TESTIMONY
BEFORE THE
SENATE FINANCE COMMITTEE

“Challenges in the Retirement System”

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On behalf of our nearly 38 million members, and all Americans age 50 and over, AARP thanks Chairman Grassley, Ranking Member Wyden, and members of the Finance Committee, for the opportunity to testify today on the significant issues surrounding the current and future state of retirement security of American workers and their families. AARP has members in every state and American territory, including 368,939 members in Iowa and 506,555 members in Oregon. AARP is committed to expanding retirement savings so that all Americans and their families have adequate income for retirement through Social Security, pensions and private savings, and we have worked throughout our history to develop and improve our retirement system.

The Retirement Income Gap

The gap between the financial assets Americans will need to maintain their standard of living in retirement and what they actually have -- or are on track to acquire -- strongly suggests that the retirement security of millions of Americans will increasingly depend on Social Security. For more than half a century, a secure retirement in the United States centered on reliable income from three sources, the so-called "three legged stool" of retirement – employer-provided defined-benefit pension plans, personal savings, and Social Security. Together, these sources of income offered a stable financial future. Unfortunately, diminishing pensions and inadequate retirement savings – coupled with longer life expectancies and higher health costs -- endangers the dream of a secure retirement for millions of Americans, and requires Social Security to play an even greater role in the lives of older Americans.

Defined-benefit (DB) pension plans once dominated the employment landscape. In 1983, roughly 60 percent of workers with an employer-sponsored retirement plan had a DB pension plan; by 2016, however, just 17 percent of workers with a workplace retirement plan had a DB pension.[1] At the same time that fewer workers have been offered a pension with guaranteed lifetime income, more workers have been offered defined contribution (DC) plans – such as 401(k) plans -- to save for their retirement. In 1983, only 12 percent of workers offered a workplace retirement plan were exclusively offered a DC plan, but by 2016, 73 percent of workers offered a workplace retirement plan were only offered a DC plan.

The switch from DB to DC plans has important implications for retirement security. First, employees now assume the responsibility of determining if and how much to save, and managing their retirement funds, even if they have little or no investment experience. Second, it is quite possible to outlive the savings in a DC plan because account balances may run out due to the uncertainty life expectancy. Third, despite the increased use of DC plans, financial experts

[1] Center for Retirement Research (2018), "Workers with Pension Coverage by Type of Plan, 1983, 1998, and 2016," http://crr.bc.edu/wp-content/uploads/2015/10/figure-16.pdf.

generally agree the income they generate may not fully compensate for the loss of employer-provided DB pensions.[2]

Making matters worse, workers who only have access to a workplace savings plan are not saving enough to significantly contribute to a secure retirement. For middle-income households ages 55-64 with a DC plan or Individual Retirement Account (IRA), the median balance is roughly $100,000, not nearly enough to ensure a secure retirement, especially given that the average number of retirement years has increased markedly from 12 in the 1960s to almost 20 today.[3] [4] It is no wonder that surveys persistently show that Americans do not feel financially prepared to retire. A recent Center for Financial Services Innovation poll, funded in part by AARP, found that only 18% of respondents felt very confident they could meet their long-term financial goals, including retirement.[5]

Of course, access to a workplace retirement plan is better than none at all. Remarkably, just over half of all workers in the United States are in jobs with no retirement plan. These workers are more likely to work part-time or in a small business, and be less educated and lower-paid.[6] Overall, the share of the workforce covered by retirement plans is 51 percent as of 2013, a percentage that has remained largely unchanged over the past three decades.[7] While these workers still could contribute to an IRA to save for their future, few actually do. For example, only about one worker in 20 with earnings of $30,000 to $50,000 a year and no access to a payroll deduction plan contributes to an IRA consistently.[8]

Social Security's Critical Role as an Income Source for Millions of Americans

As a result of the diminishing presence of DB pensions and the uncertainty and volatility of personal retirement accounts and private assets, even those lucky enough to have access to a

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[2] Center for Retirement Research (2015), "Investment Returns: Defined Benefit vs. Defined Contribution Plans," https://crr.bc.edu/wp-content/uploads/2015/12/IB_15-211.pdf.

