STATEMENT FOR THE RECORD
BEFORE THE
SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON SOCIAL SECURITY, PENSIONS, AND FAMILY POLICY

“Investigating Challenges to American Retirement Security”

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On behalf of our nearly 38 million members, and all Americans age 50 and over, AARP thanks Chairman Portman and Ranking Member Brown for holding a hearing to consider needed improvements to the U.S. retirement system for American workers, retirees, and their families. AARP is committed to expanding retirement savings so that all Americans have adequate income for retirement through Social Security, pensions and private savings, and we have worked throughout our history to develop and improve America’s retirement system.

We greatly appreciate your longstanding support for retirement system improvements. AARP has worked closely with Senators Portman and Cardin on the Setting Every Community Up for Retirement Enhancement Act (SECURE) and the Retirement Security and Savings Act, as well as other retirement efforts. Similarly, we have worked with and continue to support Senators Portman and Brown in finding needed legislative solutions for the millions of workers and retirees covered by multiemployer pension plans that face imminent and long-term funding shortfalls.

**Impact of COVID-19 on Current Workers and Their Retirement**

 Millions of families continue to face dire financial circumstances brought about by the pandemic and related workplace closures. In 2020, nearly 49 million Americans filed for unemployment at some point during the year\(^1\). In a matter of months, the national unemployment rate climbed from 3.5 percent in February to an historic high of 14.7 percent in April. And while the unemployment rate has since declined to 6.7 percent, job gains have slowed in recent months\(^2\). Moreover, the percentage of jobseekers who are long-term unemployed (i.e., those who have been looking for work for 27 weeks or more) has increased sharply. Older workers have been especially hard hit. In November, 35.7 percent of jobseekers ages 16 to 54, and 45.6 percent of jobseekers ages 55 and older, were long-term unemployed\(^3\).

As a result, many workers continue to have little choice but to take actions that reduce their long-term retirement security in order to make ends meet. Some individuals have been forced to retire earlier than planned because they were unable to return to work due to legitimate health concerns or because their jobs simply no longer exist. According to a recent survey, nearly a quarter (23 percent) of respondents age 55 to 73 have retired early, or considered retiring early, because of the pandemic\(^4\). Earlier retirements will likely prevent these workers from accumulating additional years of wages and savings, resulting in reduced pensions and lower monthly Social Security benefits for life, as well as the need to spend down their retirement savings earlier than anticipated.

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Americans of any age who are fortunate enough to have a retirement savings vehicle like a 401(k) plan or an individual retirement account may now be unable to contribute to these accounts, or worse, have a need to tap them to pay for essentials. According to the same survey, 37 and 40 percent of Millennials, 26 and 32 percent of Gen X, and 13 and 18 percent of Boomers have withdrawn, or considered withdrawing, from an individual retirement account or a 401(k) plan. Doing so, however, forces them to reduce what are likely already inadequate savings, sacrificing future amounts necessary for a secure retirement. Many who have lost jobs have also lost health insurance and have faced increased costs for both health care coverage and treatment.

These COVID-related pressures only add to other challenges that have accelerated in recent decades, including diminishing employer-sponsored pensions, higher health care costs, and inadequate retirement savings. Consequently, the prospects of a secure retirement for millions of workers will be even more precarious following the pandemic, and more Americans of all ages will need to rely even more on Social Security’s modest benefits for an even greater portion of their retirement security.

**Importance of Social Security**

According to the Social Security Administration (SSA), an estimated 178 million Americans paid into Social Security in 2019, and in October 2020, Social Security provided critical retirement, disability and survivor benefits to almost 65 million individuals. Social Security is already the principal source of income for over half of older American households receiving benefits and roughly one quarter of those households, or about 10 million people age 65 and older, depend on it for nearly all (90 percent or more) of their income. The reliance in minority communities is even more pronounced; over 36 percent of African American women in families receiving benefits rely on Social Security for almost all of their income, and 34 percent of older Hispanic women do the same.

Despite its critical importance, Social Security’s earned benefits are modest and in 2020 average only $1,522 per month for all retired workers. Disability benefits are even more modest, averaging only $1,261 per month. Nonetheless, Social Security keeps approximately 15 million older

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5 Ibid
8 Reliance estimates available at AARP Public Policy Institute Data Explorer, ([https://dataexplorer.aarp.org](https://dataexplorer.aarp.org))
9 Ibid
Americans out of poverty and allows millions more to live their retirement years independently, without fear of outliving their income.

For most Americans, Social Security is their only lifetime, inflation-protected, guaranteed source of retirement income. AARP believes we must therefore work together, and sooner rather than later, to ensure this program remains strong not only for those who are at or near retirement, but also for younger generations who will likely rely on Social Security as much or even more due to the effects of COVID-19 and other retirement trends.

