



The Impact of Proposed Legislative Changes on Retirement Income Adequacy

EBRI Webinar

September 13, 2021

Agenda

- Evidence from EBRI's Retirement Security Projection Model[®]
- Expanding the Saver's Credit and the Effect on the Savings Gap
- Policy and Practical Concerns

Speakers



**Jack VanDerhei,
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Retirement Policy,
U.S. Chamber of
Commerce**



**Aron Szapiro, Head
of Retirement
Studies and Public
Policy, Morningstar,
Inc./Morningstar
Investment
Management LLC**



Moderator: **Brett
Hammond,
Research
Leader, Capital
Group**

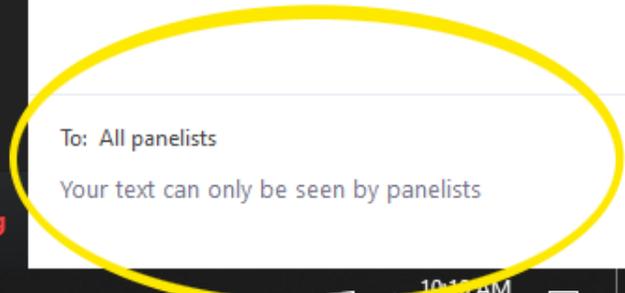
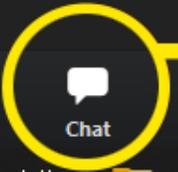
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Zoom Webinar Chat

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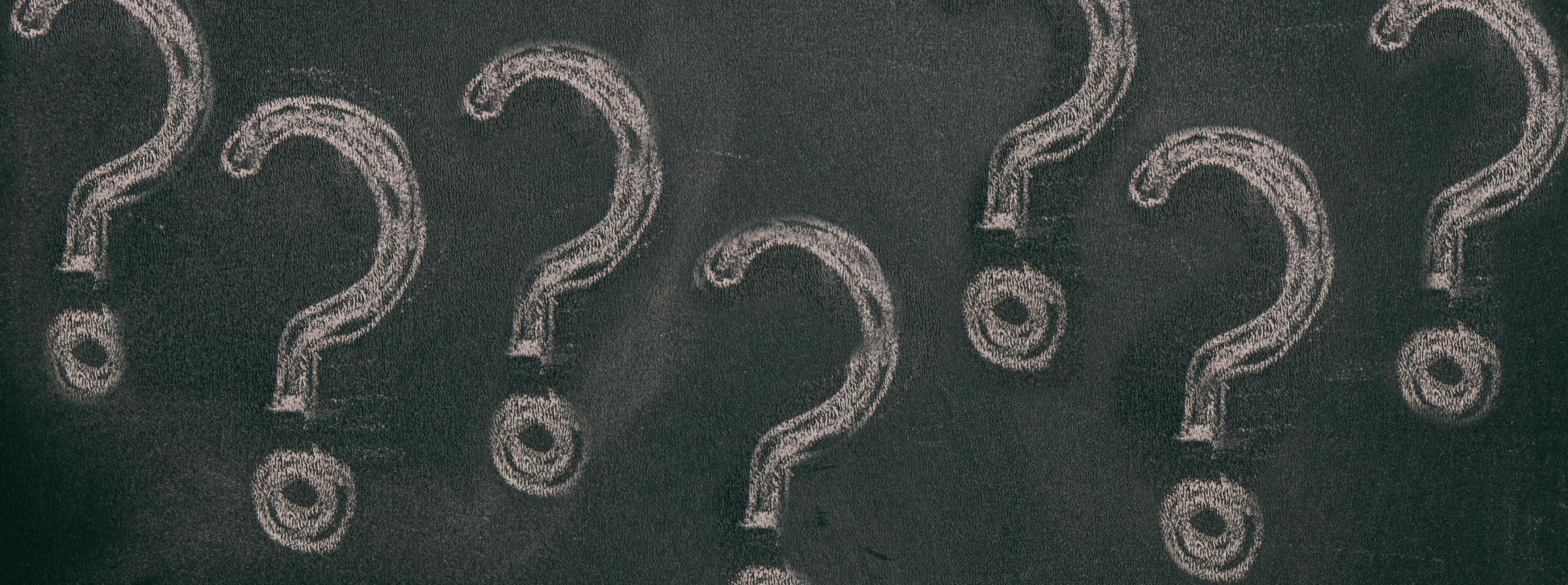
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POLLING QUESTION

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Impact of Various Legislative Proposals on Retirement Income Adequacy

Jack VanDerhei, Ph.D.
EBRI Research Director
September 13, 2021

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Summary of Findings

- The combination of ACPA and enhanced savers credits are projected to have a huge impact on reducing retirement deficits when analyzed for households simulated to have a retirement deficit
 - For those currently ages 35-39 the reductions in retirement deficits vary from 17 to 26 percent, depending on race
 - This combination has an even larger impact on households who are not simulated to have a retirement deficit
- The addition of employer matches on student loans or the “skinny 401(k)” for ACPA can add up to another 4 percent reduction in retirement deficits
- Whereas auto portability can add 11 to 14 percent, depending on race
- The results are relatively robust to changes in assumptions for withdrawal rates and opt out rates
 - However extremely large annual withdrawal rates for either ACPA or enhanced savers credits can significantly reduce the beneficial impact of these proposals
- SPIA modifications can be beneficial for those who utilize them
 - Average retirement deficit reduction of more than \$2,000
- QLAC modifications can also be beneficial for those in the highest wage quartile who utilize them

EBRI's Retirement Security Projection Model (RSPM)

- Accumulation phase
 - Simulates retirement income/wealth to retirement age for **all US households** ages 35-64 from defined contribution, defined benefit, IRA, Social Security, housing equity
 - 401(k) participant behavior based on individual administrative records
 - Annual linked records dating back to 1996 (27 million participants from 110,000 plans)
 - Social Security based on current statutory benefits for baseline
- Retirement/decumulation phase
 - Simulates 1,000 alternative life-paths for each household, starting at 65
 - Deterministic modeling of costs for food, apparel and services, transportation, entertainment, reading and education, housing, and basic health expenditures.
 - Stochastic modeling of longevity risk, investment risk, long-term care (LTC) costs
- Output (Aggregated across all households in a cohort and expressed in 2019 dollars)
 - **Retirement Readiness Rating (RRR):** Probability that a household will NOT run short of money in retirement
 - **Retirement Savings Shortfall (RSS-)**
 - For those households simulated to experience a shortfall
 - Present value of simulated retirement deficits at retirement age
 - **Current aggregate of \$3.83 trillion**
 - **Retirement Savings Surpluses (RSS+)**
 - For those households simulated to experience a surplus
 - Present value of surpluses in retirement valued at age 65 in 2019 dollars
 - **Retirement Savings Net Outcomes (RSNO)**
 - For all households combined
 - RSS+ minus RSS-

