Building a More Robust and Inclusive US Retirement System Amid a Changing Economy

A Rapporteur's Report from the Inaugural Aspen Leadership Forum on Retirement Savings

by David S. Mitchell

September 2017

ACKNOWLEDGEMENTS

The Aspen Institute Financial Security Program would like to thank Michael Davis, Jason Fichtner, David John, and Anne Lester for reviewing drafts and making invaluable suggestions; Will Sandbrook for the wisdom he shared regarding the NEST program; Gary Belsky and Neil Fine of Elland Road Partners for their careful editing and polished wordsmithing; and Genee Presta for designing and laying out this report.

The Aspen Institute Retirement Savings Initiative (RSI) would like to thank Daniel Biss, Michael Davis, Jason Fichtner, Mark Iwry, David John, Jamie Kalamarides, Elizabeth Kelly, Michael Kreps, Anne Lester, Brigitte Madrian, and Debra Whitman for serving on the Advisory Board and Steering Committee of the Aspen Leadership Forum on Retirement Savings, as well as all the attendees of the inaugural Forum for sharing their insights throughout the two-day meeting.

Finally, Aspen RSI thanks AARP and J.P. Morgan Asset Management for their generous support of the Forum as well as this report. While this document, of course, draws on insights shared at the Forum and by the aforementioned individuals and organizations, the findings, interpretations, and conclusions expressed in this report—as well as any errors—are ours alone.

ABOUT THE FORUM

In April 2017, the Aspen Institute's Financial Security Program hosted the inaugural Aspen Leadership Forum on Retirement Savings at the Salamander Resort in Middleburg, Virginia. The Forum is a unique, annual, invitation-only gathering comprised of roughly 60 senior leaders from industry, government, academia, and advocacy. It is designed to advance breakthrough solutions to one of the most critical financial challenges facing American households—the lack of adequate savings for retirement—by providing an opportunity for thought leaders from a diverse range of organizations to share their knowledge and perspectives, build trust, develop collective insights, and work together to produce results. The Forum is sponsored by AARP and J.P. Morgan Asset Management.

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EXECUTIVE SUMMARY

The United States retirement system is undergoing profound changes. Low interest rates, new policies around fiduciary duty, and the emergence of new financial technologies are among the many disruptions reshaping the retirement marketplace. How today's leaders—in government, business, academia, and the nonprofit sector—react to these changes will shape the system that the next generation inherits.

It is with that in mind that the Aspen Leadership Forum on Retirement Savings held its first annual gathering. Over two days in April, 62 policymakers, business executives, researchers, and advocates met in Middleburg, Va., to discuss how to build a more inclusive and effective savings system.

Participants grappled with a host of questions, not least of which was: Why is the US retirement system serving some Americans so much better than others? Forum participants identified five major reasons:

1. The coverage gap. Millions of Americans have no easy way to save for retirement through work. While Forum participants disagreed about the exact size of the gap and how best to measure it, most agreed that it was a fundamental shortcoming of the current system.

2. Widespread financial instability. Those struggling economically in retirement are usually those who struggled economically during their working life. Given that financial instability among American workers is rising, now reaching well into the middle class, the stress on the country's retirement system will likely intensify going forward.

3. Increases in longevity. Even as workers face economic headwinds, they generally are enjoying longer lifespans—and—thus longer retirements. This poses various challenges to the retirement system, including the growing and urgent need for "lifetime income" options.

Any large-scale action on retirement reform will require trust, a willingness to experiment, and a sense of the greater good. The Aspen Leadership Forum on Retirement Savings seeks to create a "brave space" that allows for these conditions to flourish.

4. The evolving social contract. Some retirement-system risks that were shared in traditional pension models now rest solely on the shoulders of individuals. This risk shift has occurred in tandem with a decline in trust in institutions and elites, making attempts to reshape the social contract more difficult.

5. Lack of political will. The challenges facing the American retirement system are subtle and slow developing, more chronic disease than headline-grabbing epidemic. This makes galvanizing action on the part of politicians all the more complicated.

The task of overcoming these five challenges is daunting, but Forum participants expressed cautious optimism about the following ideas:

1. Rethinking the role of employers. Employers have been the linchpin of the US private retirement system since its inception. But many employers—especially small business owners—feel that they do not have the resources or know-how to offer a plan. One way to address this would be to reduce plan sponsors' fiduciary responsibilities. Another idea: a "soft" employer mandate that would provide the government or a third party access to an employer's payroll for automatic enrollment and deduction purposes. Whether these policies could be combined in a politically palatable way, as they have been in the United Kingdom and some states, remains to be seen.

2. Ensuring lifetime income. Forum participants generally agreed that lifetime income products are a promising if complicated way to make retirement nest eggs last. Plan sponsors, policymakers, and private sector disruptors can all play a role in achieving this goal.

3. Meeting a broader range of financial needs. Some attendees argued for leveraging the unique strengths of the current retirement system—broad reach and robust competition around customer service and fees—to combat other threats to financial security, such as short-term shocks, income and expense volatility, and consumer debt.

4. Strengthening the 401(k). An alternative to comprehensive reform models that re-imagine the role of employers is to tweak the current system in proven—and, in some cases, long overdue—ways. This includes expanding the use of automatic enrollment and escalation, making the Saver's Credit refundable, and establishing open multiple employer plans.

5. Making plans more portable. Many employees cash out their workplace plans when they switch jobs because of the complexity involved in "rolling over" accumulated savings to a new plan. Making the rollover process simpler could reduce this major source of savings "leakage."