**Impact of COVID-19 on Near Retirees**

In addition to our broad concerns about the impact the global pandemic will likely have on the retirement security of American families, AARP has also been hearing from many of our members concerned about the impact it may have on the calculation of their Social Security benefits, especially those who turn 60 in 2020.

According to SSA: “When we (SSA) compute a person's retirement benefit, we use the national average wage indexing series to index that person's lifetime earnings. Such indexation ensures that a worker's future benefits reflect the general rise in the standard of living that occurred during his or her working life. When indexing an individual's earnings for benefit computation purposes, we must first determine the year of first eligibility for benefits. For retirement, eligibility is at age 62. We always index an individual's earnings to the average wage level two years prior to the year of first eligibility.” As such, the approximately 4 million Americans turning 60 in 2020 are set to have their earnings indexed and their Primary Insurance Amount set by Social Security based on this year’s average wage index (AWI) level.

Because of the economic crisis and job losses brought about by COVID-19, the average wage level for 2020, as measured by the AWI, could fall significantly. A 2020 AWI based on lower total wages would then result in lower lifetime Social Security benefits for all who turn 60 this year (born in 1960), family members who receive Social Security survivor or spousal benefits based on those workers, and workers who become eligible for disability benefits in 2022.

While the exact AWI for 2020 will not be known until next year, the Social Security Chief Actuary estimated in July that the AWI for 2020 may be approximately 9 percent lower than initially

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12 Social Security Administration, National Average Wage Index, [https://www.ssa.gov/oact/cola/AWI.html](https://www.ssa.gov/oact/cola/AWI.html).

projected. For an average worker who turns 60 this year, this would mean a loss of $189 a month, or $45,000 over 20 years, in their Social Security retirement benefits.\(^{14}\) (The Chief Actuary recently updated his AWI projections, and now estimates a 2020 AWI that is 7.52 percent less than projected.\(^{15}\)

In response, some in Congress have proposed holding harmless those impacted by a reduced 2020 AWI from any related cuts to their Social Security benefits. In fact, a precedent for disallowing reductions in Social Security benefits already exists with regard to annual inflation adjustments. In years where there is a drop in the overall level of prices in the economy, which would otherwise result in negative cost-of-living adjustments (COLAs), the Social Security benefits of current retirees are held harmless and not reduced.

AARP shares our members’ concerns with the potential negative impact the coronavirus may have on their hard-earned Social Security benefits. We also appreciate that several legislative measures have already been introduced in Congress to prevent any COVID-related reduction in Social Security benefits due to an unprecedented level of decline in the national average wage index. We urge Congress to work together on a bipartisan basis to pass legislation to address this issue and hold harmless those individuals who would be subject to reduced Social Security benefits as a result of COVID-19 and the related economic downturn.

**The Retirement Income Gap**

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 – has endangered the dream of a secure retirement for millions of Americans, and without significant action, will likely require 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 2020, however, just 18 percent of full time, private sector workers had access to a DB pension.\(^{16}\) 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

\(^{14}\) Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration, House Ways and Means Subcommittee on Social Security, July 17, 2020, and related AARP Public Policy Institute estimates.

\(^{15}\) Social Security Administration, Updated Baseline for Actuarial Status of the OASI and DI Trust Funds, Reflecting Pandemic and Recession Effects, November 24, 2020

\(^{16}\) https://fas.org/sgp/crs/misc/R43439.pdf (From CRS quoting National Compensation Survey of March 2020)
exclusively offered a DC plan, but by 2020, 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 must take responsibility for determining if and how much to save, and must manage their retirement funds, even though most have little or no investment experience. As discussed below, automatic enrollment and similar features help with these decisions, but not all DC plans include these mechanisms. Second, retirees run the risk that they may either outlive the savings in a DC plan because account balances run out, or they fail to spend them for fear that the money will be needed for some future emergency, resulting in a lower retirement standard of living than possible. Third, despite the increased use of DC plans, financial experts generally agree individual savings and earnings may not fully compensate for the loss of employer provided DB pensions.  

Most workers who only have access to a workplace savings plan are not saving enough to adequately fund a secure retirement. For middle-income households ages 55-64 with a DC plan or 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. It is no wonder that surveys persistently show that Americans do not feel financially prepared to retire. A Center for Financial Services Innovation poll, funded in part by AARP, found that only 18 percent of respondents felt very confident they could meet their long-term financial goals, including retirement.

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 access to a retirement plan at work, a percentage that has remained largely unchanged for three decades. Workers without a plan are more likely to work part-time or work in a small business, tend to have less formal education, and are more likely to be lower paid. While these workers still could contribute to an IRA to save for retirement...

