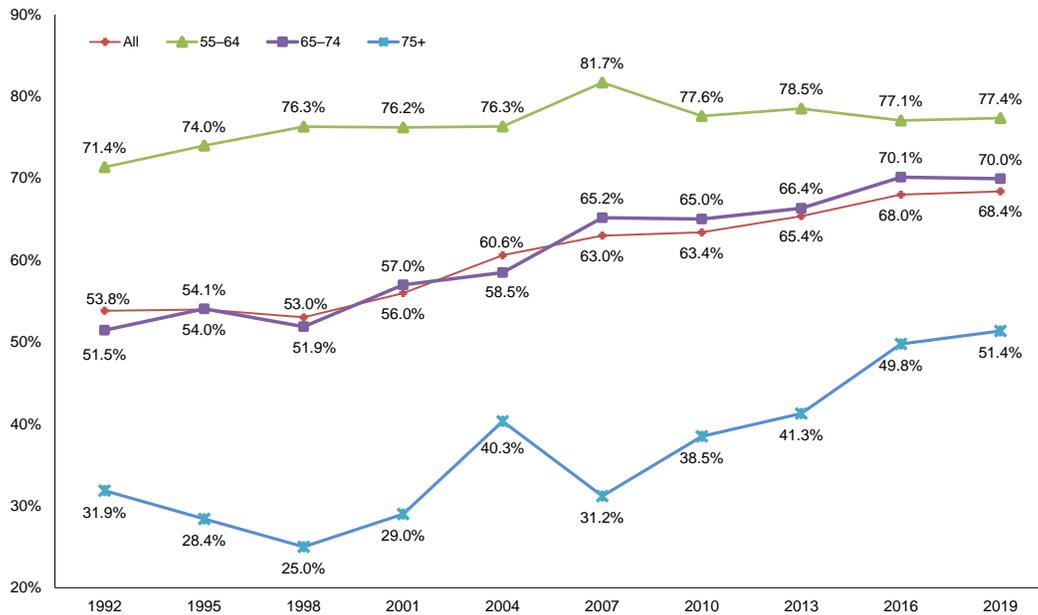
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typical retirees. The retirement lifestyle they portray is fraught with challenges, uncertainty, frustration, and the sense that they are barely hanging on.

Unfortunately, this struggling retiree cohort is likely to grow. Based on data from the Federal Reserve’s Survey of Consumer Finances (SCF), EBRI’s *Issue Brief* “Who Is Most Vulnerable to the Ticking Debt Time Bomb in Retirement: Families with the Oldest, Black/African American, and Hispanic Family Heads”<sup>20</sup> found the share of American families with heads ages 55 or older with debt increased continuously from 1998 through 2019. The 2019 level of 68.4 percent was nearly 15 percentage points higher than the 1992 level of 53.8 percent and 5.4 percentage points higher than in 2007. This increase in the incidence of debt has been driven in recent years by the families with heads ages 75 or older. For this age cohort, the share having debt increased from 41.3 percent in 2013 to the 51.4 percent in 2019.

<sup>20</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_521\\_debt-17dec20.pdf?sfvrsn=eb403a2f\\_6](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_521_debt-17dec20.pdf?sfvrsn=eb403a2f_6)

