FINANCIAL SECURITY PROGRAM
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LEADERSHIP FORUM ON
RETIREMENT SAVINGS

RAPID CHANGE, REAL MOMENTUM

ASSESSING AMERICA'S PROGRESS TOWARD INCLUSIVE RETIREMENT SAVINGS

2022

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ABOUT THE FORUM

In October 2022, the Aspen Institute's Financial Security Program hosted the sixth annual Aspen Leadership Forum on Retirement Savings at the Tides Inn in Irvington, Virginia. The Forum is a unique, invitation-only gathering comprised of roughly 70 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 the 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. To encourage open dialogue, the Forum was 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. The Forum is sponsored by AARP, BlackRock, Prudential Financial, T. Rowe Price, and Guideline.

ABOUT THE AUTHOR

Ellen Stark writes about personal finance, business, and entrepreneurship for a variety of publications, including Consumer Reports, Crain's New York Business, Bloomberg Businessweek, and AARP Bulletin. Previously, she had an award-winning tenure as both a writer and editor at Money magazine and Money.com.

WHAT'S IN THIS REPORT

In October 2022, policymakers, financial services executives, academics, advocacy leaders, and financial technology innovators gathered at The Tides Inn in Irvington, Virginia, for the sixth annual Aspen Leadership Forum on Retirement Savings. An in-person event for the first time since early 2020, the Forum set out to advance solutions to ensure that everyone in America can benefit from the defined contribution retirement savings system.

Over two days, Forum participants took stock of the progress made in five core aspects of retirement savings and security—access to workplace savings plans, emergency savings tools, plan portability, lifetime income solutions, and equitable outcomes in defined contribution plans—before addressing potential next steps in each of those areas.

Key themes infused the discussions, including the virtue of simplicity, the importance of acknowledging the emotions that govern financial decisions, and the need to set realistic expectations for measuring progress.

Part 1: Expanding the Conversation

Participants brought some provocative ideas to the table—reconsiderations of well-trod subjects and new avenues for exploration alike:

1. On the role of employers

A retirement savings system tied to employers has left out too many workers. Additionally, some employers would be happy to offload the responsibility of retirement benefits. Is it time to seriously consider ways to allow employers, including larger ones, to exit such fiduciary responsibilities while still contributing to employees' lifelong retirement accounts that are provided by someone else?

2. On the hierarchy of savings goals

Saving for emergencies while at the same time saving for retirement is crucial to overall financial security. But for workers with pressing needs, should short-term savings come first?

3. On the relationship between housing and retirement savings

As the two largest sources of personal wealth, the connection between housing and retirement savings feels important. And yet it remains unexplored. The significance of home ownership for retirement security cannot be overlooked, both in terms of how savers allocate funds and how savings can be used to promote home ownership.

4. **On an early start to long-term saving and investing**

   Making meaningful investments in children—with "baby bonds" or similar early wealth-building accounts —may help build lifetime wealth and prime the next generation of retirement savers.

5. **On the emergence of blockchain**

   The new technology can play a role in the retirement-saving lifecycle, improving plan portability, smoothing out wages and savings, and more.

Part 2: Heading in the Right Direction

Asked to grade the progress made in the five areas of retirement security, participants gave middling marks. However, in discussions, they were much more positive, pointing to real moves forward since the outset of the Forum in 2018 and revealing new ways to maintain momentum.

1. Access to Workplace Savings Plans

State-sponsored auto IRAs are proliferating—and not at the expense of private plans. Further, recent legislation has made it easier for employers to band together to offer workplace plans. Still, challenges remain in enrolling workers and keeping administrative costs low. And successful tools like auto enrollment may be reaching the point of diminishing returns. Focusing on simplicity in new plans could ease choices for savers, facilitate plan setup, and lower costs.

2. Workplace Emergency Savings Tools

The SECURE 2.0 Act, passed late in 2022, will allow employers, starting in 2024, to automatically enroll most workers in an emergency savings account linked to their retirement plan. This is a major victory. Now, we need to convince employers and recordkeepers to make these accounts more widely available. There also remains a need for regulatory and legislative guidance on auto enrollment in out-of-plan savings accounts.