Any large-scale action on retirement reform will require trust, a willingness to experiment, and a sense of the greater good. The Aspen Leadership Forum on Retirement Savings seeks to create a "brave space" that allows for these conditions to flourish, and the first annual convening went a long way towards achieving that end. Participants left the Forum energized and ready to work together to begin solving the financial challenges facing the country.

INTRODUCTION

A FUTURE IN FLUX

The United States economy is undergoing a major transformation. Unemployment is low, markets are booming, and profits are strong, but for many Americans this recovery feels like someone else's good fortune: macroeconomic growth, while steady, is slow; the rebound in home prices is uneven; and median wages have been flat for more than a decade. At the same time, the cost of key household budget items—housing, health care, education, child care—continues to rise quickly. The nature of work is changing too, as the rapid growth of "gig economy" jobs and other forms of contingent work means that fewer positions provide the stable hours, earnings, and benefits that were the hallmark of the post-war era.

The country's retirement system is also coping with profound changes. More than a decade into an era of low interest rates, many observers wonder if this financial reality represents a new normal, one with major implications for expected returns on savings. Recent events—such as the Department of Labor's (DOL) rethinking of fiduciary duty, the establishment of retirement programs in a growing number of states, and legislative proposals allowing open multiple employer plans (MEPs) and modifying tax incentives—could reshape the policy landscape.

At the same time, new financial technology ("fintech")—in the form of savings apps, robo-advisers, and new retirement plan management strategies—are likely to drive down costs and remake retirement markets.

Although forecasting the future is a risky undertaking, there is no doubt that the retirement system will undergo significant change within a few decades. The nature of that change, however, is not predetermined. Decisions made by today's leaders—in government, business, academia, and the nonprofit sector—will shape the system that the next generation inherits.

It is with that weighty responsibility in mind that the Aspen Leadership Forum on Retirement Savings held its first annual gathering this past spring. Over two days in April, 62 policymakers, business executives, researchers, and advocates met in Middleburg, Va., to discuss how to build a more inclusive and effective savings system.

Modeled on the long-running Pensions & Savings Symposium hosted at the Gleneagles Hotel in the United Kingdom,* the Forum was conceived to help create the necessary conditions for cooperation and concerted action among a diverse cross-section of participants. Representatives from groups whose views sometimes diverge—including plan sponsors, regulators, record keepers, consumer groups, fund providers, asset managers, policy makers, and fintech disruptors—engaged in a frank and not-for-attribution conversation about the largest challenges facing today's retirement system.

Participants were encouraged to view the Forum as a unique opportunity to take a step back from their organizational responsibilities and consider broader trends. Indeed, conversations at this year's Forum helped to forge areas of agreement around issues such as reducing plan-sponsor litigation risk and expanding lifetime income options. This early progress validates the long-term goal of the Forum's funders, J.P. Morgan Asset Management and AARP, and its organizer, the Aspen Institute Financial Security Program: to create a consensus that advances the universal goals of a secure and dignified retirement for all.

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* The annual Pensions & Savings Symposium brings together financial services industry leaders, government ministers and regulators, trade associations and consumer groups to work together to propose improvements to the provision of pensions, savings and services in the United Kingdom (UK). The Pensions & Savings Symposium is operated under the Chatham House Rule, whereby participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed except with their permission. In this way, the symposium can help engender frank and candid debate among leading thinkers and practitioners.

WHY IS THE US RETIREMENT SYSTEM SERVING SOME AMERICANS SO MUCH BETTER THAN OTHERS? FORUM PARTICIPANTS IDENTIFIED FIVE MAJOR REASONS:

1. The coverage gap
2. Widespread financial instability
3. Increases in longevity
4. The evolving social contract
5. Lack of political will for making retirement security a public policy priority

55 MILLION

AMERICANS DO NOT HAVE ACCESS TO A RETIREMENT PLAN AT WORK

ONLY ABOUT 14%

OF SMALL EMPLOYERS OFFER A RETIREMENT PLAN FOR THEIR WORKERS

55%

OF AMERICANS TODAY EXPERIENCE LARGE MONTH-TO-MONTH FLUCTUATIONS IN INCOME

CONTEXT

TODAY'S BIGGEST BARRIERS

Outside of home ownership, private retirement savings is the foremost driver of wealth creation in the US. According to the 2013 Survey of Consumer Finances (SCF), American households with defined contribution (DC) retirement accounts have saved an average of roughly $200,000 in them.[1] However, the median amount saved in these accounts was just $59,000, and, according to an analysis of the 2013 SCF by the Government Accountability Office (GAO), 27 percent of near-retirement households (heads aged 55 to 64) have no retirement savings in either a DC or defined benefit (DB) account.[2] Why is the US retirement system serving some Americans so much better than others? Forum participants identified five major reasons: **1. the coverage gap**; **2. widespread financial instability**; **3. increases in longevity**; **4. the evolving social contract**, and **5. lack of political will for making retirement security a public policy priority**.

1. THE COVERAGE GAP

Perhaps the most fundamental shortcoming of the current system is that millions of working Americans have no easy way to save for retirement on the job outside of Social Security. This sets the US apart from nearly all other developed countries and explains much of the nation's retirement savings shortfall. While Forum participants disagreed about the exact size of the so-called coverage gap and how best to measure it—a dispute that centers to some extent around the reliability of certain surveys[3]—most agreed that it was a major problem.