[3] Center for Retirement Research (2018), "401(k)/IRA Balances for Median Working Household with a 401(k)/IRA Age 55-64, By Income Quintile, 2016," http://crr.bc.edu/wp-content/uploads/2015/10/Table-17.pdf.

[4] Center for Retirement Research (2018), "Average Years in Retirement, 1962-2050," http://crr.bc.edu/wp-content/uploads/2015/10/figure-10.pdf.

[5] Thea Garon, Andrew Dunn, Katy Golvala, and Eric Wilson (2018), "U.S. Financial Health Pulse: 2018 Baseline Survey Results," Center for Financial Services Innovation, https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2019/02/25191008/Pulse-2018-Baseline-Survey-Results.pdf.

[6] Center for Retirement Research (n.d.), "Pension Participation of All Workers, By Type of Plan, 1989-2016," http://crr.bc.edu/wp-content/uploads/2015/10/Pension-coverage.pdf.

[7] Craig Copeland (2014), "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013," Employee Benefit Research Institute (EBRI), Issue Brief 405, p. 27, Washington, DC. https://www.ebri.org/pdf/briefspdf/EBRI_IB_405_Oct14.RetPart.pdf.

[8] Employee Benefit Research Institute (2006), Unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module.

workplace retirement plan are more likely than ever to find that Social Security is the only guaranteed income stream they will not outlive during their retirement. Unsurprisingly, in an AARP poll conducted last year, respondents across three generations overwhelmingly said Social Security is very important to their retirement security: 64 percent of Millennials, 79 percent of Gen-X respondents, and a full 90 percent of Baby Boomers agreed with that view.

Social Security is the only lifetime, inflation-protected, guaranteed source of retirement income that most Americans will have. It is the foundation of retirement security that keeps millions of older Americans out of poverty and allows them to live independently. Social Security was first conceived as a way to protect older Americans from spending their final years in poverty. The program has evolved over its more than 80 years to protect against a variety of risks, including the death of a spouse or parent, and a disability that prevents an individual from participating in the labor force. Most Americans do not see Social Security as lifetime insurance against a wide range of risks, but rather see it as a source of retirement income that they have invested in via payroll taxes during their working lives. It is an earned benefit, but it is not structured like a savings account or a 401(k) plan. Social Security benefits are calculated through a formula that helps protect the most vulnerable members of our society. This progressive benefit formula ensures that those with low lifetime earnings receive proportionately larger annual benefits. About half of those 65 and older depend on Social Security for the majority of their retirement income, and roughly one quarter of those 65 and older rely on the program for all or nearly all of their income in retirement.

Social Security plays a crucial role in the financial security of millions of Americans. It has proven to be the most effective policy for reducing poverty among older people, particularly for women and racial and ethnic groups who are more likely to have had lower wages and less likely to have pensions. Without Social Security, nearly four in ten Americans 65 and older would live below poverty; that number drops to one in ten after Social Security lifts more than 15 million older Americans above the poverty line. Nearly one in four women ages 65 and older live in families that receive at least 90 percent of their income from Social Security. The reliance in minority communities is even more pronounced; nearly 38 percent of African American women in families receiving benefits rely on Social Security for almost all of their income, and more than 31 percent of older Hispanic women do the same.

Social Security is clearly the cornerstone of American financial security in retirement. It is extremely important to AARP's members that it will provide adequate benefits not only for them, but also for their children and grandchildren. While the Social Security Trustees have made clear -- and AARP will continue to emphasize -- that Social Security has enough funding to pay 100% of benefits until 2035, it is also true that unless Congress acts, benefits could be reduced by 20% beginning in 2035 and through the remainder of the century. A cut this deep would result in severe hardships for millions of people across the country, especially considering the high level of reliance on what are modest benefits now. It is critical to remember that the average monthly check for a retired male worker is $1,565; and for a retired female worker, it is even less, only $1,244. While the importance of Social Security to the 63 million Americans who receive its benefits cannot be diminished, it is also true that given such modest benefits, the retirement security of many Americans could be strengthened if we meaningfully improve opportunities to accumulate retirement savings.