**Percentage of Families With Heads Ages 55 or Older With Debt, by Age of Family Head, 1992–2019**



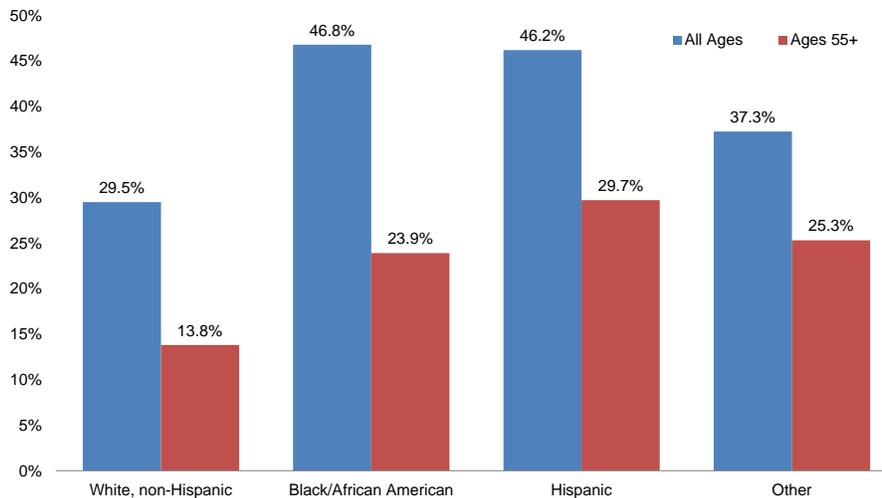
Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019 Survey of Consumer Finances.

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Further, the incidence of credit card debt increased for families with heads ages both 55–64 and 75 or older in 2019, and each age group of family heads experienced an upturn in the median credit card debt held in 2019. In fact, families with heads ages 75 or older had significant growth in both median housing and median credit card debt in 2019.

Families with Black/African American or Hispanic heads had much higher debt-to-asset ratios than families with white, non-Hispanic heads. Further, the debt of the families with minority heads is more likely the result of consumer debt, not housing debt. This is troubling because while families can build wealth through homeownership, they cannot through consumer debt. Finally, families with minority heads, particularly those with Hispanic heads, were more likely to have debt payments more than 40 percent of their income.

**Median Debt-to-Asset Ratio of All Families and Families with Heads Ages 55 or Older Having Debt, by Race/Ethnicity of the Family Head, 2019**

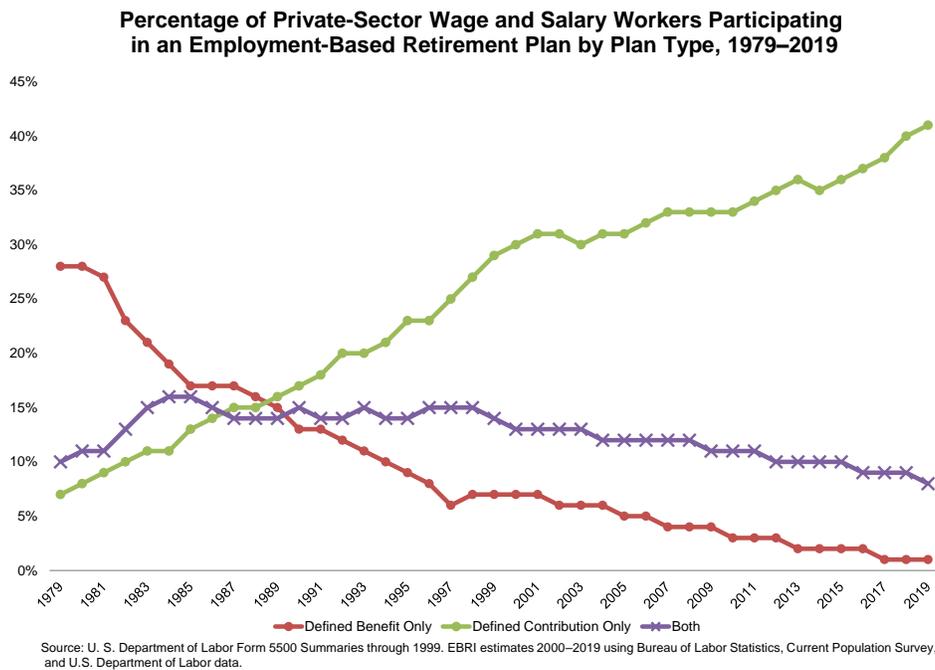


Source: Employee Benefit Research Institute estimates from the 2019 Survey of Consumer Finances. Copyright © Employee Benefit Research Institute 2021