The coverage problem is not new: Between one-third and one-half of workers have lacked access to a workplace retirement plan for the past 35 years.[4] The seismic shift from DB to DC plans over this period, while having a profound effect on the nature of retirement income options, actually had very little impact on the percentage of workers covered. In 1979, 58 percent of private sector workers had access to a retirement plan through their jobs.[5] Today, at least by one measure, the figure is roughly 50 percent.[6] In real numbers, that is 55 million Americans who do not have access to a plan at work.[7]

Numerous attempts have been made to close the gap by making it easier for employers, especially small ones, to sponsor plans for their workers. None of these attempts have moved the needle. According to the GAO, only about 14 percent of small employers (those with fewer than 100 employees) offer a retirement plan for their workers. Research by the Pew Charitable Trusts found that the majority of those small employers cited expense or administrative burden as the reason.[8]

Access to private retirement savings may be even more important in the future given the increasing pressures facing Social Security, the foundation upon which retirement security in the US is built. The combination of slowly increasing retirement age and rising Medicare premiums—which are deducted from seniors' Social Security checks—means that take-home benefits will be worth less in coming decades. Although the Forum did not focus on Social Security, the future of retirement security for American households will continue to depend on both a universal, stable, and well-financed public program and robust private savings options.

Creating truly universal access to workplace retirement plans will not be easy, but many Forum participants argued that doing so is a prerequisite for addressing the other major problems ailing the system.

2. WIDESPREAD FINANCIAL INSTABILITY

Discussions of the coverage gap inevitably led to more philosophical and subjective questions about the minimum standard of living every American citizen deserves in old age and how paternalistic we are willing to be to achieve that result. No single answer gained the support of all in attendance, but one of the clearer articulations of the goal of a sound retirement system was one that ensured all Americans have a stable and sufficient source of income over their remaining lifetimes.

Of course, income smoothing across decades, a challenge in any case, is made much harder when income fluctuates week-to-week and month-to-month during individuals' working years. As one attendee noted, those struggling economically in retirement are usually those who struggled economically during their working life. Retiring does not magically make lifelong economic insecurity disappear. And income volatility, precarious work arrangements, and gen-

eral financial instability are now widespread among today's working Americans. For example, data from the JPMorgan Chase Institute indicates that 55 percent of Americans today experience large (more than 30 percent) month-to-month fluctuations in income.[9] A recent academic study found that 94 percent of the net employment growth across the US economy between 2005 and 2015 came from the rise of alternative work arrangements: temporary help agency workers, on-call workers, contract workers, and independent contractors or freelancers.[10] Meanwhile, nearly four out of 10 Americans lack the necessary liquid savings (including retirement accounts) to avoid falling into poverty should they face an income disruption.[11]

Stated simply, financial instability reaches well into the middle class. If that instability continues to spread, the stress on the country's retirement system will intensify. The extent to which the system must adapt to this reality was a major theme of the Forum.

3. INCREASES IN LONGEVITY

Even as workers face economic headwinds, they generally also enjoy longer lifespans—and thus longer retirements. In 2010, 65-year-old Americans could expect to live another 19 years, which is a 20 percent increase from four decades earlier.[12] And this statistic looks only at average individual lifespan. There is a nearly one-in-five chance that at least one member of a 65-year-old couple reaches the age of 95.[13] Increased lifespans are, of course, good news, but they pose a variety of unique challenges to the retirement system.

One of them is a result of the transition from DB to DC plans: Most retirees in DC plans receive a lump sum of accumulated savings when they stop working, then are left on their own to make investment and annualized withdrawal decisions.

Although Social Security provides an annuitized, inflation-protected benefit (i.e., consistent payments for as long as beneficiaries live), other "lifetime income" options are limited. There are many reasons for this, but some that were mentioned at the Forum include:

- *Lack of demand.* Employees are not clamoring for guaranteed income streams in retirement. As a result, employers may not see this feature as necessary for attracting or retaining workers.

- *Shorter job tenure.* With employees staying with an employer for shorter and shorter tenures, employers are hesitant to assume the burden of keeping track of workers after they have left the firm.

- *Fear of litigation.* The US Treasury and Labor departments have taken steps to encourage employers to offer annuities and other lifetime income products within their DC plans. But such safe harbors and legal clarifications have not assuaged employer concerns about the possibility of being sued for violating their fiduciary duty should they select an annuity product or provider that fails to perform as advertised.[14]

- C*omplicated product design.* Developing high-quality annuities for a population with heterogeneous preferences is difficult. Retirees have different investment risk appetites, different health care needs, and different views on how much they would like to bequest after they die—all of which can affect how one's nest egg is best converted into income. Moreover, new research indicates that seniors' expenses—once thought to be fairly static—can actually be volatile and hard to predict, especially as they relate to late-in-life health and long-term care costs.[15]

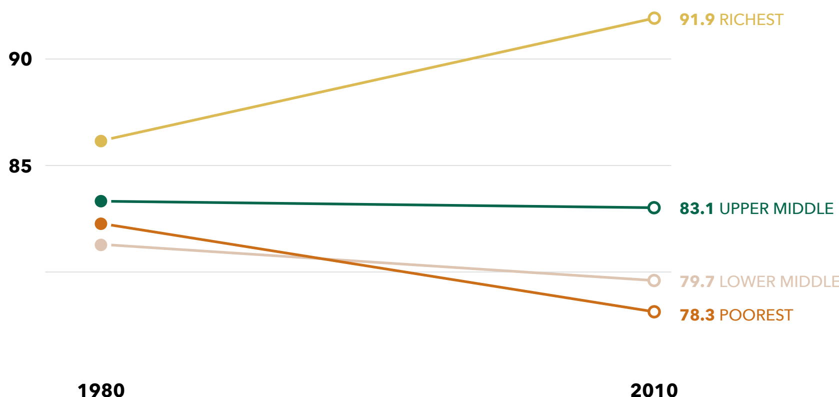
Whether the retirement system of the future can help retirees navigate this multivariate income stream problem will be a major test of its efficacy.