The Future of Retirement Savings

For decades, Congress has enacted laws with the aim of making retirement saving easier. Congress has created many different types of plans for employers to offer their workers, including IRAs, SIMPLEs, and Simplified Employee Pensions (SEPs). Congress has also authorized a number of automatic features – including automatic enrollment, automatic deferral amounts, automatic escalation, and automatic default investments – to help workers who do not make affirmative decisions to begin saving for their retirement. Such automatic features and payroll deductions have resulted in significant higher savings. Among new hires, participation rates nearly double to 93% under automatic enrollment, compared with 47% under voluntary enrollment. Over time, 8 in 10 participants increase their contribution rates, either automatically or on their own, while three-quarters of participants remain exclusively invested in the default investment fund.[9] Furthermore, plans with automatic enrollment had an 87% participation rate as of the end of the second quarter, whereas plans without automatic enrollment had a participation rate of 52%. At the end of 2017, 87% of Millennials in plans with automatic enrollment were participating in the plans, whereas 41% of Millennials in plans without this feature were participating. Since 2008, the average savings rate among employees automatically enrolled has risen from 4% to 6.7%, and 63% of automatically enrolled participants in the past 10 years have increased their savings rate.[10]

However, these automatic savings features can only help workers whose employers offer a workplace retirement plan, and as noted earlier, 51% of the workforce lacks retirement coverage.

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[9] https://nam05.safelinks.protection.outlook.com/?url=https%3A%2F%2Finstitutional.vanguard.com%2Fiam%2Fpdf%2FCIRAE.pdf&data=02%7C01%7C%7C34dd87bd990145d2669c08d6d3fd5585%7Ca395e38b4b754e4493499a37de460a33%7C0%7C0%7C636929482340429841&sdata=SuhVz6d8Xc9OYzTEKINqQe817YWi0gH8zpEYW3XgEZM%3D&reserved=0 (February 2018)

[10] Fidelity data - August 2018 from: https://nam05.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.planadviser.com%2Fautomatic-enrollment-helping-participants-increase-retirement-savings%2F&data=02%7C01%7C%7C34dd87bd990145d2669c08d6d3fd5585%7Ca395e38b4b754e4493499a37de460a33%7C0%7C0%7C636929482340429841&sdata=FQXZs0ELy8txGgDLlfREGecvdvjKIpmFighaFYer8rA%3D&reserved=0

Expanding coverage for the tens of millions of workers without coverage continues to be a high priority for AARP.

I. State Work and Save Programs

To help address the coverage gap, AARP is focused on passing state-level Work and Save programs, which are intended to provide access to payroll deduction retirement savings options for *all* workers. State Work and save programs are providing critical access to large, currently underserved populations, such as workers of color and much of the contingent workforce, including gig workers. Such access is essential to addressing the retirement income gap because workers are *15 times more likely to save for retirement by having a way to save at work*. Participation rates in traditional retirement plans have not budged in decades, but Work and Save programs are leading a change for the better.

These programs generally operate much like a 529 college savings plan for retirement and are operated through public-private partnerships. Notably, while employers facilitate payroll deductions, the retirement programs are not operated or overseen by employers. Rather, employers are afforded access to a simple, retirement program to offer their workers, which only requires employers to disseminate information packets to their workers and facilitate payroll deductions, which they must already do to remit taxes. Worker participation is easy and contributions are automatic; however, worker participation is voluntary, as they always retain the option to opt-out of the program.

Workers choose if they want to participate, how much they want to contribute, and the way in which they invest their money. When a worker changes jobs, their accounts are portable and can be taken with them. Work and Save programs are designed to be self-sustaining and participant-funded, and workers benefits are based on what they pay into the program plus investment experience. States play the role of aggregating smaller employers who otherwise would have to sponsor, pay for and manage a retirement plan, including choosing the investments and providers and incurring fiduciary responsibility.

Work and Save programs can ultimately save U.S. taxpayer dollars as well. By affording workers access to a simple way to save for retirement, fewer households will need to rely on social services, ultimately foregoing costly expenditures by the government. The U.S. would save an estimated $33 billion on public assistance programs between 2018 and 2032 if lower-income retirees save enough to increase their retirement income by $1,000 more per year.

Nationwide, roughly one-third of all states have pursued laws to address the retirement gap in their states. Oregon was the first state and is furthest along in implementing this approach, with their launch of *OregonSaves* in 2017. Oregon's automatic IRA program has had great success. As of May 1, 2019, 4,331 employers have registered to facilitate *OregonSaves* for their workers and 78,467 employees (72% of those eligible) have enrolled in the program. Employees contribute, on average, about $100 per month, and assets in the program now exceed $18.4 million. Other states that have enacted such programs, such as Illinois, Connecticut, and California, continue to rollout and implement their own retirement programs.