3. Retirement Plan Portability

Facilitating a seamless process that allows workplace retirement savings to follow a worker throughout their employment is essential, preventing leakage and withdrawals while supporting the compounding potential of investments. The newly launched Portability Services Network, a partnership between major plan recordkeepers and the Retirement Clearinghouse, is a big step forward for portable workplace benefits for millions of workers. But though it is a breakthrough, it is the beginning of a solution, not the end. There is a need to get more companies on board and to implement other fixes to the system, like enabling Roth IRA to Roth 401(k) rollovers and requiring employers to accept rollovers from other plans.

4. Lifetime Income

Continued gains in average life expectancy heighten the need for lifetime income products. Congress has given employers more flexibility to offer retirement income products within workplace plans, but these products can be complex, and the powerful emotions that guide retirement spending and saving may impede widespread adoption. Addressing those psychological barriers, and unpacking what retirees want and need in retirement, is vital.

5. Ensuring Equitable Outcomes Within Existing Plans

Multiple data sources continue to confirm that Black, Latinx, and female workers amass significantly less in lifetime retirement savings than do white male workers. Certainly, well-documented gaps in both wages and access to workplace retirement savings accounts contribute to these differences. But, as participants noted, more goes into an account's ultimate balance than contributions. Rather, it is the product of a worker's contribution level, a potential employer match, investment selection, loan activity, hardship withdrawals, and more. At this Forum, participants considered how much we really know about how plan design and adjacent workplace benefits contribute to disparate outcomes. It is critical to understand these drivers as we seek to expand access to the retirement savings system.

INTRODUCTION

The power and reach of the defined contribution retirement savings system is undeniable: 78 million private-industry workers and seven million state and local government workers in the United States have access to a defined contribution plan,[1] resulting in a system that today holds $9.3 trillion in assets.[2] This complicated system—requiring the stewardship of employers, recordkeepers, asset managers, and more–represents a critical source of financial security for people as they grow older and both seek to replace reduced labor income and have a stock of savings with which to make financial decisions.

But the system is not working for everyone: nearly 57 million workers lack access to a retirement plan through their jobs.[3] Black and Latinx workers are less likely than their white counterparts to be offered a retirement plan at work, in large part because they are more likely to work for small businesses that struggle to provide the kinds of savings options large corporations readily afford. Meanwhile, part-time and contingent workers often find themselves sidelined altogether.

The flaws in the retirement system go beyond gaps in access, though. Twenty-seven percent of private sector workers—or 32 million people—who do have access to a workplace retirement savings plan do not participate.[4] And those who do participate encounter numerous obstacles to successful usage across a lifetime. For instance, not all plans leverage auto enrollment or auto escalation features, which leads to lower participation and contribution rates. Financial emergencies, too, can lead to costly withdrawals that prevent workers from making headway in amassing wealth. The lack of built-in retirement plan portability means that workers who switch jobs and retirees lose track of smaller accounts or cash out prematurely. Even those retirees who have managed to save may not be equipped to convert their savings into lifetime income, a more pressing need as longevity increases.

Since 2018, policymakers, industry executives, academics, nonprofit leaders, and others have gathered annually at the Aspen Leadership Forum on Retirement Savings to discuss solutions to these challenges, with a focus on five areas: expanded access to workplace retirement savings, emergency savings tools, improved plan portability, lifetime income solutions, and more equitable outcomes across the system. Though broad questions of how to reform the retirement savings system take center stage, Forum participants examine these topics from the perspective of the household, with the highest priority placed on more effective ways for low-income and low-wealth Americans to amass and benefit from sufficient retirement savings.