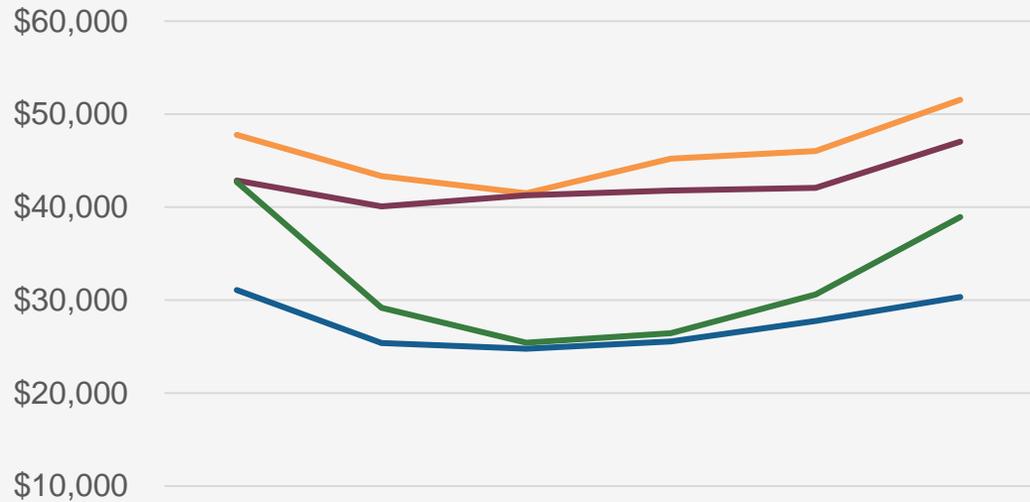
IMPACT FOR ALL HOUSEHOLDS

Description of proposal and assumptions

- Automatic Contribution Plan/Arrangement (ACPA)
 - Employers with more than 5 employees would generally be required to maintain an automatic contribution plan/arrangement
 - Sponsors with certain previous plans would be grandfathered
 - **Baseline assumptions**
 - Auto-IRA for new sponsors.
 - 6% default with escalation to 10%.
 - 30% opt-out for new eligibles
 - **Results depend significantly on assumptions for opt-out and withdrawal behavior as well as type of plan chosen**
 - **Sensitivity analysis on slides 12-14**
- Savers Credit
 - Replace the current saver's credit with a simple, 50% government match on contributions of up to \$1000 per year made to 401(k)-type plans and IRAs by individuals with income up to **\$25,000**, couples with income up to **\$50,000** and head of household up to **\$37,500**
 - The amount of the match would phase out over the next \$10,000 of income for individuals and \$20,000 for couples/head of household
 - Refundable
 - **Baseline assumption = everyone eligible will take the full amount**
- Allow individuals to receive an employer match in their retirement plans for paying down a student loan
 - **Assumptions**
 - Anyone eligible but not currently contributing, and
 - Having a required monthly student loan debt payment
 - Would start making the minimum of the monthly student loan debt payment or the projected contribution rate for their demographics

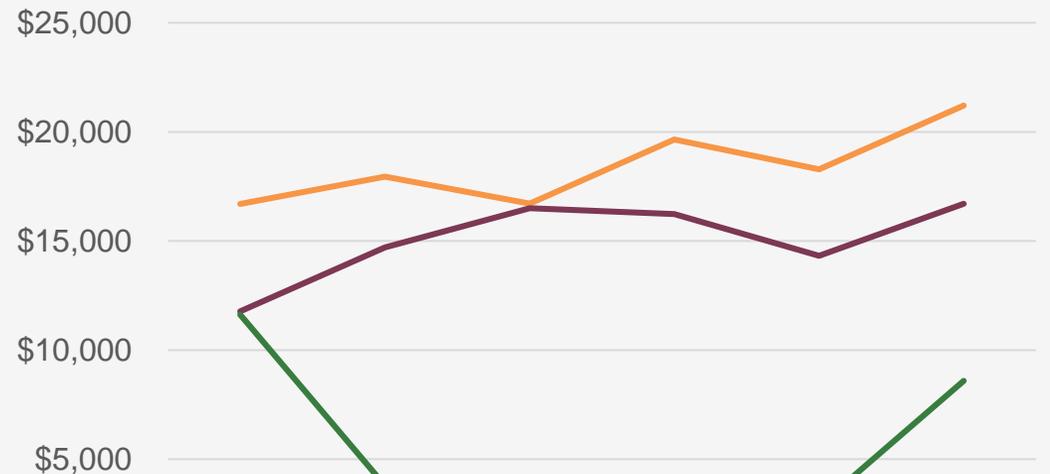
Baseline Retirement Savings Shortfalls (RSS-) by age and race

Retirement Savings Shortfall



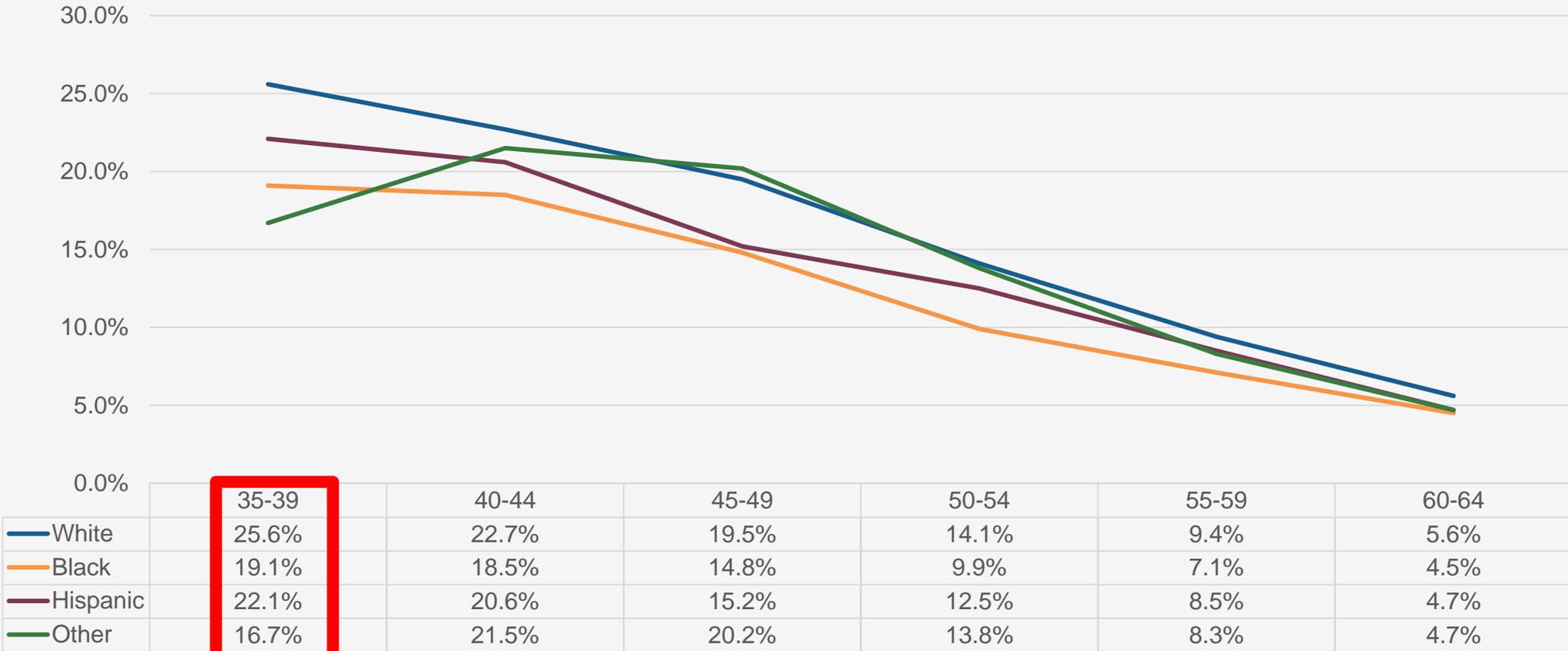
	35-39	40-44	45-49	50-54	55-59	60-64
White	\$31,084	\$25,382	\$24,772	\$25,553	\$27,756	\$30,340
Black	\$47,781	\$43,330	\$41,486	\$45,206	\$46,037	\$51,550
Hispanic	\$42,860	\$40,085	\$41,276	\$41,788	\$42,080	\$47,047
Other	\$42,704	\$29,176	\$25,422	\$26,439	\$30,613	\$38,934