Progress in the other states continues as well. This year, Colorado, Idaho, Indiana, New Mexico and Pennsylvania voted to formally study state retirement programs. In March 2019, New Jersey Governor Phil Murphy signed into law the New Jersey Secure Choice Savings Program, an automatic IRA program. Related legislation has also been filed in Iowa, Kansas, Maine, Minnesota, Missouri, Montana, Nevada, North Carolina, Oklahoma, Oregon, Rhode Island, South Carolina, Texas and Wisconsin.

II. Policies to Encourage Greater Retirement Savings

In addition to our state work, federal policies that further encourage automatic payroll deduction savings for workers who lack retirement coverage should be enacted. AARP has supported various efforts – at both the federal and state levels -- to ensure individuals nationwide have access to an Automatic IRA system, including legislation introduced by Senator Whitehouse. Such proposals rely on payroll deduction to encourage greater retirement savings, and as noted earlier, is a proven method of increasing coverage and participation. AARP supports both federal and state legislation. We believe state programs work in tandem with federal legislation in order to be most effective at offering more Americans affordable and appropriate retirement investments. AARP has underscored this to Congress and the Administration and have noted that federal legislation and regulations regarding retirement security should continue to allow for state enactment and implementation of these programs.

Federal policies should also be enacted to extend coverage to the 27 million part-time workers who generally are not covered by retirement savings plans. This is especially important for older workers and caregivers who often shift from full-time to part-time work or return to the workforce less than full-time due to caregiving responsibilities. Moreover, women are far more likely to work part-time than men--two-thirds of part-time workers are women. [11] AARP supports Senators Portman's and Cardin's Retirement Savings and Security Act and Senator Murray's Women's' Pension Protection Act which both offer coverage to part-time workers after two years of employment, and we strongly encourage you to act on this provision soon.

[11] Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Household Data Annual Averages, Table 8: Employed and unemployed full- and part-time workers by age, sex, race, and Hispanic or Latino ethnicity (Jan. 18, 2019) *available at* https://www.bls.gov/cps/cpsaat08.htm.

In addition to extending coverage to more workers, Congress should also act to encourage greater savings for those who participate in savings plans. While defined benefit plans are generally designed to provide adequate retirement benefits to long service employees, defined contribution plans -- like 401(k) plans -- do not always lead to adequate retirement savings. The 2006 Pension Protection Act permitted employers to enroll employees automatically at a three percent contribution level, but this has proven too low. AARP supports increasing the automatic level between five and six percent, provided individuals always have the ability to select a different level. This change has been included in the Retirement Enhancement and Savings Act, which AARP supported in the last Congress, and which the Finance Committee has previously voted out unanimously.

AARP is especially supportive of initiatives to improve the Savers Tax Credit, such as the proposal in Senators Portman's and Cardin's Retirement Savings and Security Act. In 2001, Congress created the Saver's Credit, a tax credit available to low- and moderate-income taxpayers who contribute to a retirement savings plan. Unfortunately, the Saver's Credit is woefully underutilized. From 2006 through 2014, between 3.25 percent and 5.33 percent of eligible filers claimed the credit, and the average value of the credit ranged from $156 to $174 over this time period. A series of changes—some small and others more substantial—would enable more of the tax credit's target population to benefit from the Saver's Credit and build significant retirement resources. The most beneficial changes would be to make the credit refundable, increase the income thresholds, and to restructure the credit into a match similar to the matching contribution some employers offer in their retirement savings plans. In addition, simplifying the tax-filing requirements to give low- and moderate-income individuals overall greater ease of use would help to better balance the tax incentives for retirement across income levels.