Increased longevity may also mean upending long-held beliefs on when workers should retire—or even if they should fully retire at all. As one attendee observed, placing all the additional years we have gained from increased longevity in our retirement —which seems to be the path our society is currently charting—might be ill-advised. But shifting societal paradigms is difficult, especially when many Americans, even today, are retiring earlier than they planned, often due to health problems or disability, changes at their workplace, or having to care for a spouse or other family member.[16]

Of course, longevity does not create the same problems for all Americans, in part because it is not increasing equally for all Americans. According to the Social Security Administration, high earners live longer than their low-earning counterparts, and the gap has been increasing over time.[17] Other recent research showed that the life expectancy for a low-income, 50-year-old woman in 2010 was four years lower than it was for a similarly situated woman 30 years earlier, and more than 13 years lower than it was for her high-income counterpart in 2010.[18] Part of the explanation seems to be increased death

INEQUALITY IN LIFE EXPECTANCY WIDENS FOR WOMEN

Wealthier women can expect to live longer than their parents did, while life expectancy for poor women declined



Life expectancy for 50-year-olds in a given year, by quintile of income over the previous 10 years.

Source: National Academies of Science, Engineering and Medicine

rates among middle-aged white Americans, mostly as a result of suicide, drugs, or alcohol.[19] Researchers are still debating the main drivers of these trends, but it is clear that the wide variation in Americans' lifespans will make reshaping the retirement system to account for increases in average longevity that much harder.

4. AN EVOLVING SOCIAL CONTRACT

In addition to the technical challenges discussed above, there is also a lack of consensus around which institutions and segments of society are best positioned and most capable of managing various forms of risk.

Some retirement system risks that used to be shared in traditional pension models—especially around longevity and investment performance—are now squarely laid on the shoulders of individuals. Epitomized by the transition from DB to DC plans, this "risk shift" can also be seen in the rise of part-time, sub-contracted, and contingent workers in the service sector. As long-term relationships with employers wane, workers increasingly must take responsibility for retirement savings.

Forum attendees discussed a wide range of potential paths to reshaping the social contract. These ranged from a greater role for government to renewed responsibility for employers to the creation of a new kind of organization that aggregates risk and centralizes benefit provision for an increasingly mobile workforce. But, perhaps not coincidentally, the risk shifts outlined above have occurred in tandem with a decline in trust in the institutions that make up the government, corporate America, the financial system, and the news media. This will make any attempts to reshape the social contract more difficult.

5. LACK OF POLITICAL WILL

As distrust of its critical institutions grows, the country finds itself in the midst of a crisis of political leadership as well. Basic functions of effective legislating, such as passing annual appropriations bills on time and through regular order, have broken down, while more substantive changes, such as reforming the tax code, face uncertain prospects at best. And as the current debate on such reform makes clear (see "What Tax Reform Could Mean for the Retirement System" sidebar on next page), retirement is often treated by policymakers, in the words of one Forum participant, as "the dangling participle of tax policy." Indeed, federal legislators have repeatedly proposed reducing tax preferences for retirement savings, not to achieve a retirement-specific policy goal but rather to finance other goals such as cutting marginal tax rates.[20] There was strong consensus among all those in attendance that retirement security should be a top national priority in its own right, not merely a source of revenue for other objectives.

As one Forum participant explained, the overarching challenges facing the American retirement system are subtle and slow developing, more chronic disease than headline-grabbing epidemic. Congress is notorious for doing the bare minimum to address crises when they arise, otherwise content to kick the can down the road. That this does not often impede re-election reflects the difficulty in getting voters to care about the small-scale fixes that would help get the retirement system back on track. (To be fair, policy prescriptions can be dense, jargon laden, hard to explain, and of little consequence to Americans' current, day-to-day lives.) In any case, changing large, complicated systems that touch multiple stakeholders requires detailed policy understanding and deft political maneuvering at a time when the value of nuance in all forms seems at a historical low. For all of these reasons, inaction and the status quo continue to win the day.

WHAT TAX REFORM COULD MEAN FOR THE RETIREMENT SYSTEM

Leaders in the Trump administration and Congress have called for sweeping tax reform in 2017. Because the current tax code includes significant and costly incentives for employers to offer retirement plans to their workers, as well as for employees to contribute, any changes to the code could have profound effects on the US retirement system.

Of course, this is not the first time that a new administration has made tax reform a priority, and action is not assured. At the time of publication, reform proposals on Capitol Hill were still being finalized and far from passage. Nevertheless, some retirement industry experts are worried that precipitous drops in tax rates for pass-through businesses, such as those being proposed by President Trump, could severely reduce incentives for employers to create a plan for workers. Indeed, many business owners set up such plans largely to take advantage of tax savings that they themselves can accrue.

Furthermore, some policymakers—in an effort to offset the cost to the government of reducing corporate and individual income tax rates—have floated the idea of reducing or otherwise altering the incentive individuals receive when they contribute to a tax-advantaged retirement plan, such as a 401(k) or Individual Retirement Account (IRA). For example, some members of Congress have proposed that all future retirement account contributions be treated as "Roth" contributions, so that funding would be made with after-tax income and withdrawals would be tax-free. Today, savers have the choice between a Roth strategy and traditional pre-tax contributions.

This "Rothification" proposal would essentially trade future tax revenue for current revenue. This reduces the bill's apparent cost because the price of congressional proposals is customarily "scored" based on the effect on federal revenue over the next 10 years (the "budget window," in policyspeak). Of course, most changes to pension policy take well over 10 years to fully play out, making the 10-year budget window potentially ill suited for sound retirement policymaking.

Regardless of its budgetary effect, Rothification, if enacted, would almost certainly influence Americans' savings behavior.[a] Whether Congress decides to make this change, and, if it does, what exactly that effect will be, remains to be seen.