21 When comparing coverage and participation statistics, it is important to look at which populations are being considered. Most studies cover private sector workers only but differ on including only full-time employees or both full and part time. Similarly, studies focusing just on employees don’t include the millions of contingent workers of differing types, who may be paid by an employer, but who are not considered as employees and thus are not eligible to participate in a retirement plan.
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 at work contributes to an IRA consistently.\textsuperscript{23}

**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, Simplified Employee Pensions (SEPs), and Multiple Employer Plans (MEPs). 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 percent under automatic enrollment, compared with 47 percent 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.\textsuperscript{24} Furthermore, plans with automatic enrollment had an 87 percent participation rate as of the end of the second quarter, whereas plans without automatic enrollment had a participation rate of 52 percent. At the end of 2017, 87 percent of Millennials in plans with automatic enrollment were participating in the plans, whereas 41 percent of Millennials in plans without this feature were participating. Since 2008, the average savings rate among employees automatically enrolled has risen from 4 percent to 6.7 percent, and 63 percent of automatically enrolled participants in the past 10 years have increased their savings rate.\textsuperscript{25}

However, these automatic savings features can only help workers whose employers offer a workplace retirement plan, and as noted earlier, over 50 percent of the workforce lacks any workplace retirement coverage. Expanding coverage for the tens of millions of workers without coverage continues to be a high priority, and AARP supports several approaches to extend retirement coverage in the workplace at both the federal and state levels.

\textsuperscript{23}Employee Benefit Research Institute (EBRI), Issue Brief 405, p. 27, Washington, DC.


\textsuperscript{25}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&amp;data=02%7C01%7C%7C34dd87bd990145d2669c08d6d3fd5585%7Ca395e38b4b754e449349a37de460a33%7C0%7C0%7C636929482340429841&amp;data=02%7C01%7C%7C34dd87bd990145d2669c08d6d3fd5585%7Ca395e38b4b754e449349a37de460a33%7C0%7C0%7C636929482340429841&amp;data=FQXZs0ELy8txGgDLIfREGecvdfjKlpmFighaYer8rA%3D&amp;reserved=0 (February 2018)
State Work and Save Programs

To complement our work at the federal level to help address the coverage gap, AARP has focused on passing state-level Work and Save programs, which are intended to provide access to payroll deduction retirement savings options for all workers who don’t otherwise have a way to save for retirement at work. State-facilitated 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. While participation rates in traditional retirement plans have not budged in decades, Work and Save programs are leading a change for the better.

These retirement savings programs generally operate much like 529 college savings plans 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 the ability to offer access to a simple, plug-and-play retirement program to their workers, which only requires employers to disseminate information packets to their workers and facilitate payroll deductions, similar to what they must already do to remit taxes. Worker participation is easy and contributions are typically automatic; however, worker participation is voluntary, as they always retain the option to opt-out of the program. How much a worker saves, if at all, is entirely up to them, as are investment decisions.

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 is not a pension program – what you put into the program is what you get out of it, plus or minus gains and losses in the market. 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 help U.S. taxpayers 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 additional 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 just $1,000 more per year.26

Nationwide, the majority of all states have considered laws to address the retirement gap in their states through program legislation or studying the issue. Oregon was the first state to launch a Work and Save program, followed by California and Illinois These programs have had tremendous

success. As of October 31, 2020, assets under management between these three states exceeded $122 million, with more than 192,000 funded accounts and more than 25,000 employers registered. The momentum is not slowing down, and other states continue to pursue enactment and implementation of programs. This year, Colorado and New Mexico passed full program legislation, while North Carolina, Virginia, Idaho, Wisconsin, and others studied the issue and potential solutions. Efforts are underway in a number of additional states, including Kansas, Maine, Oklahoma, and Delaware.

**Policies to Increase 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 retirement savings system. AARP has been a long-time supporter of Automatic IRA legislation, most recently proposed by Senator Whitehouse. Further, AARP supports House Ways and Means Chairman Neal and Ranking Member Brady’s recently introduced Securing a Strong Retirement Act, which among other changes would extend greater coverage to more part-time workers and automatically enroll workers in employer retirement savings plans once they have been in business for three years. These proposals rely on payroll deduction to encourage greater retirement savings, which as noted earlier, is a proven method of increasing coverage and participation. AARP looks forward to working with the Senate Finance Committee to include these types of proposals in retirement legislation.

We believe state programs should work in tandem with federal legislation to be most effective at offering enhanced coverage and more appropriate retirement investments. AARP has emphasized that federal legislation and regulations regarding retirement security should continue to encourage and allow for state enactment and implementation of these programs.

AARP also urges Congress to extend further 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. AARP supports Senators Portman and Cardin’s Retirement Savings and Security Act, Senator Murray’s Women’s’ Pension Protection Act, and Representatives Neal and Brady’s Securing a Strong Retirement Act, all of which would offer coverage to part-time workers after two years of employment.