Excess Retirement Savings Shortfall Relative to White Cohort

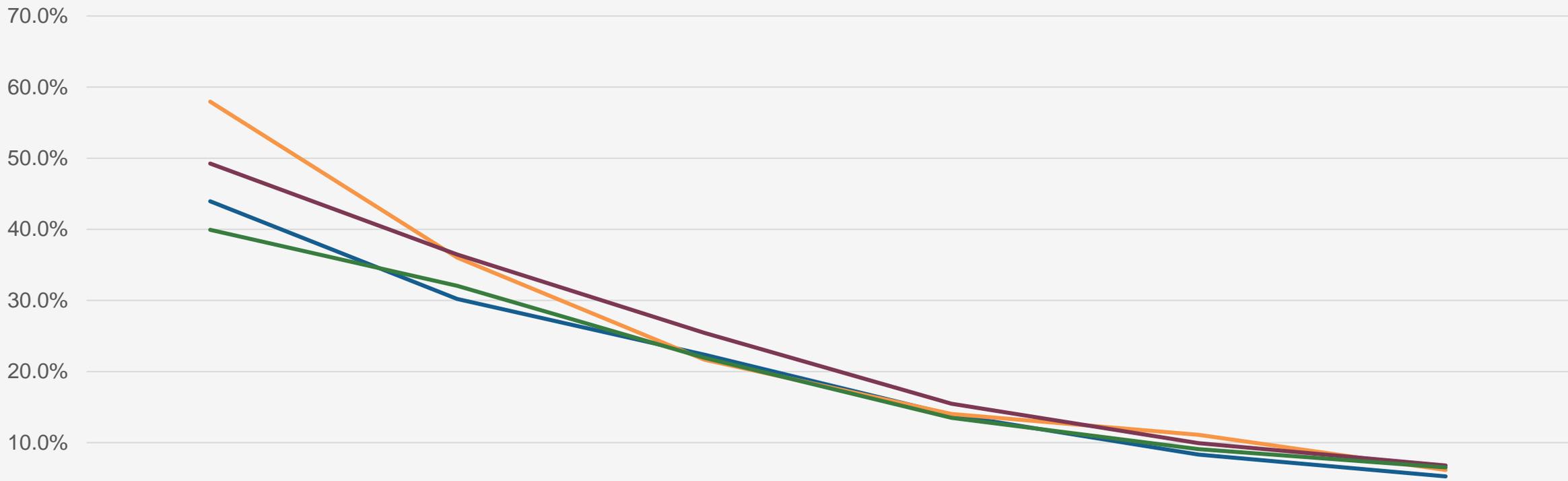


	35-39	40-44	45-49	50-54	55-59	60-64
Black	\$16,697	\$17,948	\$16,714	\$19,653	\$18,282	\$21,210
Hispanic	\$11,775	\$14,703	\$16,503	\$16,235	\$14,324	\$16,708
Other	\$11,619	\$3,794	\$650	\$886	\$2,858	\$8,594

Reduction in Retirement Savings **Shortfalls** (RSS-) by age and race after modifications for Saver's Credit and ACPA

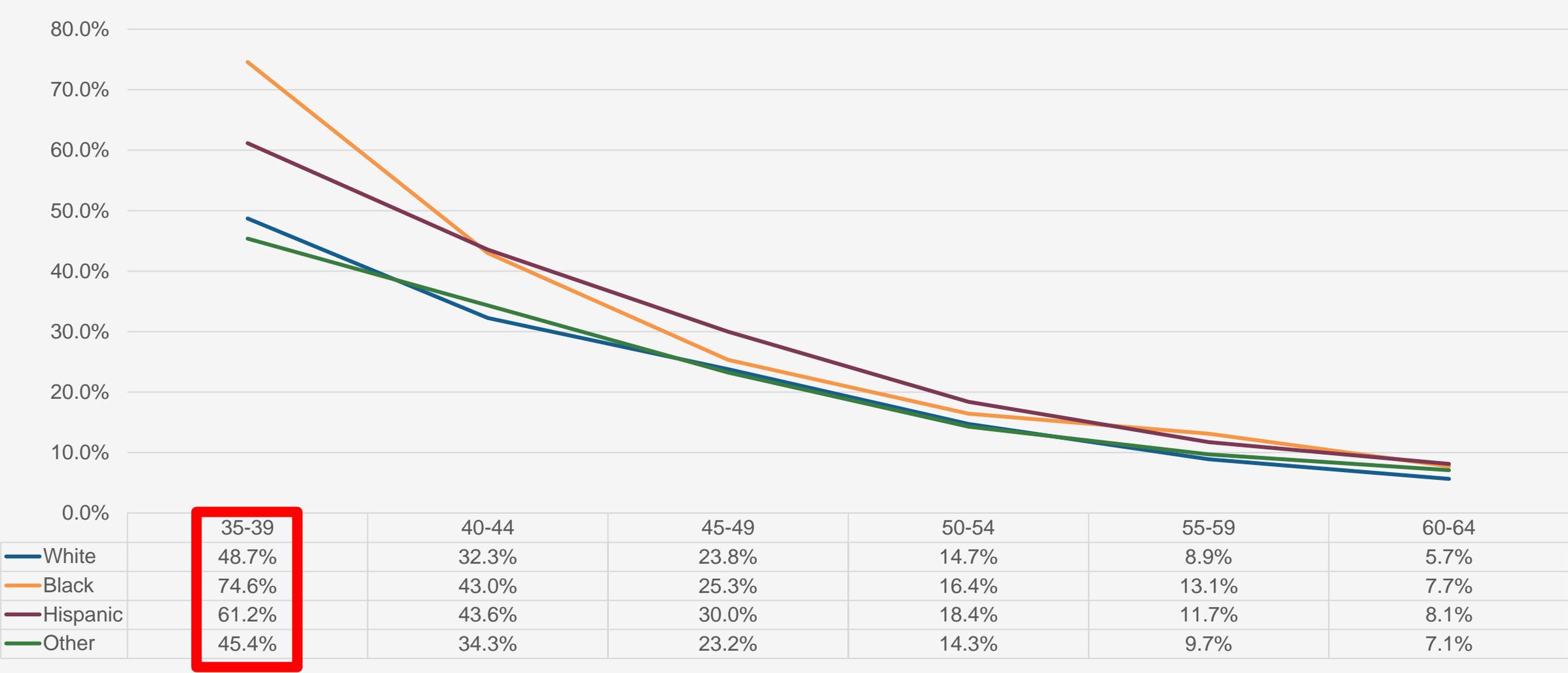


Increase in Retirement Savings **Surpluses** (RSS+) by age and race after modifications for Saver's Credit and ACPA



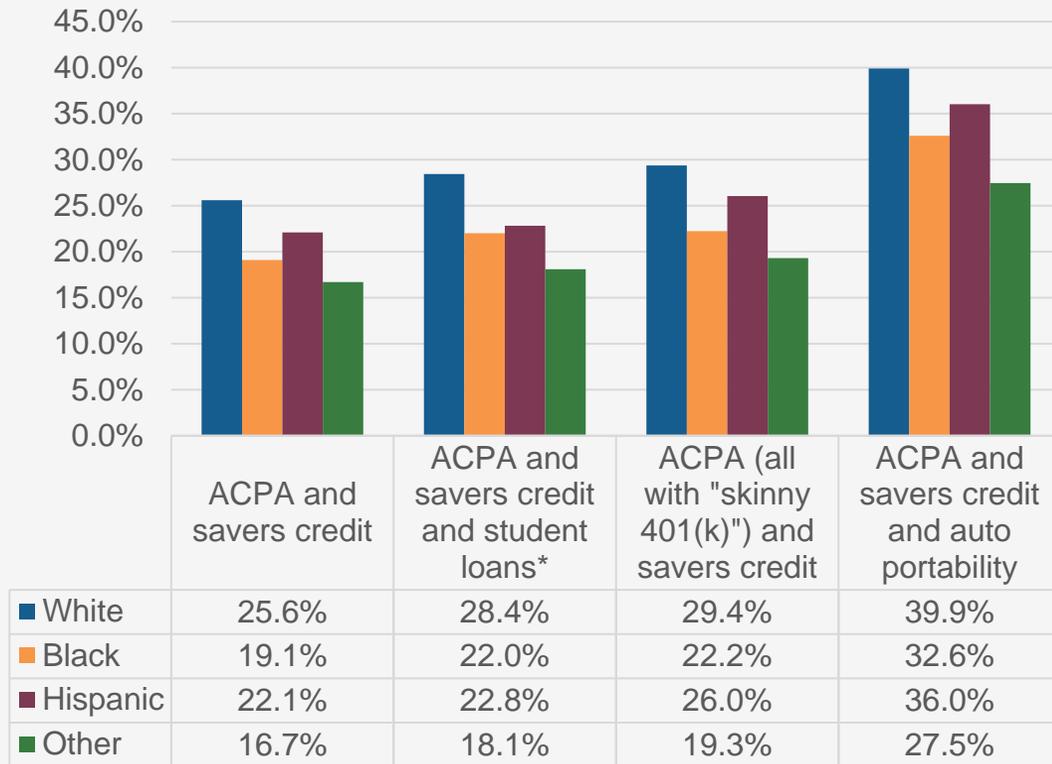
	35-39	40-44	45-49	50-54	55-59	60-64
White	43.9%	30.2%	22.4%	13.9%	8.3%	5.3%
Black	57.9%	36.0%	21.7%	14.0%	11.1%	6.2%
Hispanic	49.3%	36.5%	25.4%	15.5%	9.9%	6.8%
Other	39.9%	32.1%	21.9%	13.5%	9.1%	6.5%

Increase in Retirement Savings Net Outcomes (RSNO) by age and race after modifications for Saver's Credit and ACPA