[a] For one analysis on this question, see, e.g., Aron Szapiro. "Middle-Class Workers Could be Hurt by Tax Reform if it Shifts Them to Roth-Style Retirement Savings," morningstar.com, July 6, 2017.
www.morningstar.com/content/dam/morningstar-corporate/blog/TaxReform_AMQ_060617.pdf

SOLUTIONS

PATHWAYS TO PROGRESS

Overcoming these five challenges to building a better retirement system for the future is a daunting task. Nevertheless, Forum participants expressed cautious optimism about redesigning certain aspects of the current system. The most promising ideas were also the largest scale: 1. rethinking the role of employers as the primary providers of retirement plans; 2. paving the way for more lifetime income options; 3. expanding the retirement system's mission so that it helps address other threats to financial security; 4. adopting a package of reforms that would strengthen 401(k) plans without entirely remaking them; and 5. making retirement plans more portable.

1. RETHINKING THE ROLE OF EMPLOYERS

Employers have been the linchpin of the US private retirement system since its inception. Workers lucky enough to work for a firm that offers retirement benefits are much more likely to save for their future. But, of course, the opposite is also true and, as mentioned above, increasingly the case given the growing number of employers that do not offer such plans. Although uncovered workers could save for retirement through other avenues, particularly IRAs, very few do. According to calculations by the Employee Benefit Research Institute, less than five percent of workers who earned between $30,000 and $50,000 and lacked access to a workplace plan contributed to an IRA.[21] In fact, only 13 percent of all IRA holders contributed to their account in 2012.[22] The blame for this inaction, according to reams of research into financial decision making, lies in a variety of psychological biases, not least inertia.[23]

Setting up automatic payroll deduction with an opt-out option, on the other hand, is straightforward and easy. And research indicates that it is an essential part of successful retirement savings. Indeed, it is employers' involvement in payroll—along with the ability to automatically enroll workers in a plan (with opt out)—that explains why most observers

THE EMERGENCE OF STATE PLANS

California, Connecticut, Illinois, Maryland, and Oregon recently passed legislation that attempts to close the coverage gap by requiring private-sector employers to automatically enroll their workers in a state-sponsored program that uses payroll-deduction IRAs. By one estimate, 13 million Americans could gain coverage through these plans, which will be administered by private record keepers and managed by private investment firms. As one Forum participant noted, these new plans will combine the best of the 401(k) system (i.e., sound governance) with the best of the IRA system (i.e., portability) in a simple-to-use structure.[a]

While the bills to establish the state programs were passed with some bipartisan support, the plans are not without controversy. Some opponents argue that the requirement to deduct and transmit a portion of employees' wages to the state is overly intrusive. Other observers argue that the small amount of savings in each account, especially at the beginning, will make it prohibitively expensive to administer and could disappoint savers expecting the program to deliver a full pension. Finally, some plan providers fear the state programs will crowd out private retirement offerings, not least because they will not be regulated by the same rules as other employer-sponsored plans.

But the most significant challenge now facing the state plans is a legal one. In August 2016, DOL issued a regulation that attempted to clarify that ERISA did not apply to the state auto-IRA plans. However, more recently, Congress passed a resolution nullifying the regulation, creating still more uncertainty.[b] This debate will likely be decided by the courts, but in the meantime, all of the existing auto-IRA states are moving forward with implementation. Oregon, for example, launched the pilot phase of their initiative, OregonSaves, in July 2017.

Forum participants expressed a wide range of views on how employers will react to these new state plans. Some argued that plan sponsors will see the state programs as an opportunity to dump their workers into the state plan and get out of the business of providing retirement benefits altogether.[c] Others disagreed, arguing that most employers would not give up the substantial tax and worker-recruitment benefits that come from offering a plan of their own.

In recent years a smattering of other states have also passed retirement plans geared towards reducing the coverage gap among their citizens. New Jersey and Washington are trying to make it easier for small business owners to shop for retirement benefits for their employees through new, online marketplaces. Vermont is pursuing a state-run MEP that would allow small firms that offer plans to pool resources and reduce reporting requirements. Massachusetts is taking the same MEP approach, although it is focused only on nonprofit firms. None of these non-IRA programs require employer participation, which could limit their reach, but many at the Forum voiced excitement about the general level of state activity in this area.