*Policies that promote financial wellness initiatives, such as budgeting, debt management, and financial coaching through the workplace during the “accumulation phase” can benefit workers real time and also provide skills that can be carried over to retirement to potentially address the growing issue of debt in older ages.*

In comparison to the highly indebted retirees in the Spending in Retirement Survey, 18.6 percent of survey respondents reported having long-term care. These “long-term secure” retirees portray a life in retirement that is comfortable; stable; secure and even luxurious; and filled with flexibility, opportunities, and options. This cohort has more sources of — often stable — income: Long-term secure retirees were considerably more likely to report having a defined benefit or traditional pension plan (70 percent vs. 58 percent of typical retirees). And they tended to have more sources of income generally and less reliance on Social Security: 59 percent said they had personal retirement savings (compared with 51 percent of typical retirees), 46 percent reported an individual retirement account (IRA) (vs. 38 percent of typical retirees), 36 percent reported a workplace retirement savings plan (compared with 30 percent of typical retirees), and 30 percent reported a product that guarantees monthly income for life, such as an annuity (compared with 23 percent of typical retirees). They were also likelier to report having retiree health care (14 percent).

Unfortunately, this cohort is likely to shrink. According to estimates in EBRI’s *Fast Fact “Putting Numbers to the Shifting Private-Sector Retirement Landscape,”*<sup>21</sup> the percentage of private-sector wage and salary workers participating solely in a defined benefit plan decreased from 28 percent in 1979 to just 1 percent in 2019. Correspondingly, the percentage participating in solely DC plans went from 7 percent to 41 percent. The percentage with both plans went from 10 percent in 1979 to 8 percent in 2019 after peaking at 16 percent in 1985. The dramatic and continuing shift of private-sector worker plan coverage from DB to DC has implications not only for future retirees who must manage their own drawdown strategy during retirement but also for employers, providers, and policymakers as they navigate this seismic change in the retirement equation.

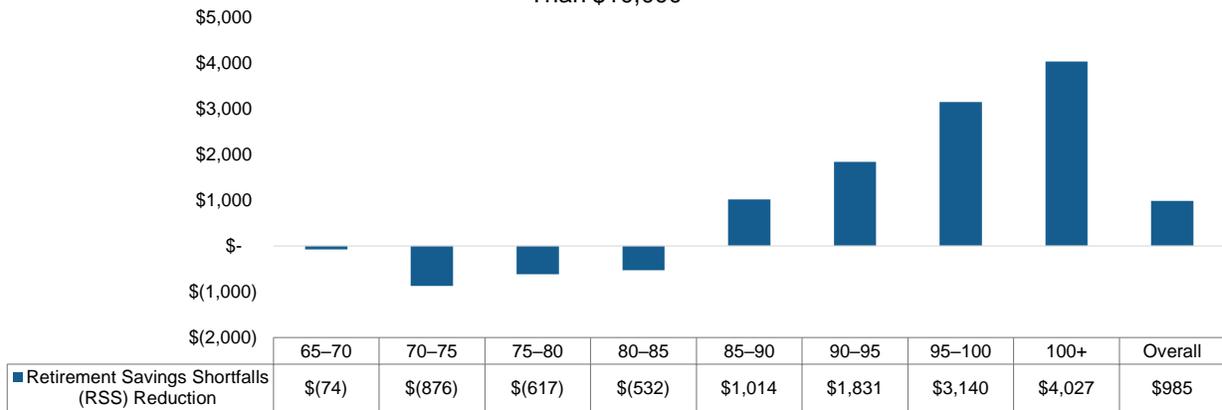


<sup>21</sup> [https://www.ebri.org/docs/default-source/fast-facts/ff-385-dcplans-25feb21.pdf?sfvrsn=4f843a2f\\_8](https://www.ebri.org/docs/default-source/fast-facts/ff-385-dcplans-25feb21.pdf?sfvrsn=4f843a2f_8)