The latest Forum, held at The Tides Inn in Irvington, Virginia, in October 2022, represented the halfway point of what was conceived as a 10-year dialogue about inclusive retirement savings. As such, it was an appropriate opportunity to take stock and look ahead. Over two days, Forum participants delved into what has changed for the better, what hasn't, and what work still needs to be done. This year welcomed fresh voices—almost half the attendees were first-timers—from previously untapped corners of the financial community, as well as emerging leaders who are in position to take the American retirement savings system into the future. Encouraged by the progress to date, and motivated by their stakes in the system, these newcomers infused the proceedings with fresh perspectives, bringing a revitalizing energy to the work at hand.

Throughout the discussions, several themes recurred, including the benefits of simplicity, the need to recognize the emotions that drive financial decisions, a desire for more useful and disaggregated data on saver behavior, and a call to foster trust—in financial institutions but also in the decisions that retirement savers make. Additionally, Forum participants argued for realistic expectations for the pace and nature of change, for "satisfizing" over optimizing. Improving the retirement savings system, it is often said, is not a sprint but a marathon. That may well be true, but if it is, participants agreed, it is a marathon that leaves room for multiple wins along the way.

> **The problem is that we overcomplicate things and try to solve every problem. Just get started. You can't solve everything.**

As with every Forum, discussion was not limited to the core retirement challenges that Americans face. Participants also brought provocative new thinking to the exploration of such financial frontiers as the role of the home in retirement security, opportunities presented by emerging technologies such as blockchain, and mechanisms for building wealth from as early as birth.

Finally, Forum participants identified challenges that will require more attention in the coming years, while questioning some long-standing assumptions about retirement inclusion and security. In so doing, they set the stage for future Forums and, ultimately, for realizing a truly inclusive saving and investing system.

> **This consensus that a secure retirement is a public issue is a huge asset.**

Racial/Ethnic Terminology Used in This Report

Throughout this report we use multiple terms to refer to Latinx people and households. When citing statistics and official government data, we conform to the federal terminology of "Hispanic/ Latino." When discussing this demographic more generally, we use the gender-neutral "Latinx."

In many cases we have sought to be more specific by referencing data and experience of particular racial or ethnic groups. We recognize that, in many cases, there is more research to be done. For example, many of the statistics cited come from the Survey of Consumer Finances (SCF), which provides the most complete picture of wealth inequality of any long-running public survey. However, due to small sample size, it has not yet been able to disaggregate the data beyond four racial and ethnic categories: white, Black, Hispanic, and "other or multiple race." The "other or multiple race" category merges data from households that are Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, and other races.

PART 1

EXPANDING THE CONVERSATION

FIVE WAYS TO THINK BIGGER ABOUT FINANCIAL SECURITY

Again and again, participants probed areas that expand the definition of financial security. Among the questions debated, these five stood out as the ones that will guide the conversation going forward:

1. Is the retirement system too employer-centric?

Despite its benefits, building a retirement savings system around employers has resulted in further entrenching the systemic flaws of the workplace, not least racial and gender inequities that stem from occupational segregation and the wage gap. Contingent and part-time workers, too, are likely to miss out when retirement savings is tied to full-time staff roles. Meanwhile, job turnover opens the door to leakage—and smaller account balances spread across platforms—that can undermine whatever progress savers have made.

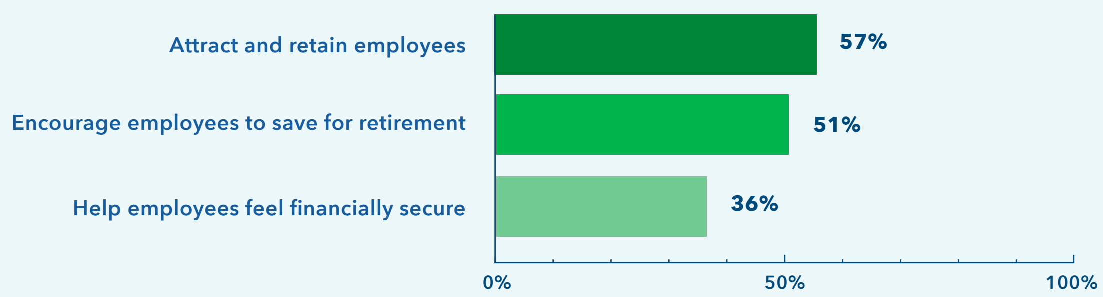
> **"The problem with tying retirement plans to employers is that you miss too many people."**

