FINANCIAL SECURITY PROGRAM
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LEADERSHIP FORUM ON
RETIREMENT SAVINGS

BUILDING USER-CENTRIC, PORTABLE RETIREMENT SAVINGS TOOLS FOR THE 21ST CENTURY WORKFORCE

A RAPPORTEUR'S SUMMARY

May 18, 2021

1:00 p.m. – 4:00 p.m. Eastern

ACKNOWLEDGEMENTS

The Aspen Institute Financial Security Program (Aspen FSP) would like to thank Ellen Stark for serving as Forum Rapporteur and writing this report. The Aspen Institute Retirement Savings Initiative (Aspen RSI) would like to thank Anne Ackerley, Jeffrey Brown, Michael Davis, Robin Diamonte, Jason Fichtner, Yanela Frias, Mark Iwry, David John, Elizabeth Kelly, Michael Kreps, Lisa Massena, Lew Minsky, Katherine Roy, Katie Selenski, Steve Wendel, and Debra Whitman for serving on the Advisory Board of the Aspen Leadership Forum on Retirement Savings, as well as all the attendees of the fifth annual Forum for sharing their insights throughout the meetings. Finally, Aspen RSI thanks AARP, BlackRock, J.P. Morgan Asset Management, Prudential Financial, and T. Rowe Price for their generous support of the Forum as well as this report. While this document, of course, draws on insights shared at the Forum, the findings, interpretations, and conclusions expressed in this report—as well as any errors—are ours alone.

ABOUT THE FORUM

In April 2021, the Aspen Institute's Financial Security Program kicked off the fifth annual Aspen Leadership Forum on Retirement Savings. The opening session was held virtually on April 15 and was open to the public. This was followed by a series of four invitation-only, virtual, in-depth private dialogues exploring critical challenges within our retirement savings system: expanding access to retirement savings, increasing portability of retirement savings, strengthening retirement cash flow, and building a retirement savings system that produces more racially equitable outcomes. More than 400 experts from across the retirement ecosystem – from industry, government, academia, advocacy, fintech, and more – participated in our public event, and 80 more participated in one of our private dialogues to advance breakthrough solutions to America's unfolding retirement savings crisis. To encourage open dialogue, the Forum private dialogues were governed by Chatham House Rule, under which participants are free to share what was discussed but are entrusted not to reveal the speaker's identity.

ABOUT THIS PRIVATE DIALOGUE

On May 18, 2021, the second private session of the fifth annual Aspen Leadership Retirement Forum on Retirement Savings convened to take on the challenges of retirement savings portability. More than a dozen participants discussed what portability means, why portability matters, why achieving it is so difficult, and what the next steps should be to ensure that all retirement savers – from gig workers to traditional employees – can retain and manage funds from multiple savings plans over their careers. The group also debated how the principles of portability should shape the wider discussion of increasing retirement plan access.

SIX STATS THAT TELL THE PORTABILITY STORY

When retirement plans are tied to specific jobs, as they are for most U.S. workers, the task of keeping that savings intact over a career falls to the individuals.

1. Every job change can trigger a portability challenge.

12

Median number of jobs over career

Source: U.S. Bureau of Labor Statistics, August 2021

2. A direct plan rollover may not even be possible.

16%

Job changers who move to a company that has no retirement plan

Source: Boston Research Technologies & Retirement Clearinghouse, "Portability and the Mobile Workforce," April 2015

3. Plan leakage erodes retirement security.

$60B - $105B

Savings lost due to plan cash-outs, per year

Source: Savings Preservation Working Group, "Cashing Out: The Systemic Impact of Withdrawing Savings Before Retirement," October 2019

4. Retirement savers like the idea of automatic portability.

85%

Retirement savers who would find automatic transfers valuable

Source: Employee Benefit Research Institute and Greenwald Research, "2021 Retirement Confidence Survey"

5. Yet, automatic portability might require a new government rule.

57%

Retirement experts surveyed who support a government mandate for automatic portability

48%

Retirement experts surveyed who believe automatic portability is feasible without a government mandate

Source: Aspen Institute Financial Security Program, "Expert Survey on Retirement Savings," April 2021

THE **BIG** QUESTIONS

1. Is the solution to portability a government mandate, better technology, or something else?

When workers leave jobs, it falls to them to move their retirement plan to a new employer's plan or an IRA, a process that can be complicated and confusing. It can be counterproductive, too: each transfer raises the risk of plan leakage, as workers see an opportunity to cash out instead. True retirement security, then, must be built on three pillars: not only access to a savings plan and sufficient income to fund it, but also systems that support retention.