Still, today, only a very small percentage of defined contribution and IRA balances are currently annuitized. In EBRI’s *Issue Brief “Under the Dome — A Closer Look at Legislative Proposals Impacting Retirement,”*<sup>22</sup> EBRI used its Retirement Security Projection Model<sup>®</sup> to examine the impact of having half of all 401(k) or 403(b) plan distributions taken in the form of guaranteed income for life at age 65. Essentially, the analysis examined the change in average retirement deficits by age at simulated death for those annuitizing. As might be expected, for those who die prior to age 85, there is an increase in retirement deficit.

### Impact of Guaranteed Income for Life on Retirement Deficits FOR THOSE WHO UTILIZE THE PROVISION

Average Retirement Deficit Reductions by Age at Death From Assuming 50% of 401(k) Balances Used to Purchase Single Premium Immediate Annuity at Age 65 at Annuity Purchase Price Based on Historical Average for Discount Rates; Excludes Balances Less Than \$10,000



Source: EBRI Retirement Security Projection Model<sup>®</sup> version 3568.

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For those who die after age 85, however, the purchase of a single premium immediate annuity with 50 percent of the 401(k) or 403(b) account balance provides *reductions* in average retirement deficits. For those who die between ages 85 and 90, the average retirement deficit decreases by \$1,014 in current dollars. The reductions in average retirement deficits increase substantially for those who die at later ages: \$1,831 for those who die between 90 and 95, \$3,140 for those who die between 95 and 100, and \$4,027 for those who die after age 100. Overall, the impact of using 50 percent of the 401(k) or 403(b) balance to buy a single premium immediate annuity at age 65 is to decrease retirement deficits by \$985 in current dollars.

*A possible solution to reduced DB coverage by private sector workers could involve policies that promote sources of guaranteed income within the workplace other than defined benefit plans. These might include immediate or deferred income annuities. For workers that no longer have access to retiree medical plans, facilitating usage of health savings accounts for retirement health care expenses may ultimately give retirees greater comfort that they can cover out of pocket health care expenses in retirement.*<sup>23</sup>

<sup>22</sup> [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_486\\_retprop-11jul19.pdf?sfvrsn=1ef23f2f\\_8](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_486_retprop-11jul19.pdf?sfvrsn=1ef23f2f_8)

<sup>23</sup> EBRI research finds that a couple with drug expenses at the 90th percentile throughout retirement who wants a 90 percent chance of having enough money for health care expenses in retirement by age 65 should target retiree health care savings of \$325,000 in 2020. <https://www.ebri.org/retirement/content/a-bit-of-good-news-during-the-pandemic-savings-medicare-beneficiaries-need-for-health-expenses-decrease-in-2020>

## **Conclusion**

The U.S. retirement system has made a lot of progress in the past 15 years, thanks in large part to the 2006 Pension Protection Act, as well as the hard work of others, including those in this room. However, there is more to do. Taking lessons from the PPA — along with 15 more years of evaluating defined contribution participant behavior — the key areas of weakness are easy to identify: access to the system, leakage from the system, and the need for better retirement spending solutions.

We know that the biggest gap when it comes to access to workplace retirement plans lies with small businesses that don't have the wherewithal or resources to offer traditional defined contribution plans. Solutions such as PEPs may serve as appealing alternatives. When it comes to stemming leakage, a clear area of focus is cash outs upon employment termination, along with improving the existing force-out safe harbor and helping employees with emergency savings. Finally, as more and more private-sector workers rely solely on their defined contribution as their only workplace retirement savings plan, there is a need to sharpen their financial skills around debt, and find ways to help them spend down their retirement nest egg more confidently.

Thank you for all you have done to improve the retirement system over the years. With your support and perseverance, we can build an even better future for America's retirement security.