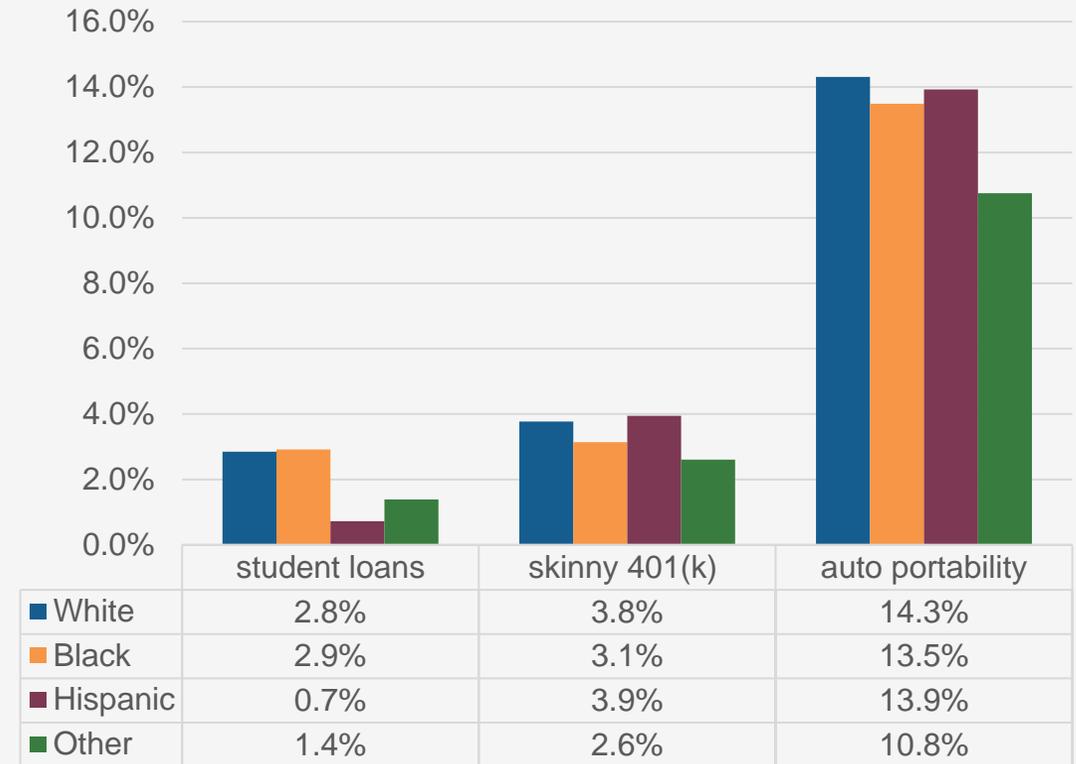


Reduction in Retirement Savings **Shortfalls (RSS-)** for those 35-39 by race and various scenarios