- In discussing the most traditional definition of portability – that is, moving workplace retirement from a former employer's plan to a new employer's plan or an IRA – participants agreed that the process remains onerous, littered as it is with unnecessary points of friction. An infrastructure that would enable users to move plans with ease simply does not exist. One participant likened it to train stations with no connecting rails.

OVERHEARD

"Nobody gets up in the morning and says, 'I'm going to dedicate the next 12 hours to transferring my former employer's plan!'"

""It's almost like we built train stations but didn't put any tracks out there. If you're in a station you're doing great, but when you need to go to a new one, no tracks."

- For starters, two things needed to make plan transfers easier are the standardization of data and the homogenization of rules. Although seamless systems currently exist to handle other financial transfers – say, among brokerages – none exist for retirement plans.

- A key debate among participants was over whether the federal government should require employers to automatically transfer the retirement accounts of departing employees to the one offered by their new workplace. An Aspen survey of retirement experts found that 57% supported such a mandate.

- That said, nearly half of the experts surveyed thought that automatic portability would be feasible only if the government mandated it. Participants agreed that employers and recordkeepers will need an impetus to take on the challenge, given the billions of dollars that participants estimated might have to be spent to build the infrastructure.

- Participants noted that though creating an infrastructure to support seamless portability would be costly, it still would be in the economic interest of recordkeepers, who could benefit from managing fewer small-balance plans and more larger, consolidated ones.

"There is not enough impetus for employers and recordkeepers to set up a fully connected system to ease portability. You need a national portability mandate to create that impetus."

"The most important thing a retirement savings plan can do is generate good outcomes for the people in it, and often that involves scale and strong governance. Ideally, with scale comes low costs."

- Not all participants supported automatic portability, arguing that savers should have the choice to keep their plan with a former employer. Others noted that auto portability does include an opt-out provision.
- As access to retirement savings plans with automatic enrollment is expanded, finding a solution for portability becomes more urgent. As small plans proliferate so too does the chance that workers will leave theirs behind. The NEST program in the United Kingdom, for example, which requires employers to offer a retirement plan or use a national default option, has 10 million dormant accounts with balances under 1,000 GBP (1,365 USD).

"I don't want to be forced to move my retirement plan, but it should be easy to do if I want to, and I shouldn't have to worry about lost checks or taxes."

- Another risk is that workers simply cash out what seems like an inconsequential balance. Such leakage could turn out to be an unintended consequence of the push to increase access if we don't simultaneously design a more portable system.

2. Is portability the true end goal?

Fueling the portability discussion is a need to leave savers with as few individual retirement accounts as possible. Not only is a single plan easier to manage but consolidating several smaller plans into a larger one can mean lower total fees. The ability to move a retirement plan may not be the only way to achieve this goal, though. Furthermore, easing portability may not help every retirement saver.

"I think relying on the old model isn't serving individual savers or employers, full stop."

- Most visions of portability suggest that workers need only get past logistical hurdles before they can forward their old retirement plan. But throughout the session participants noted that not all types of plan transfers are possible. For example, a Roth IRA can't be rolled into a 401(k), which matters because emerging state auto-IRAs are adopting the Roth post-tax contribution structure.
- The typical American worker will change jobs 12 times in a career, and at least some of those moves provide their own barriers to portability. An analysis by one participant found that currently in a third of those moves workers aren't able to make a direct plan transfer.
- If the goal of portability is for savers to have as few retirement plans as possible while stemming systemic leakage, another solution could be what some participants termed "interoperability." This is a single retirement plan into which multiple employers can direct payroll deductions, even simultaneously, across a worker's career.

- Current state auto-IRAs are interoperable plans – as long as a worker's next job is with a participating employer in their home state. Those who can't tread that career path will be the next portability challenge to address. Could state-to-state rollovers be permitted, or state-to-private-plan transfers?

"I actually think portability is the wrong word because we're really talking about permanence, that is, retaining money. We've created obstacles, and now overcoming them means portability. Maybe we should just remove those obstacles and say, 'This is your money.'"

"Just have one darn IRA that everything flows into. When you change jobs, you just generate a new stream that goes into the pool."