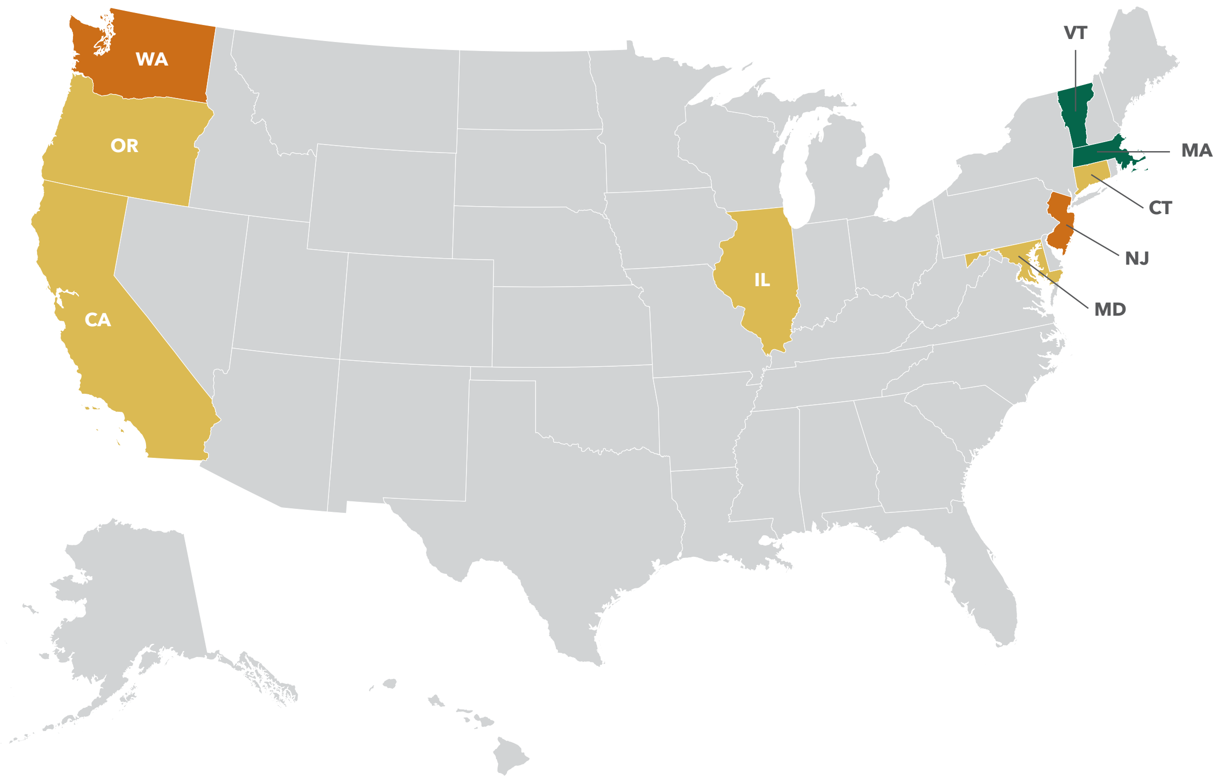
[a] Nari Rhee. "Proposed Congressional Repeal of Federal Regulations Supporting State Auto-IRAs Threatens Retirement Security of 13 Million Workers in Five States," UC Berkeley Center for Labor Research and Education, February 2017.
http://laborcenter.berkeley.edu/pdf/2017/Proposed-Repeal-of-Regulations-Supporting-State-Auto-IRAs.pdf

[b] Public Law 115-35. US Government Publishing Office, May 17, 2017.
www.congress.gov/115/plaws/publ35/PLAW-115publ35.pdf

[c] The most comprehensive survey on the subject has found this concern to be largely unfounded: The Pew Charitable Trusts. "Employer Reactions to Leading Retirement Policy Ideas – Insights from Pew's National Survey of Small Business," July 27, 2017. http://www.pewtrusts.org/en/research-and-analysis/reports/2017/07/employer-reactions-to-leading-retirement-policy-ideas. But at least one separate survey found substantial interest in dropping among plan sponsors: Ted Godbout. "Report Finds Moderate Interest in Dropping DC Plan for State-Run Plan," napa-net.org, July 25, 2017.
www.napa-net.org/news/managing-a-practice/industry-trends-and-research/report-finds-moderate-interest-in-dropping-dc-plan-for-state-run-plan/

STATE PLANS

- **Secure Choice**
  (CA, CT, IL, MD, OR)
- **Marketplace**
  (NJ, WA)
- **Multiple Employer Plan**
  (MA, VT)



believe employers are indispensable to any effective systematic overhaul of retirement saving. The main reason previous efforts to expand coverage have fallen short is that employers—especially small business owners—feel that they do not have the time, money, or know-how to complete these tasks.[24] Employers also hesitate to take on the other responsibilities that come with setting up a plan, such as hiring third-party record keepers and asset managers and curating investment choices. Finally, employers who do sponsor plans are increasingly being sued for violating their fiduciary duty or otherwise failing to comply with the Employee Retirement Income Security Act of 1974 (ERISA). High-profile class action lawsuits that argue unsound plan administration, excessive fees, and undisclosed relationships with service providers doubtless discourage many employers who consider sponsoring a plan from doing so.[25]

Policymakers had previously relied on financial incentives—delivered through tax subsidies—to encourage employers to offer retirement benefits. But now a few states have broken new ground by requiring employers who can't or won't set up their own to utilize one administered by the state (see "The Emergence of State Plans" sidebar on previous page). In these plans, employer responsibilities are limited: There is no fiduciary duty to select prudent investments, no plan administration obligations, and minimal reporting requirements. All of these responsibilities are handled by the state-sponsored plan. These programs offer one possible model for how the federal government could simultaneously close the coverage gap and reduce employer liability. At the federal level, the Bipartisan Policy Center's Commission on Retirement Security and Personal Savings has recommended a phased-in employer requirement combined with the creation of new, low-burden coverage options.[26]

Experience from other countries may serve as a guide as well. Employers in the UK are now under an obligation to automatically enroll workers in some type of pension, either a private plan or a new public plan, the National Employment Savings Trust (NEST). Because employers that offer retirement benefits in the UK do not face any fiduciary obligations, the new arrangement is, like the state plans referenced above, essentially a marriage between required automatic enrollment and zero employer fiduciary duty. These reforms have thus far largely been a success: Six million workers in the UK have gained coverage, with an additional three million

poised to enter the system in the coming years.[27] As Forum participants explained, worker opt-out rates are low, the political coalition that passed the reforms remains intact, and industry has responded positively, recognizing the business opportunity inherent in a universal automatic enrollment requirement.

Several Forum participants expressed support for reducing employers' fiduciary duty. Indeed, the conversation made clear that plan sponsors, increasingly concerned about legal exposure, are looking to reduce that litigation risk. Moreover, some Forum participants pointed to the potential benefits of a "soft" employer mandate that would provide the government or a third party access to an employer's payroll for automatic enrollment and deduction purposes. Whether these two policies could be combined in a politically palatable way remains to be seen.