Percentage Reduction



Marginal Impact in Addition to ACPA and Savers Credit

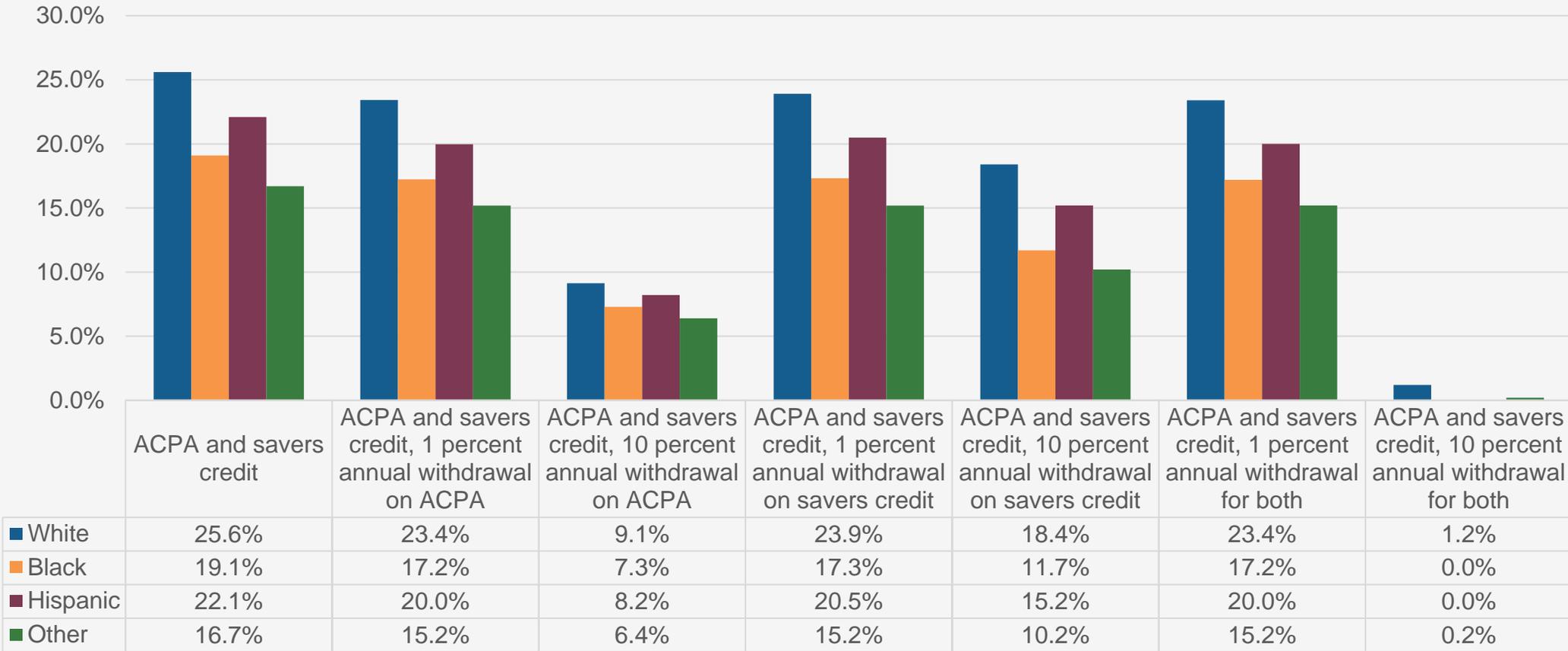


* This includes the "new" accounts created by ACPA

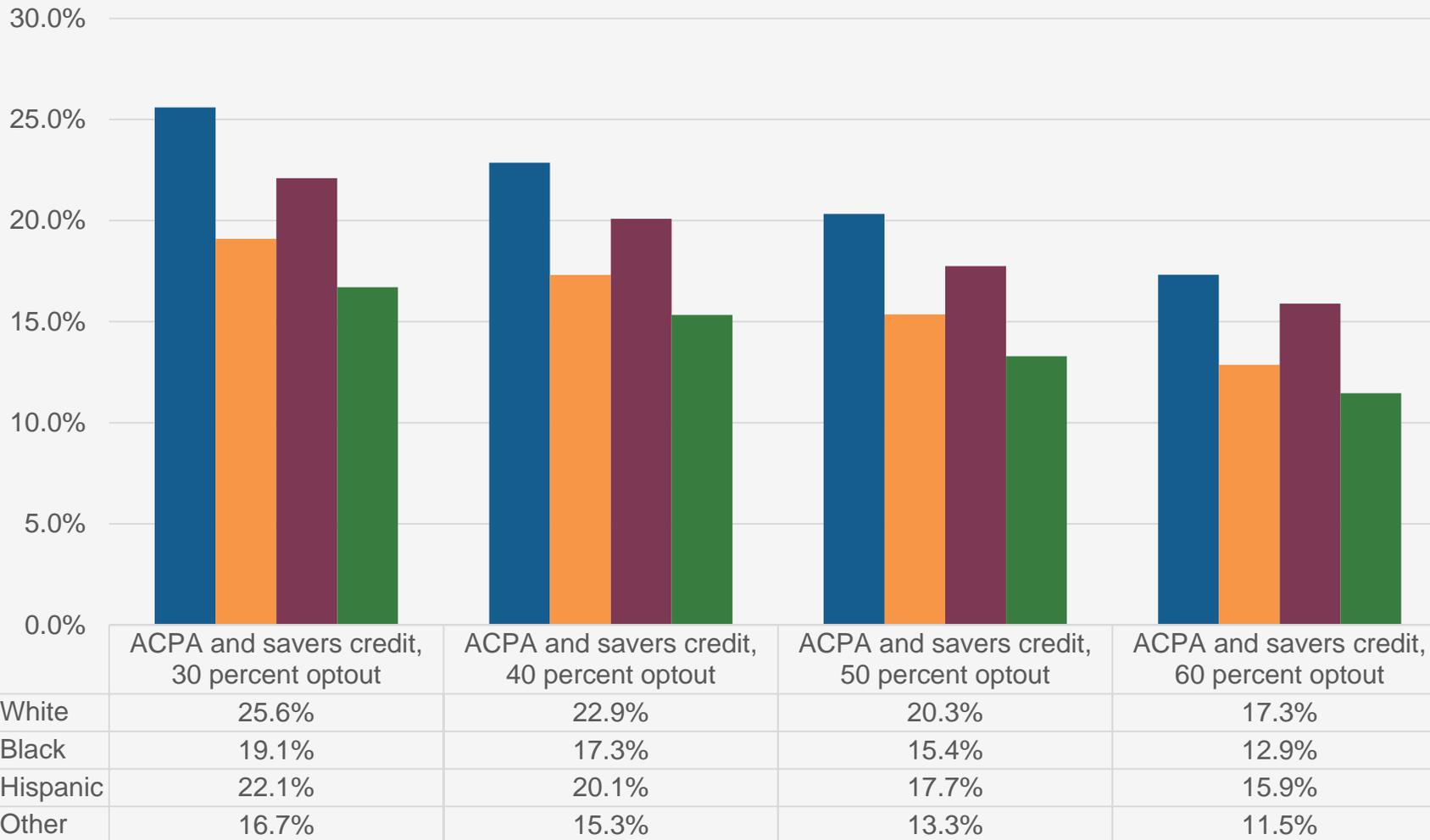
Source: Author's simulations

SENSITIVITY ANALYSIS

Reduction in Retirement Savings **Shortfalls (RSS-)** for those 35-39 by race: **sensitivity analysis on withdrawal rates**



Reduction in Retirement Savings **Shortfalls (RSS-)** for those 35-39 by race: **sensitivity analysis on ACPA optout rates***

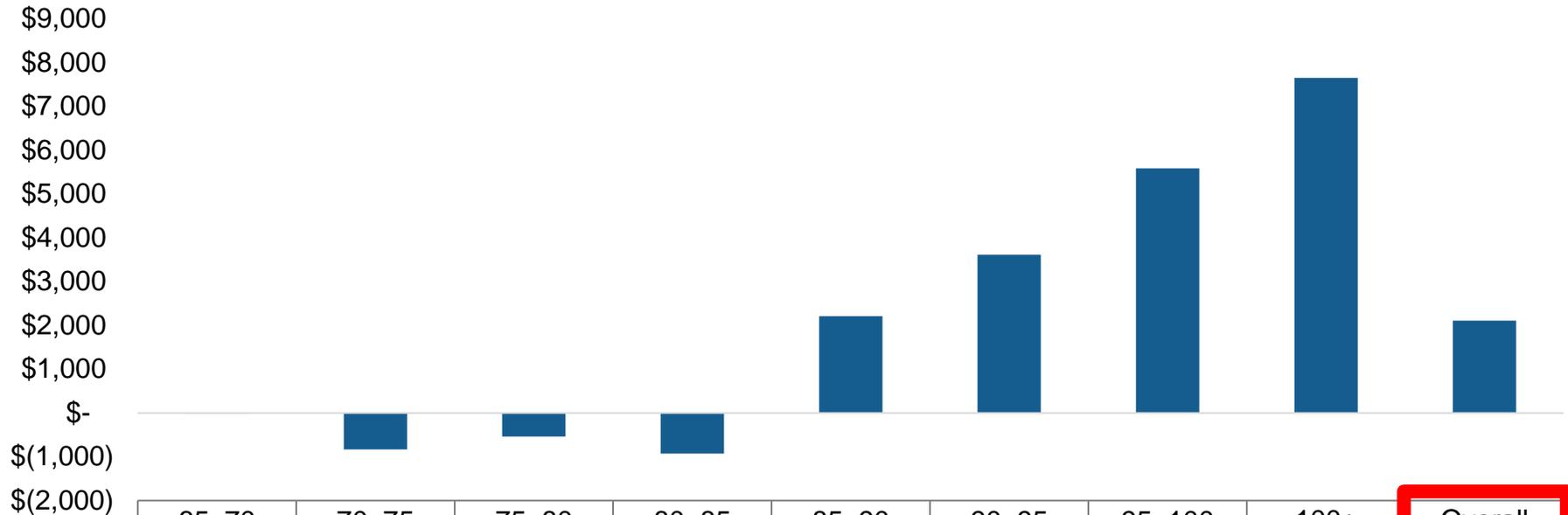


*Industry-specific formal opt-out rates from OregonSaves data ranged from 32.2 to 57.4 percent for industries with data on at least 500 employees. (John Chalmers, Olivia S. Mitchell, Jonathan Reuter, and Mingli Zhong, "Auto-Enrollment Retirement Plans for the People: Choices and Outcomes in OregonSaves," NBER Working Paper No. 28469, February 2021)

CONDITIONAL IMPACT FOR THOSE WHO UTILIZE

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 \$200,000

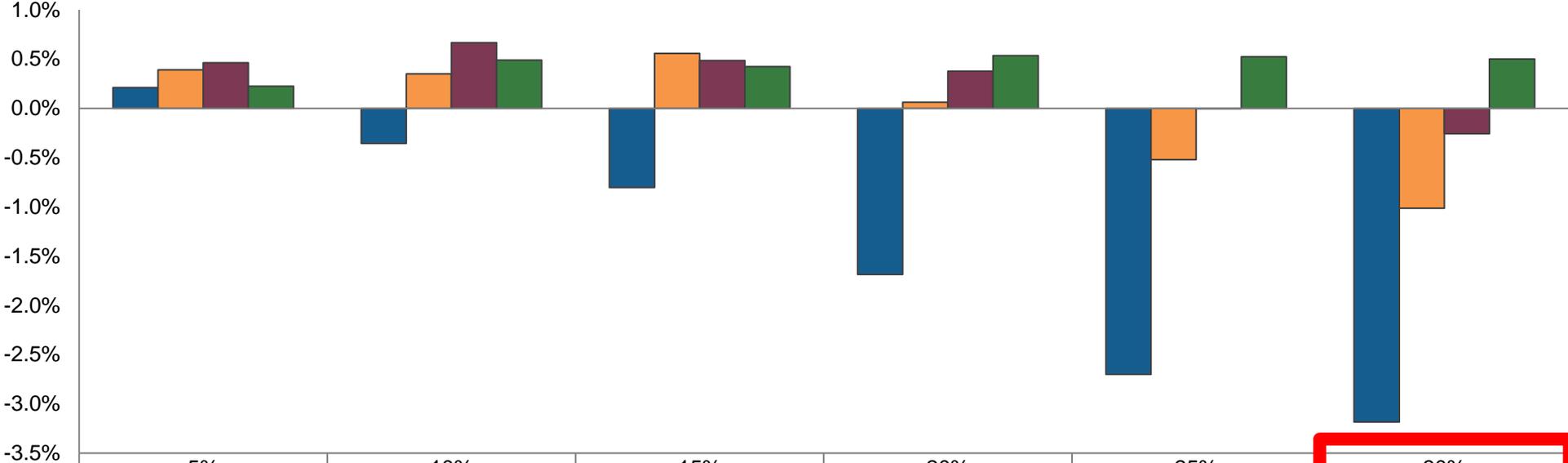


	65-70	70-75	75-80	80-85	85-90	90-95	95-100	100+	Overall
■ Retirement Savings Shortfalls (RSS) Reduction	\$(10)	\$(831)	\$(537)	\$(929)	\$2,207	\$3,612	\$5,584	\$7,651	\$2,106

Source: EBRI Retirement Security Projection Model® version 3568.

