In Brief

New Ways to Promote Retirement Savings

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Many American households do not save for retirement. Those that do save often contribute too little, invest poorly, or withdraw funds early. These patterns threaten to leave many low- and middle-income households without enough savings to finance adequate retirement living standards. Looking ahead, the retirement of the baby boomers, the aging of the population, and rising health care costs will place increasing pressure on Social Security and Medicare, making a secure retirement even more challenging for many.

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As Congress considers budget reform, proposals to strengthen the private retirement system should be given serious consideration. This paper summarizes a research report that proposes 11 retirement saving reform proposals designed to boost saving among low- and middle-income households.

Proposal 1: Expand Saving with Corporate Platforms

We propose to use the employer-sponsored retirement saving mechanism for other short- and long-term saving purposes, such as a home purchase, college expenses, health care costs, and more. This would facilitate both retirement and nonretirement saving, make saving simpler and easier, and improve the financial security of families and individuals at all stages of life. It would add value for employers and employees, particularly if the mechanism uses automatic enrollment for both retirement and nonretirement savings.

Proposal 2: Establish R-Bond Accounts for New Savers

Fees and complexity can discourage first-time retirement savers with small-balance accounts. We propose a simple government bond account (or “R-Bond”) without administrative fees to help first-time savers build a nest egg that can eventually be rolled over into a privately managed account. This will help individuals with small balances who want to save but do not in order to avoid high fees or complex arrangements.

Proposal 3: Convert Individual Income Tax Deductions for Retirement Saving to Matching Contributions

We propose replacing the existing individual income tax deductions with a flat-rate refundable credit that serves as a matching contribution into a retirement savings account. This would enhance retirement saving incentives for most households, is likely to raise overall national saving, and could reduce the federal budget deficit.
Proposal 4: Reform the Saver’s Credit

To make it simpler and more rewarding, we propose reforming the Saver’s Credit to create a flat, refundable credit that phases out with income. Furthermore, the credit should act like a matching contribution. That is, it should be deposited directly into savers’ accounts rather than delivered in the form of a lower tax liability or a tax refund. This will strengthen saving incentives and outcomes for low-income households.

Proposal 5: Federal Backup Insurance for Annuity Products

To protect against the threat of annuity market failure, we propose federal backup insurance for life annuities and similar products. This backup protection could take several forms, including (1) Federal Deposit Insurance Corporation–type insurance that replaces state guaranty fund coverage for annuity-type products only; (2) supplemental insurance above the amount offered by state guaranty funds coupled with a federal line of credit to state guaranty funds, again to protect annuity-type products only; or simply (3) a federal line of credit available to state guaranty funds.

Proposal 6: Expand the Employer Tax Credit

Employers play a critical role in advancing retirement security, but many smaller ones do not offer their employees retirement services because doing so is costly. We propose an increase in the employer tax credit for new retirement plans and a further incentive to add employees to an existing plan. This will help employers, particularly small ones, manage the cost of setting up accounts, manage payroll deductions, and provide important information to their employees.

Proposal 7: Use Tax Information to Consolidate Retirement Accounts

Today, millions of Americans have more than one retirement savings account. Account owners can consolidate most types of accounts, but many do not. Some consciously decide to maintain multiple accounts, but many do not know the consolidation procedure, lack the needed information, or simply fail to take the necessary steps. We propose to use tax information to help employees find and consolidate multiple retirement accounts. This will cut down on lost or neglected accounts and preserve the wealth of individuals who changed employers many times, while maintaining their individual freedom and choice.

Proposal 8: Combine Social Security and 401(k) Statements

To make better decisions about retirement, people must have better information. We propose that retirement savings account providers give combined estimates of account owners’ Social Security benefits using information provided by the Social Security Administration, and the annuitized value of retirement savings balances on statements they provide to their customers. Doing so will give future retirees a more complete picture of their retirement outlook and help them make important choices about current saving and spending levels.

Proposal 9: Create a Central Website to Connect Employers and Retirement Savings Plan Providers

Employers who wish to start a retirement savings plan for their employees must find a plan administrator. Service providers aggressively market to larger employers, but many employers must seek an administrator themselves, often without the information necessary to
compare the fees and levels of service offered by different providers. We propose the creation of central websites where employers can “shop” for retirement savings plan service providers. This will make finding and selecting providers of retirement savings accounts simpler and more efficient, particularly for small employers.

Proposal 10: Create a Public Information Campaign to Raise Financial Literacy

One way to address gaps in the public’s financial knowledge is through a mass media public information campaign designed to raise financial literacy. The campaign would be coupled with a website to exploit the massive growth in online financial information. Ideally, it would promote a simple but comprehensive message—for example, the need to create a financial plan—with targeted sub-messages for specific groups.

Proposal 11: Create and Disseminate a Comprehensive Graphic for Financial Planning

Another way to address this issue is to develop financial guidelines simple enough to be explained in graphic form and disseminate the guidelines to non-expert households to help bolster financial acumen and security. A “financial food pyramid” or similar graphic would offer simple rules of thumb for difficult saving and spending decisions.

Conquering the saving problem in the United States will require a wide variety of tools, instruments, and policies. There is enormous potential for creative solutions to help underwrite a secure retirement for most Americans, but the time for implementing those solutions is running out.