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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 to five or six percent, provided individuals always have the ability to select a different level.

AARP is especially supportive of initiatives to improve the Saver’s 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 help build significant retirement resources. The most beneficial changes include raising the income thresholds to reach more middle-income filers and making the credit refundable for automatic deposit to a retirement account. In addition, simplifying the tax-filing requirements, such as allowing it to be claimed on all tax forms, and boosting IRS and employer information efforts would give low- and moderate-income individuals overall greater ease of use and provide better overall balance to the tax incentives for retirement across income levels.

We also note the need to establish a national retirement Lost and Found office to help workers locate retirement accounts with previous employers. This is increasingly important as more and more workers change jobs several times over the course of their careers. Senators Warren and Daines and Representatives Neal and Brady have introduced bipartisan bills to help workers find “lost” accounts. The Pension Benefit Guaranty Corporation (PBGC) is starting a preliminary effort to help match individuals with former retirement accounts. Several other countries with similar types of retirement systems also are setting up such low-cost matching programs.

**Maintain Essential Fiduciary and Disclosure Protections**

For the millions of Americans who have access to a workplace savings plan and started to save for their retirement, Congress can do more to protect their hard-earned nest eggs. 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 have been made to lower the important standards that protect retirement investors. Recently, the Securities and Exchange Commission (SEC) weakened financial adviser investment advice standards, and the Department of Labor has adopted similar proposals. AARP strongly opposes these efforts and urges Congress to maintain ERISA’s longstanding protections. 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 sole interests of those customers. That fiduciary standard should be uniform for all financial professionals and should apply to all types of accounts to rectify the existing confusion among investors in the marketplace because of standards that are not uniform. These rules are especially important when workers terminate employment and help protect workers who may be considering rollovers from their ERISA protected savings to often less protected individual retirement investments.

Congress should also discourage pre-retirement cash-outs of retirement funds and instead encourage account portability and stable lifetime income streams, such as periodic withdrawals and fixed lifetime annuities at retirement age. Too many workers cash out their savings when they change jobs or experience financial emergencies. While this may provide short-term relief, cash-outs create significant risk for diminished financial security for retirees and their spouses in the future. Cash-outs related to emergencies could be reduced by giving savers an alternative source of funds, such as emergency savings accounts.28

In addition, most defined contribution plans do not accept former account roll-overs to help workers consolidate their savings. Most DC plans also do not offer fixed annuities or periodic payment options to help ensure that retirees have more adequate distribution options and do not outlive their money. AARP looks forward to working with the Committee and other groups to encourage asset preservation and to provide low-cost distribution and spend-down options that meet workers’ needs.

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. We agree with many critics that disclosures could be shorter, simpler and timelier. We support efforts to streamline retirement plan documents and disclosures.

However, we strongly oppose efforts to primarily provide disclosures through time-limited website postings. Employers already may automatically provide electronic disclosures to workers who typically work with computers, but most plan participants prefer paper delivery of retirement information. A 2016 FINRA study showed that only 31 percent of respondents preferred receiving disclosures by email or through internet access; the remainder preferred physical mail (49 percent) or in person meetings (14 percent). Older respondents preferred paper documents, while younger respondents preferred in person meetings. There was no age differential between those who preferred to receive disclosures by email.29 Moreover, 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

28 https://www.nber.org/system/files/working_papers/w26498/w26498.pdf
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. Full and meaningful disclosure is critical to retirement security and pension law, and Congress needs to ensure workers will receive and can review important retirement plan documents. An annual benefit statement, similar to the Social Security statement of earned benefits, is essential to help employees better understand and successfully manage their plans and determine if they are on track for retirement. AARP supports default paper delivery of disclosures and supports the availability of electronic disclosures when a participant chooses to opt into it. AARP supports inclusion of the requirement for an annual paper retirement earnings benefit statement (unless participants request electronic delivery) in the bipartisan Securing a Strong Retirement Act offered by Representatives Neal and Brady and urges similar legislation be included in any Senate retirement bill.

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 pensions. Many retirees have already been devastated by significant benefit reductions, and over one million retirees and their families are at risk of losing substantial needed retirement income. We strongly support urgent action that best protects the earned and vested benefits of current retirees, who have no other options for financial security. AARP has supported legislation that would provide loans or transfer some unfunded liabilities to the PBGC, while a comprehensive legislative solution is worked out. While some have proposed new pension plan design changes, funding for any new plan should not be at the expense of the current plan. Clear protections are needed to ensure full funding of current plans to protect the earned benefits of older workers and retirees who, without negotiating power or representation, are at greater risk of disproportionate benefit cuts.

AARP would again like to thank Chairman Portman and Ranking Member Brown 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.