2. ENSURING LIFETIME INCOME

Forum participants generally agreed that lifetime income products are a promising way to address the complicated challenge of making retirement nest eggs last (see "Increases in Longevity" above).[28] They identified several ways in which different institutions could advance this solution:

- *Plan sponsors.* A few large employers have successfully embedded annuities within default target-date funds that are part of a 401(k) or another DC plan. This can be an appealing option for companies that are transitioning workforces from DB plans. Employees of these firms have come to expect the monthly benefit checks in retirement that annuities provide, so there is common ground between management (looking to shift risk) and labor (looking to ensure continued access to lifetime income options). However, given the aforementioned risk of litigation and the uncertainty around employee demand, many plan sponsors are hesitant to offer this option.

- *Policymakers.* One way to spur action is to ease legal and regulatory burdens. Several Forum participants suggested that the US Treasury and Labor departments should amend rules in ways that provide plan sponsors with the certainty they need to deliver innovative and effective lifetime income products to workers.[29] One example given was the creation of a more expansive and well-defined safe harbor from ERISA than exists today.

  But if employer-sponsored plans are not a viable channel through which to deliver lifetime income—for reasons delineated elsewhere in this report—policymakers would need to work with business leaders to create a separate entity to pool longevity risk, or build other ways to protect retirees from running out of money in old age (e.g., long-term care insurance or phased retirement).

- *Private Sector Disruptors.* Entrepreneurs are also attacking this problem, devising creative ways to use technology to help retirees or near-retirees make better decisions. From tools to navigate the confusing annuity market to algorithms that provide personalized advice on maximized nest egg withdrawal rates, financial startups can—and, in some cases, already are—boldly transforming the system.

3. MEETING A BROADER RANGE OF FINANCIAL NEEDS

Many Forum participants urged their fellow attendees to think more expansively about the system's overarching goals. One speaker suggested that retirement companies may soon confront a choice

A PRIMER ON SIDECAR ACCOUNTS FOOTNOTES

[a] The Pew Charitable Trusts. "The Role of Emergency Savings in Family Financial Security – How Do Families Cope With Financial Shocks?" October 2015. www.pewtrusts.org/~/media/assets/2015/10/emergency-savings-report-1_artfinal.pdf

[b] Kasey Wiedrich, Solana Rice, Lebaron Jr. Sims, and Holden Weisman. "On Track or Left Behind? Findings from the 2017 Prosperity Now Scorecard," Prosperity Now, July 2017. https://prosperitynow.org/files/PDFs/2017_Scorecard_Report.pdf

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[e] For more on sidecar design considerations, see David S. Mitchell and Gracie Lynne. "Driving Retirement Innovation: Can Sidecar Accounts Meet Consumers' Short-and Long-Term Financial Needs?" The Aspen Institute Financial Security Program, June 2017. https://assets.aspeninstitute.org/content/uploads/2017/06/FSP-Sidecar-Accounts-Brief.pdf

A PRIMER ON SIDECAR ACCOUNTS

A recent survey from Pew Charitable Trusts noted that 60% of Americans experienced an unanticipated pay cut, trip to the hospital, spousal separation, major car or home repair, or other large expense in the previous 12 months.[a] And according to Prosperity Now, 44% of households did not put any money towards emergency savings in the past year.[b] It is not surprising, then, that many families are forced to tap long-term assets, such as retirement accounts, to deal with income volatility and other short-term financial hardships. According to a 2013 report, one in four people with a DC plan will use all or some of their savings for nonretirement needs (e.g., paying a bill, buying a home, dealing with a medical emergency, or sending a child to college).[c]

One way to help families cope with financial shocks and volatility is to link a short-term emergency savings, or "sidecar," account to a traditional retirement account. Such an approach would help to prevent retirement accounts from being depleted prematurely (and avoid potential early withdrawal penalties).

The idea is simple: Workers fund a short-term savings account reserved for emergencies, and once a sufficient savings buffer has been built up, additional contributions are automatically diverted to a traditional, less-liquid retirement account. To ensure a constant savings buffer, the short-term account is automatically replenished as necessary. The hope is that by formalizing the dual role the retirement system currently plays, savers would be in a better position to distinguish between what is available now and what is locked away for retirement.[d] This would allow them to meet short- and long-term financial goals more easily. Sidecar accounts could take several forms.[e] Key design questions, the subject of a Forum panel, include:

- Which institution—employers, governments, or public-private partnerships—should deliver the sidecar account to consumers?
- How should the account be structured for fiduciary liability and tax purposes?
- Should consumers be automatically enrolled, and, if yes, how could that be accomplished given current legal constraints?
- How large of a balance should be allowed to accumulate in the sidecar account before future contributions flow to the traditional retirement account? Or should they be funded simultaneously to ensure regular and consistent stock purchases?
- What withdrawal restrictions, if any, should be placed on the two accounts?
- What financial incentives, if any, should savers (or their employers) receive for funding the sidecar account?

Though these questions are unresolved, some policymakers are already exploring ways to get the idea off the ground, and a number of Forum participants are designing experiments to test potential models.

similar to the one faced by oil companies in an age of low gas prices and accelerating climate change: Are we in the petroleum business or the energy business? As both short- and long-term financial needs of Americans grow more complex, retirement providers may well be forced to answer a similar question: Are we in the retirement business or the financial security business? In siding with the latter, some attendees argued for leveraging the unique strengths of the current retirement system —broad reach, streamlined administration, robust competition around customer service and fees—to combat other threats to financial security, such as short-term shocks, income and expense volatility, and consumer debt.