Employers have reasons to want to offload their retirement-benefit responsibilities, too. Not offering a retirement plan frees them from administrative, fiduciary, and legal burdens. On the other hand, participants noted, retirement plans can be a workplace management tool, both to help employers attract and retain workers and to create incentives for older employees to retire. In the end, workers do value retirement benefits (if perhaps not as much as pay).[5,6]

Is there an off-ramp for employers? Pooled employer plans (PEPs) might fit that role. But is this an opportunity to think bigger?

What's in It for Employers?

Top reason to offer a defined contribution retirement plan:



Source: TIAA, "The 2022 TIAA Employee Retention Survey," June 2022

2. Should retirement always be the primary savings goal?

The need for short-term savings has long been seen as an obstacle on the path to retirement security. For starters, a lack of cash in an emergency often causes workers to dip into funds earmarked for retirement. Industry experts believe that people need to set aside emergency cash at the same time as they save for retirement. (The recently passed SECURE 2.0 Act, which allows companies to enroll workers in a short-term savings account, codifies that connection.)

Forum participants, though, questioned this pairing. Retirement account auto enrollment has been a notable success story. But for some workers with pressing needs, maybe such a nudge should be towards short-term savings instead, with retirement addressed only once a foundation is in place. The system, one participant noted, needs to acknowledge this hierarchy of needs. Just as we need to build trust in the retirement system among workers, we need to trust workers to do the right thing with their finances.

> **"By moving straight from auto enrollment into a pension product, maybe we got it wrong for some people."**

3. What role should housing play in retirement security?

A home is often a retiree's biggest asset, and yet to date its role in retirement security has not been explored in depth at the Forum. Clearly, this connection shouldn't be overlooked. Saving for a home definitely can crowd out saving for retirement given how much Americans spend on housing—roughly a quarter of pre-tax income, on average.[7] An increasing number of homeowners are carrying housing debt into retirement, a fact that runs counter to conventional wisdom that says a mortgage should be paid off by then.[8] Further, reverse mortgages, retirees' primary tool for drawing income from their home, have a troubled history.

Acknowledging that home equity is an important building block of wealth, participants debated how saving for retirement and a home could optimally co-exist to support people in meeting multiple financial security goals. Just as there is a case for putting emergency savings before retirement, maybe saving for a home should also carry more weight.

Savers already can make limited penalty-free retirement account withdrawals for a first-time home purchase, but that might be too limiting. Could a 401(k) serve as collateral for a 0% down payment mortgage, or might 401(k) loans carried over from one employer to the next be a source of housing finance? As one participant argued, if owning a home strengthens retirement security, leakage from a 401(k) to buy one might very well be rational.

> **"For a lot of people, saving for a house is a better strategy than saving for retirement."**

A look at Singapore's government-run savings system, which supports multiple goals through a single program funded with payroll deductions, sheds some light on how to balance competing impulses. There, workers contribute up to 20% of pay, with employers contributing up to 17%, to cover three primary types of expenses: housing, healthcare, and retirement. Early in the program's history, though, when there were only buckets for retirement and housing, savers deployed too much to housing, forcing the setting of limits on withdrawals for housing and requiring homeowners to redeposit some proceeds of any home sale into the program.

4. Should retirement savings begin at birth?

Young Americans are on track to own less wealth in real terms than their parents did at the same age.[9] That gap is sharper for children of color and those who don't attend college.[10] One proposed leveler is meaningful investments on behalf of children—essentially, planting seeds for lifetime wealth. Under one iteration of these "baby bonds," the government would fund a federally managed investment account for every newborn that would become available at age 18 for wealth-enhancing endeavors such as paying for college, buying a home, or starting a business. Additional funds could be directed to children in low-wealth households.