QLACs: repealing the 25% limit

Percentage Change in EBRI Retirement Readiness Ratings From Various Deferred Income Annuity (DIA) Purchases at Retirement, by Age-Specific Wage Quartiles



	5%	10%	15%	20%	25%	30%
■ Lowest Age-Specific Income Quartile	0.2%	-0.4%	-0.8%	-1.7%	-2.7%	-3.2%
■ Second	0.4%	0.3%	0.6%	0.1%	-0.5%	-1.0%
■ Third	0.5%	0.7%	0.5%	0.4%	0.0%	-0.3%
■ Highest Age-Specific Income Quartile	0.2%	0.5%	0.4%	0.5%	0.5%	0.5%

Percentage of 401(k) Balance at Age 65 Used to Purchase a DIA Deferring 20 Years

For households currently ages 35–64 who have a 401(k) balance at retirement age (65).
 Source: EBRI Retirement Security Projection Model® Version 3427

Next steps

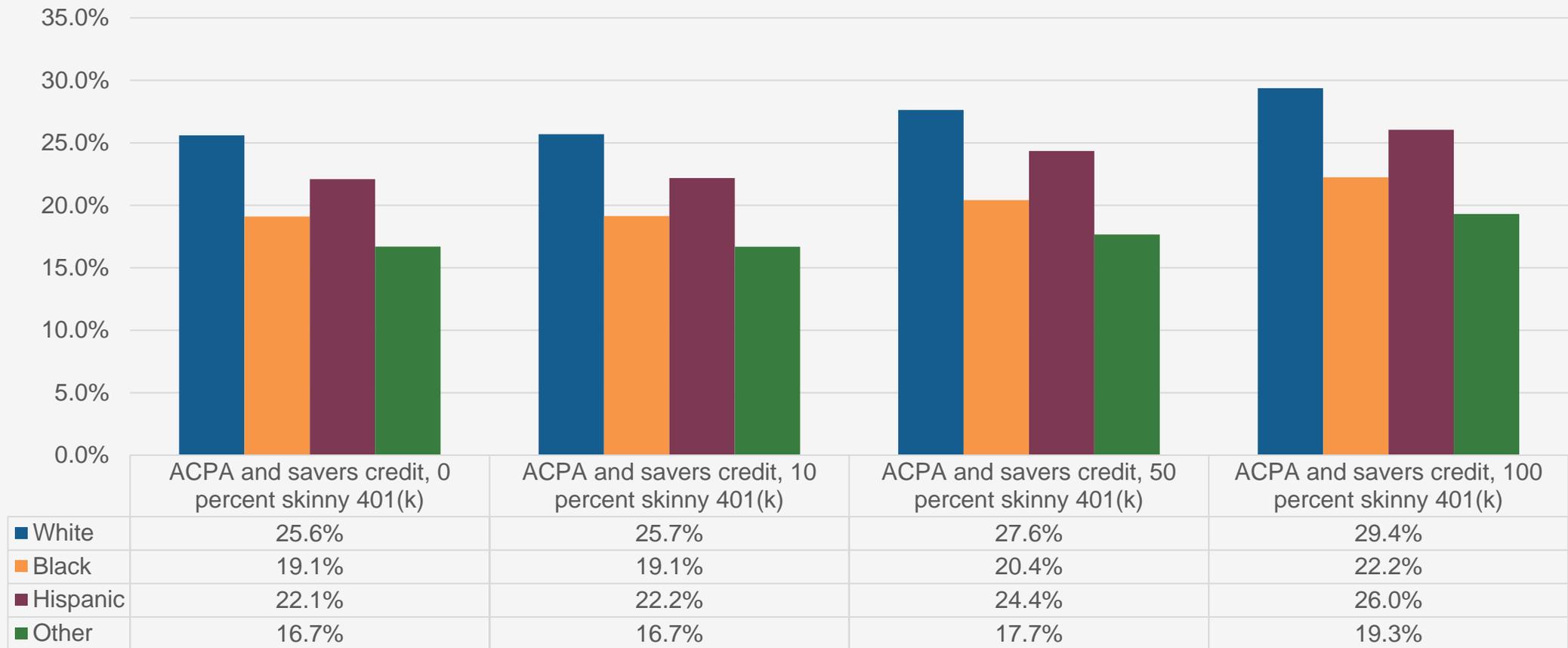
- Additional breakouts by
 - Wage
 - Gender
 - Family status
 - Future years of eligibility in a defined contribution plan
- Retirement Revenue Raisers
 - Aggregate limit on IRAs and defined contribution plans

Will update my analysis in: “The Impact of a Retirement Savings Account Cap” , EBRI Issue Brief (August 2013), <https://ssrn.com/abstract=2318034>
 - Additional Roth features to move money inside the budget window

Will update my analysis of the 2017 Rothification proposals
- Other analysis
 - Expand automatic enrollment in retirement plans by enrolling employees automatically in their company’s 401(k) plan when a new plan is created;
 - Increase the required minimum distribution age to 75;
 - Exemption from required minimum distribution rules for individuals with certain account balances.
 - Modified Catch-up Limits

APPENDIX

Reduction in Retirement Savings **Shortfalls** (RSS-) for those 35-39 by race: **sensitivity analysis on ACPA plan design**



Expanding the Saver's Credit and the Effect on the Savings Gap



Aron Szapiro

Head of Retirement Studies and Public Policy

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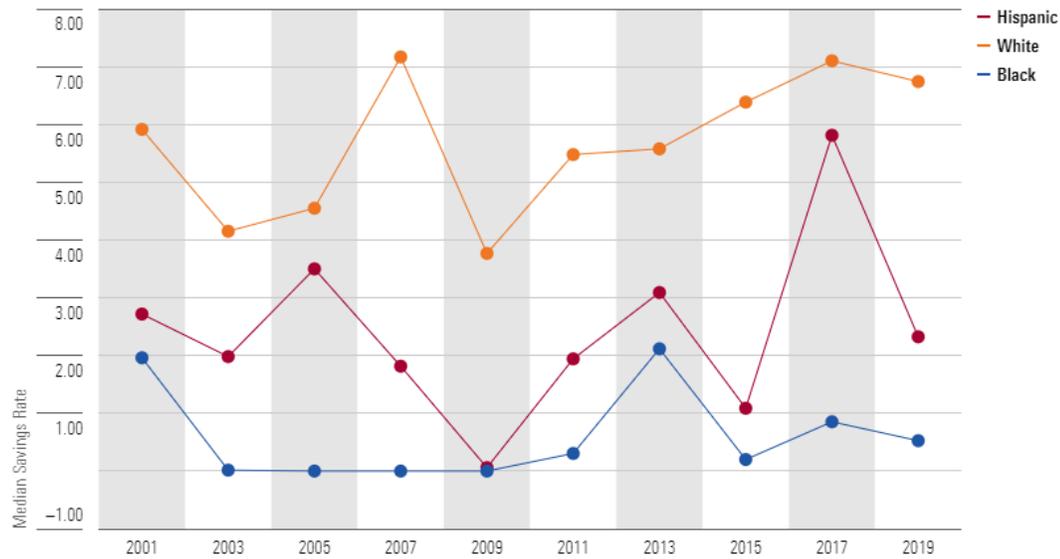
Summary of Findings

- g Two Saver's Credit proposals would increase annual savings for all groups, and reduce the racial gaps in contributions
- g We combine elements from both proposals to create our own version, which illustrates which design elements close the racial contribution gap the most
- g New proposal from Chair Neal of Ways and Means is similar to our proposal
- g The combination of both proposals that we model would reduce the gap
 - / Between median Hispanic and white household contributions to 25% from 30%; and
 - / Between median Black and white household contributions to 38% from 44%, ultimately reducing the racial wealth gap the most.