Although employer-based financial wellness and education programs are hardly new, the Forum highlighted various opportunities for retirement providers to expand their scope in more meaningful ways. For example, a panel on the interplay between short- and long-term savings explored the idea of a dual-account structure, which would pair a traditional retirement account with a "sidecar" savings account (see "A Primer on Sidecar Accounts"). The latter would be explicitly earmarked for short-term needs and emergencies, thus providing workers with a safety valve with which to bridge financial gaps while simultaneously reducing the need for savers to withdraw prematurely from their retirement account (and avoiding the financial penalties that can result). A number of serious obstacles to this innovation were raised, including a lack of clear legal authority for employers to automatically enroll workers in such an account and, more fundamentally, an unknown level of consumer and plan-sponsor demand. Indeed, some Forum attendees worried that creating yet another type of savings account would complicate the already difficult-to-navigate savings choice architecture. Nevertheless, several participants said they plan to experiment with the idea in coming years.

Retirement benefits could also be coupled with student loan repayment assistance, debt consolidation programs, and payroll innovations like automatic bill pay. Some Forum participants argued that employers would see benefits to their bottom line from offering these wrap-around services as they would lessen their employees' financial stress while boosting their productivity. But others were less sanguine, noting that it is hard to quantify the concrete benefits such programs deliver. Even without employer buy-in, though, financial institutions, governments, and nonprofits could lead the way in this arena.

Photo by Bruno Nascimento

4. STRENGTHENING THE 401(K)

An alternative to comprehensive reform models that re-imagine the role of employers (see "Rethinking the Role of Employers" above) is to build on the current system in proven—and, in some cases, long overdue —ways. For example, many Forum participants bemoaned stubbornly low default contribution rates and low levels of automatic enrollment and escalation (laddered increases in retirement contributions over time) in current workplace plans. Requiring or incentivizing employers to improve these indicators —while of course keeping employees' opt-out options intact—would go a long way toward boosting retirement account balances. Other reforms mentioned include:

- *An improved government match for contributions made by low- and moderate-income savers, possibly by making the Saver's Credit refundable.* Currently, most of the tax benefits used to incentivize contributions to a retirement account are deferrals, reducing savers' current taxable income. The Saver's Credit, on the other hand, provides a credit against taxes owed, which is more egalitarian because the up-front benefit is worth the same no matter your income, rather than larger for those in high income tax brackets. However, the existing Saver's Credit is limited in its efficacy because it provides no benefit to those who have no income tax liability. Making it refundable, and directing the amount of the credit into a retirement account as a match, would rectify this shortcoming and provide direct incentives for those savers who need them most.

- *A new kind of "open" MEP that allows employers to pool together to offer a single plan to all their workers.* As with the plans being pursued in Massachusetts and Vermont (see "The Emergence of State Plans" sidebar on page 8), the idea is to lessen reporting requirements and other administrative expenses. But rather than the state sponsoring the MEP, a private third party would do so. Current DOL regulations prevent unrelated employers from banding together in this way, but Congress could relax those restrictions. In fact, a provision to permit private open MEPs was included in the Retirement Enhancement and Savings Act of 2016, which passed the Senate Finance Committee unanimously.[30] Although the bill was not taken up by the full Senate—or the House—before Congress was adjourned, some Forum participants were optimistic that it could be reintroduced and passed soon.

While not as sweeping as some of the other ideas discussed at the Forum, these practical and achievable reforms could increase the reach and adequacy of workplace retirement plans.

5. MAKING PLANS MORE PORTABLE

Today, workers can cash out their workplace plans whenever they switch jobs. Although fees and taxes are often deducted from cash-outs, many savers are tempted by this potential windfall because they are overwhelmed by the complexity involved in "rolling over" the accumulated savings to an IRA or new DC plan. Making the rollover process simpler and more automatic could reduce this major source of savings "leakage."[31]

In a related vein, the US could follow the lead of countries like Australia and the UK that use a registry to ensure that "lost" accounts (e.g., those that have been opened and funded at previous jobs) get returned to their rightful owner.[32] The UK is also piloting what could be considered a next-generation registry, called a pension dashboard, that allows workers to see all the private (and, eventually, public) pensions they have accumulated, complete with lifetime income illustrations, all in one place.[33] One Forum participant argued the retirement industry has the power today to make plans more portable and that doing so should be a top priority.

CONCLUSION

PROMISING FIRST STEPS

Taking large-scale action on retirement reform, be it change in government policy or private firm behavior, will require trust, a willingness to experiment, and a sense of the greater good. The Aspen Leadership Forum on Retirement Savings seeks to create a "brave space" that allows for these traits to flourish, and the first annual convening went a long way towards achieving those conditions.

Consensus was unlikely to form after one meeting, but important progress was made on issues big and small. Participants spoke frankly—and, at times, beyond the confines of their institutional affiliation—to identify the major challenges facing the current system: the coverage gap; widespread financial instability; increased longevity; an evolving social contract; and lack of political will to make retirement security a public policy priority. Attendees agreed that ongoing debates around tax reform and state-sponsored retirement savings plans present opportunities to convince policymakers and citizens alike that retirement security deserves their sustained attention. Finally, and most important, Forum participants detailed a number of promising ways to address the system's shortcomings and build a more inclusive savings system. Participants left the Forum energized and ready to work together to begin solving the financial challenges facing the country.

ABOUT ASPEN FSP

The Aspen Institute Financial Security Program (FSP) connects the world's best minds to find breakthrough solutions for America's family financial security crisis. FSP advances a new generation of policies, products, and services that enable more Americans to meet basic financial needs and withstand financial shocks, while saving for long-term goals like college, homeownership, and retirement. For more information on Aspen FSP, please visit **www.aspenfsp.org**.

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