- Privately run interoperable plans, at least within industries, are beginning to emerge, such as the Secure Retirement Plan for home care workers in Washington State. There is also the burgeoning category of retirement plans administered by fintech firms. These IRAs can be funded with payroll deductions or bank transfers and can potentially travel with the user from job to job.

- An even more provocative idea is decoupling retirement plans from employers altogether. Yes, employers are in the best position to facilitate automatic payroll deductions into retirement plans. Still, freeing them from managing those plans could go a long way not only towards alleviating the portability problem but to expanding access to the millions of contingent, part-time, and small business employees without access to a retirement savings program as well.

"We attach certain things to employment, and there's no reason for that other than history. We don't need employers to be involved in anything else besides withholding."

3. How should portability shape the discussion of a national auto-IRA?

The rapid expansion of state auto-IRAs continues to strengthen the case for a national savings plan, but whether that plan will foster greater portability remains to be seen. Today, workers can own different types of tax-advantaged accounts. In workplaces, 401(k)s dominate. States, meanwhile, are relying on Roth IRAs. And fintech firms that provide retirement plans to workers with no other options may offer traditional pre-tax IRAs. The result is a patchwork of tax treatments, withdrawal rules, and contribution limits, all of which leads to incompatibility. So: what should the default national plan be?

"With Roth auto-IRAs, are we solidifying something without thinking about the unintended consequences?"

- Those with access to a 401(k) at work can save as much as $19,500 a year tax-deferred, $26,000 once they reach the age of 50. Traditional and Roth IRAs allow for much smaller annual contributions: $6,000, or $7,000 for those 50 or older. Does that lower contribution cap put non-workplace savers at a disadvantage? Some participants felt that the wide gap created an uneven playing field, but others noted that lower-income workers excluded from workplace plans are unlikely to be able to save enough to bump up against IRA caps in any event.

- When it comes to portability, IRAs are a practical and flexible choice, easily accommodating job changers. But to maximize their usefulness would mean raising contribution caps. An even more significant enhancement would be to allow employers to match worker contributions to an IRA. Fintech firms offering employer-funded IRAs report that a majority of small employers are interested in such a feature.

> "In 401(k)s, your tax-advantaged contribution amount is much higher than in IRAs, and that seems to create a pretty unlevel playing field."

> "What if instead of relying on the 401(k) system, we raise IRA limits, and allow employers to contribute and match, but free them of fiduciary responsibility?"

- Although low contribution caps may diminish an IRA's value as a savings vehicle, they do not interfere with its value as a recipient of rollovers, especially for sub-$5,000 accounts that employers are allowed to distribute and have little incentive to keep. Once savers have an IRA, they are more likely to roll over other funds into it, according to Pew Research.[1]

- In the end, when it comes to portability and streamlining a saver's number of plans, participants noted that the most crucial distinction might be between pre- and post-tax funds. Absent allowing those funds to exist side by side in a single plan, we could set a goal of two consolidated retirement accounts for all savings accumulated over a career. From a behavioral-finance standpoint, that's a situation that savers can manage.

> "The suggestion that an IRA does not allow enough savings is not true for most workers in the U.S."

What's Working Now

Several programs are already making it easier for workers to hold on to their retirement savings when they switch jobs. In particular, state auto-IRAs allow workers to stick with the same plan when they take a job with a new employer that participates in the plan. One Washington state program applies a similar construct to a single sector: home healthcare workers.

Any caregiver who is either employed by one of 11 home-health agencies or who contract directly with the state is automatically enrolled after a six-month waiting period in the SEIU 775 Secure Retirement Plan, a multi-employer savings plan that launched in 2016. Employers contribute up to 80¢ an hour – which gets invested in age-based portfolios – on behalf of each participating employee (who cannot contribute on their own). At retirement, workers are eligible for either a lump sum or monthly payments based on their account balance. Currently, the plan covers 100,000 participants and has nearly $200 million in assets.

Similarly, there is an increasingly popular marketplace solution to the traditional challenge of ensuring that workers neither cash out nor forget about small savings plans when they change jobs. Retirement Clearinghouse, based in Charlotte, N.C., helps plan sponsors automate the process of moving a departing employee's retirement account to their new employer's plan. In September, Vanguard announced that it was partnering with the clearinghouse to service its plan-sponsor clients. That deal will greatly expand the reach of this solution.

[1]The Pew Charitable Trusts, "How Employees Handle Their Retirement Savings During Work Transitions," May 2021

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