III. Protecting Retirement Income

For the millions of Americans who do have access to a workplace savings plan and have started to save for their retirement, Congress can do more to protect their hard-earned nest egg. All tax-preferred retirement savings must be prudently invested, with reasonable fees and without conflicts of interest. While ERISA is clear that any person who exercises discretion over employee benefit plan assets must do so in a fiduciary capacity, efforts to establish more lenient standards are frequently discussed. AARP continues to urge the Securities and Exchange Commission (SEC), as well as other relevant agencies like the Department of Labor, to maintain its mission of protecting investors preparing for retirement. A strong fiduciary standard should be based on the core principle that when providing personalized investment advice to customers, financial professionals must always act in the best interests of those customers. That fiduciary standard should be uniform for all financial professionals advising investors and retirees, and should apply to all types of accounts in order to rectify the existing confusion among investors in the marketplace as a result of standards that are not uniform. We welcome and encourage Congressional efforts to hold hearings and ensure that financial advisers carry out their fiduciary duties to millions of retirement savers. These rules are especially important when workers terminate employment, and help protect workers from transferring their ERISA protected savings to often less prudent individual retirement investments.

Congress should also discourage pre-retirement cash-outs of retirement funds and instead encourage lifetime income streams, including periodic withdrawals and fixed lifetime annuities at retirement age. Too many workers cash out their savings when they change jobs or experience financial emergencies, which, while helpful in the present, creates significant risk for diminished financial security in the future. Most defined contribution plans do not offer adequate lifetime income options such as fixed annuities or periodic payment options. AARP looks forward to working with the Committee and other groups to encourage asset preservation and to improve distribution and spend-down options that meet workers' needs. Towards that end, in addition to supporting the Retirement Enhancement and Savings Act, AARP also supports several other bills that build on ERISA's foundation of participant protections, including Senators Warren's and Daines's Retirement Savings Lost and Found Act, which will help workers to locate retirement accounts sponsored by former employers.

AARP has been strongly supportive of efforts to educate and better inform workers about their retirement savings plans. ERISA and the tax code require many disclosures to workers about the actions they need to take and the benefits they are earning. Employers already may automatically provide electronic disclosures to workers who typically work with computers, but most plan participants prefer paper delivery of retirement information. An AARP commissioned national survey of over 1000 retirement plan participants found an overwhelming preference for receiving retirement documents in paper format rather than in electronic, with 66 percent of respondents ages 25 - 49 and 84 percent of those 50 plus preferring paper document delivery. Similarly, Epsilon's 2012 Channel Preferences Survey found that paper mail was the top delivery choice and 73 percent of respondents stated that they do not open all emails. In addition, millions of individuals simply do not use computers or do not have reliable broadband access. Moreover, as of 2017, the Pew Research Center found that a third of individuals age 65 and older do not use the internet, only half have broadband at home, and only approximately 40 percent own a smartphone. Among all adults, a third do not have high-speed internet at home and 13 percent only own a smartphone. Disadvantaged populations have even less access -- approximately only half of rural Americans, African Americans, and Americans with a high school degree or less have broadband internet at home.

With such discrepancies in access, it is crucial that important material be distributed in paper form and that electronic disclosure not become the default method of delivery. AARP supports default paper delivery of disclosures and supports the availability of electronic disclosures when a participant chooses to opt into it. AARP has a long record of communicating our goal of making benefit communications shorter, simpler, clearer and timelier, while retaining default paper disclosure to relevant agencies, including the Department of Labor and the Securities and Exchange Commission. Equally, we stand ready to work with you to retain hard-won investor rights to written documents that they need not only to make informed decisions today, but which may be important to ensure benefit accuracy for fifty or more years.

Finally, AARP urges the Committee to finish its work as soon as possible to find a fair solution for the millions of workers and retirees counting on multiemployer pensions for their retirement security. We commend Senators Portman and Brown who, along with several other members of Congress, have focused their attention on this issue. While most of these multiemployer pension plans are well funded, there are at least 100 plans that do not have enough contributing employers to pay out full, earned retiree pensions. Many retirees have already experienced significant benefit reductions, and over one million retirees and their families are at risk of losing substantial needed retirement income. We strongly urge action that best protects the earned benefits of current retirees, who have no other options for financial security. AARP has supported legislation which would provide loans or transfer some unfunded liabilities to the PBGC, while a comprehensive legislative solution is worked out.

AARP would again like to thank Chairman Grassley and Ranking Member Wyden for recognizing the need to address the challenges of a secure retirement and for the opportunity to share our policy priorities to improve the retirement savings of Americans and their families. We stand ready to work with you as the Committee moves forward.