The Racial Savings Gap

- g Only about 30% of savings gap cannot be explained by income
- g Race-blind, income-based programs will close gap

Savings Rates Across All Savings Vehicles, by Race



Source: Morningstar analysis of PSID

Quick History of Saver's Credit

- g Proposals to expand the Saver's Credit have been around for a long time since credit was created in 2001
- g Virtually, no one uses the existing credit in part because it is non-refundable
- g Even people who do benefit do not necessarily see the link to a decision to save for retirement

Reforms to Move the Needle at All

g Refundability

/ We assume both proposals would make the credit refundable

g Directly depositing credit into retirement accounts

Summary of Proposals

Feature	Existing Credit	H. R. 8696	S. 1770	Combination
Phase-Out and Percentage Match Description	Rapid decrease from 50% to 20% to 10% of contribution	50% scaled down linearly	50% then more gradually reduced to 20% and 10%	<i>50% scaled down linearly</i>
Phase-Out Single (AGI)	\$19,750/ 21,500/ 33,000	\$40,000-60,000	\$19,750/ 26,500*/ 33,000	<i>\$19,750-33,000</i>
Phase-Out Married (AGI)	\$39,500/ 43,000/ 66,000	\$80,000- 100,000	\$39,500/ 53,000*/ 66,000	<i>\$39,500-66,000</i>
Maximum Match	\$1,000	\$1,500	\$1,000	<i>\$1,000</i>

Source: Morningstar analysis of S.1770 and HR 8696

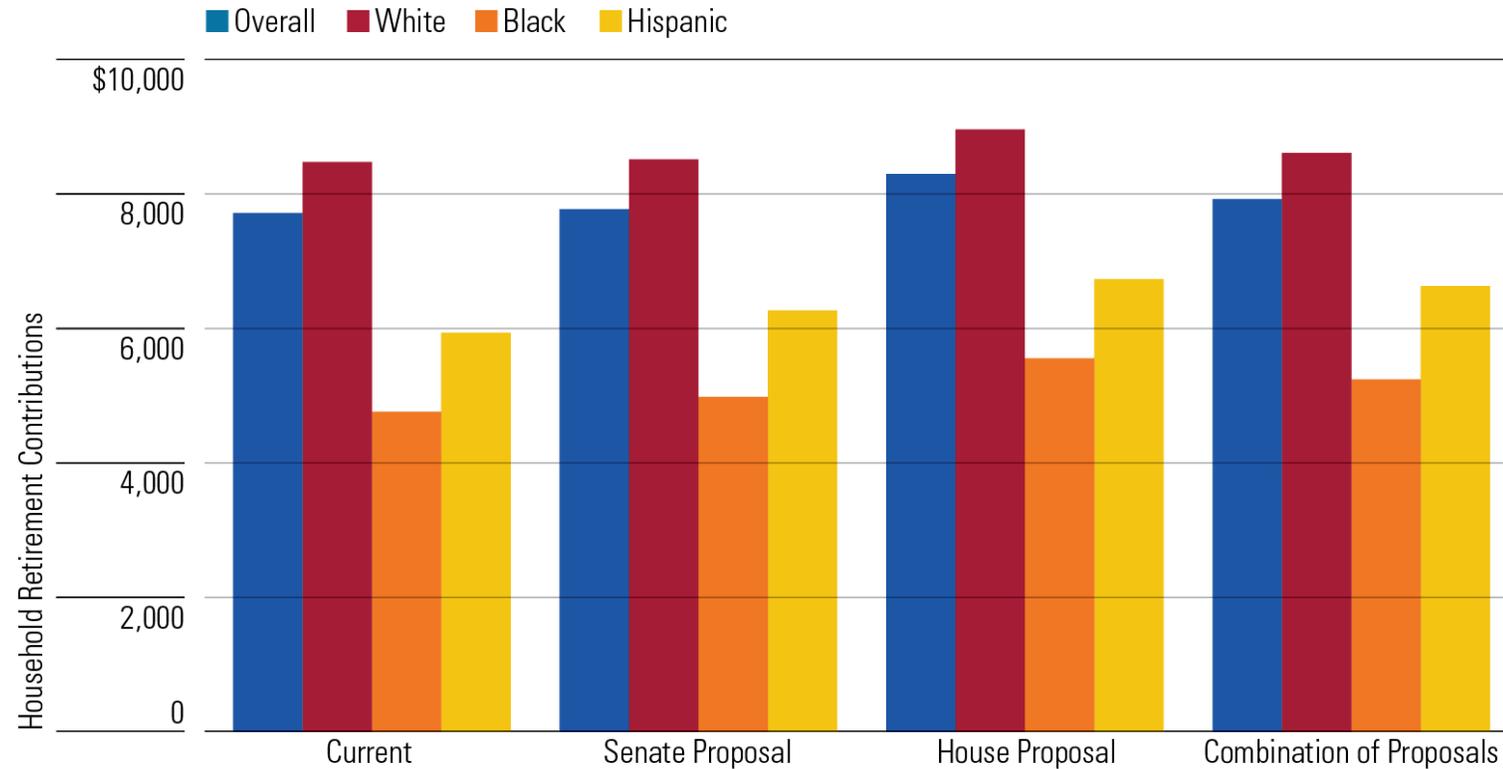
Notes: Summary shows 2021 limits.

*Estimated because the bill requires an immediate IRS adjustment for CPI.

Enter the Saver's Match

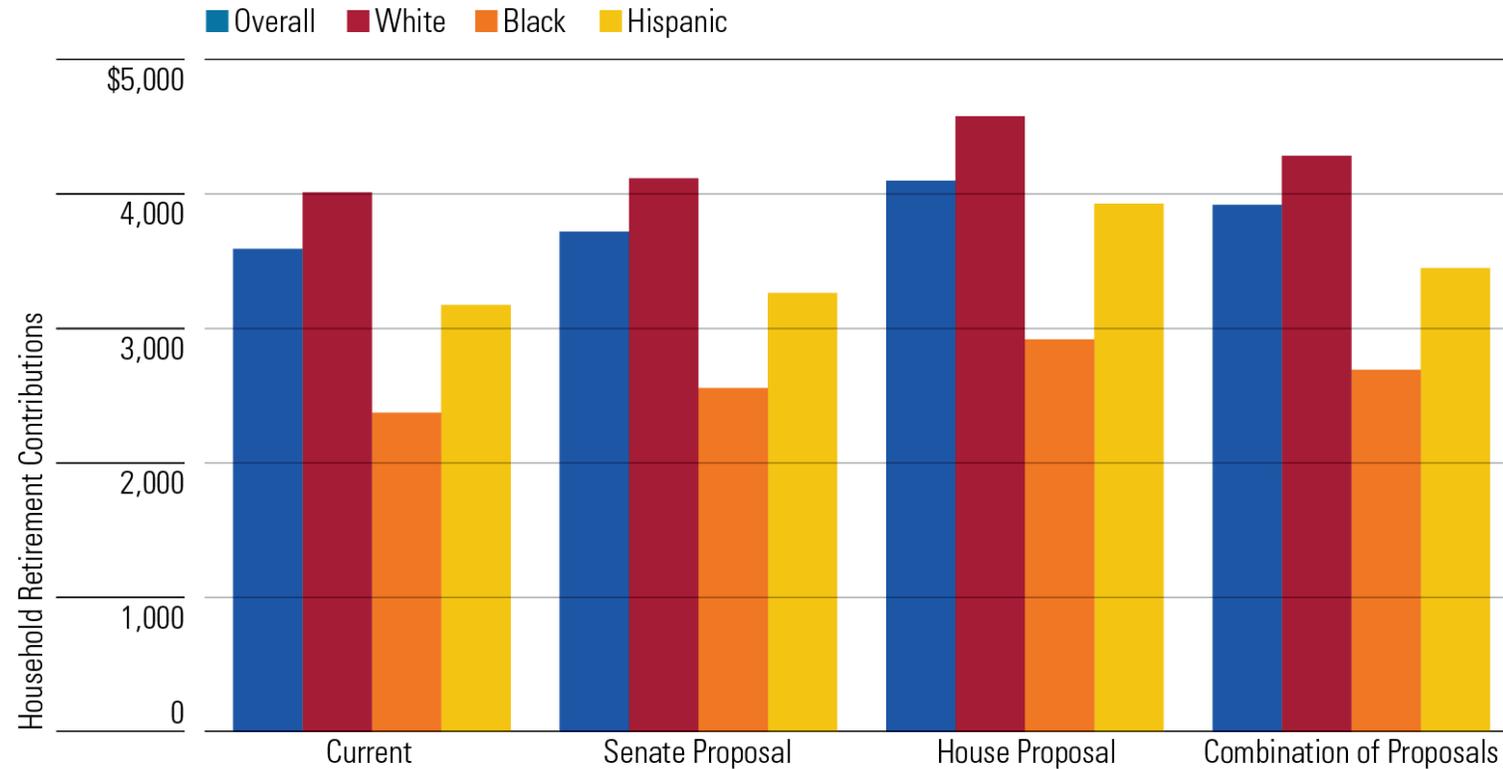
- g Released in markup last week
- g Retains most elements of Morningstar proposal
 - / 50% phase-out
 - / Similar phase-out ranges for single and MFJ filers
 - / \$50,000-70,000 thousand MFJ
 - / \$25,000-35,000 single
 - / New phase-out for head-of-household: \$37,500-50,500
- g Expect similar results from our permutation, and head-of-household provision may make it even better at closing contribution gap; ditto minimum credit.

Median Household Retirement Contributions Currently and With Match From Expanded Saver's Credits



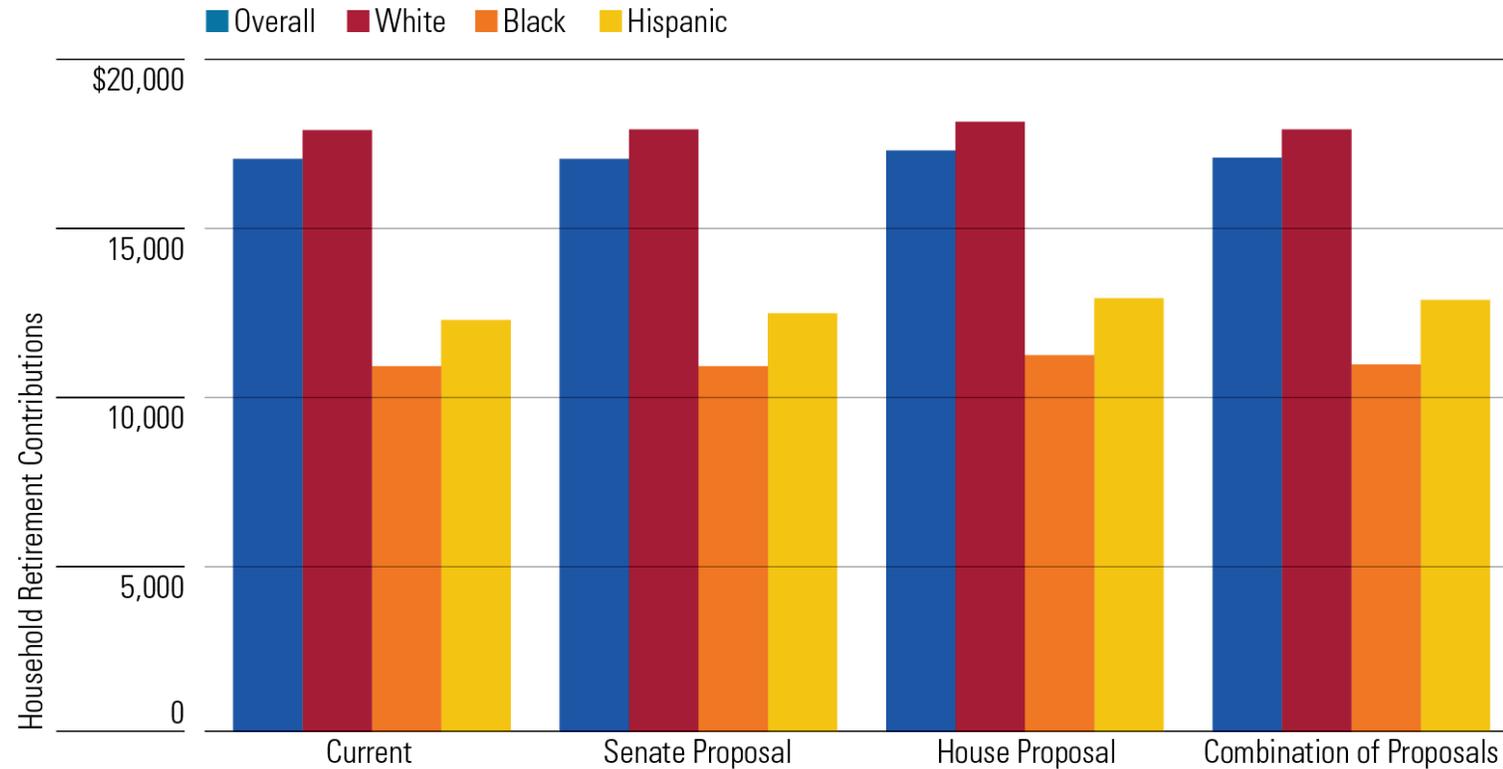
Morningstar analysis of 2019 Survey of Consumer Finances

25th Percentile Household Retirement Contributions Currently and With Match From Expanded Saver's Credits



Morningstar analysis of 2019 Survey of Consumer Finances

75th Percentile Household Retirement Contributions Currently and With Match From Expanded Saver's Credits



Morningstar analysis of 2019 Survey of Consumer Finances

The Impact of an Expanded Credit is Even Better than It Appears

- g We did not do a dynamic model
- g Expect at least some additional contributions due to expanded credit
 - / This is the biggest opportunity for the credit to narrow the savings gap
- g There is no silver bullet for closing contribution or wealth gaps, but there are magnified effects from multiple policy changes

Some Observations on the Politics

- g An expanded Savers' Credit is better for the industry than a flat credit
- g An expanded Savers' Credit is not cheap, and it may be hard to communicate the new benefits to people.

The Impact of Proposed Legislative Changes on Retirement Income Adequacy: Policy and Practical Concerns

September 13, 2021



U.S. CHAMBER OF COMMERCE

Automatic Retirement Plan Act of 2020

- ▶ 2021 data shows there is a disparity in plan costs for large and small employers (plans with 1,000 participants and \$50M in assets 0.90% compared to plans with 100 participants and \$5M in assets 1.20%)
- ▶ 2021 data also show a significant range in cost for the small market (e.g. a plan with \$1 million in assets and 100 participants with a \$10,000 average account balance is 0.68% to 2.73%).
- ▶ An employer mandate does not address why employers don't offer plans: cost and administrative burdens
- ▶ Mandates cost time and money
 - ▶ Compliance cost both in maintaining a plan and reporting compliance
 - ▶ Don't forget adverse impacts
 - ▶ Staying with a bare-bones plan or auto IRA
 - ▶ Paying a penalty instead of providing a plan
- ▶ Auto-escalation ignores the reality of employees' wages and the hierarchy of financial needs



Automatic Retirement Plan Act of 2020

- ▶ Give SECURE 1.0 a chance
 - ▶ Give PEPs a chance (only implemented 1.1.21)
 - ▶ Outstanding questions remain, BUT could lower costs and administrative and compliance burdens
 - ▶ Assess the impact of the combined annual reporting
 - ▶ Review the impact of allowing long-term, part-time employees into plans
 - ▶ Give employer tax credits a chance and let people know about them
 - ▶ Give employee tax credits a chance and let people know about them (see later discussion)
- ▶ Put an end to settlement driven litigation



Student Loan Match

- ▶ Make sure it is permissive and not mandatory
- ▶ Don't complicate it (e.g. House proposal permits employers to establish reasonable procedures to claim matching contributions for qualified student loan payments including an annual deadline (but no earlier than three months after the close of the plan year))
- ▶ Ensure that the non-discrimination rules do not have unintended consequences
- ▶ Allow student loan deferrals to be considered payments for matching purposes



Enhancement to the savers tax credit

- ▶ Build it and they won't come – especially if you can't administer it
- ▶ Direct deposit to retirement accounts has numerous administrative hurdles
- ▶ According to a Transamerica 2021 survey, less than half of respondents were aware of the current Savers Tax Credit.
- ▶ Employer communication is key, but there should be a safe harbor labeling this as education



Auto Portability

- ▶ Keep it simple
- ▶ If it aint' broke, don't fix it
 - ▶ Retirement Savings Lost and Found would require amounts less than \$1,000 to be transferred to the Office of Lost of Found. This should be may to allow employers to use their current vendor
- ▶ But if it is broke, please fix it
 - ▶ DOL missing participant audits
 - ▶ Allow employers to assist in plan rollovers without the fear of being deemed a fiduciary
 - ▶ Make the rollover notice meaningful



Higher Catch-Up Limits

Higher Catch-Up Limit to Apply at Age 62, 63 and 64

- ▶ This proposal provides for catch-up contributions of \$10,000 (with a cost-of-living adjustment) at ages 62-65 but all would be on a Roth basis
- ▶ This is overly complicated and could discourage adoption. Any proposal should be easy to administer, such as section 120 of Portman-Cardin that would apply a \$10,000 (adjusted) catch-up limit at age 60.



Contact Information

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U.S. CHAMBER OF COMMERCE

Q&A



Upcoming Events

Wednesday, September 22 — Financial Wellbeing Symposium*

Monday, September 27 — Trends in Telemedicine Usage

Wednesday, October 6 — Members Only Research Round-Up



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