> **This is addressing decades of policies that build wealth for some and not for others.**

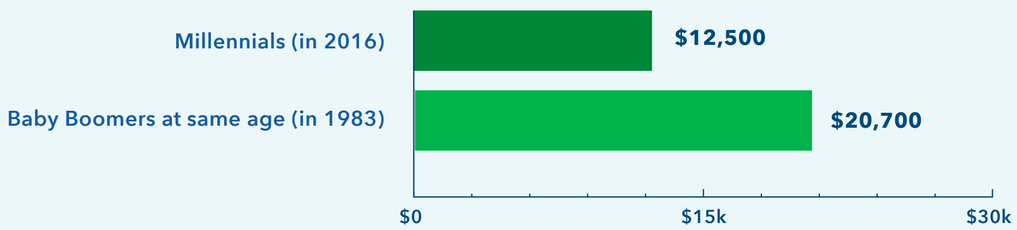
Some states and municipalities are already testing the hypothesis that a small boost early on lessens the need for costly intervention later. Keystone Scholars, a program launched in 2018, deposits $100 into an account earmarked for post-secondary education for every Pennsylvania newborn. Although the amount is small, participants noted that programs like these establish something crucial: the pipes to deliver and deploy benefits. That was sufficient to have them pondering what such a program could look like on a national scale.

In a wide-ranging conversation, participants explored various questions raised by these proposals, including how to build political support, whether there is a place for private philanthropy, and how these plans could be integrated with other savings plans. Should the programs be universal or targeted? Could we make them intergenerational savings accounts, with the original capital paid back to the next generation? With time on their side, account holders could invest the funds in riskier assets. How, though, would families deal with market volatility? As a bonus, could this be one more way to build trust among those not currently participating in the financial system? There is definitely work to be done here. As one participant asked, "Who wants to come along with us in solving this moonshot idea?"

> **We're building the investors of the future, and there's a critical stake in that for the private sector.**

A Slower Start for Young Americans

Median net worth for households headed by:



Source: Pew Research Center, "Millennial life: How young adulthood today compares with prior generations," February 2019

5. Is there a role for blockchain in the retirement system?

As the retirement system evolves, new technology can be a catalyst for change. At this year's Forum, discussion homed in on a new category of financial technology infrastructure: blockchain. Based on decentralization and consensus, the blockchain is designed differently from today's recordkeeping systems, offering immutability and transparency. Additionally, the native crypto currencies based on the blockchain could have relevant applications in people's financial lives. Participants contemplated the following opportunities in the retirement realm:

- Providing retirement plan participants with a permanent digital identity could ease plan portability and potentially eliminate lost accounts.
- These digital identities also could help with identity requirements, such as know-your-customer rules, which have stymied enrollment in state auto-IRA plans.
- By enabling real-time payment of wages, blockchain-enabled currency could smooth various forms of spending and saving. This includes immediate 401(k) contributions, which would spread out dollar-cost averaging even more than biweekly payroll deductions do, and daily mortgage payments, which would reduce interest costs over the loan's life.
- Blockchain could allow savers to buy portions of annuities over time instead of committing to a single contract.

That said, there are many unanswered questions about the regulation and security of crypto currencies, and implementing blockchain as infrastructure in the retirement savings system on any meaningful scale remains far off. Tech transformation can be a cumbersome process; likewise, gaining user trust. In theory, these networks could be built through public/private partnerships overseen by regulators. Would it be worth it, though? And what would blockchain's role look like if it fell short of universality? Some participants insisted that the deployment of this technology is inevitable, but even they could not clearly see the path from here to a blockchain-enabled retirement savings system.

The Future We're Planning for

As the Forum community continues to envision a more inclusive financial system, one session moderator articulated a nagging hurdle: "We're designing for the future without knowing what it is." When Forum participants were asked what they thought would be most different about American life in 25 years, three themes dominated the responses: climate change, the nature of work, and digital transformation. Delving deeper yielded six trends to watch:

1

More of us will live to 100. "We'll have to finance those longer lives, and the cycles of education, work, and retirement will all blend together. Let's change the conversation from one about decrepitude and related problems to one more optimistic about maximizing 100-year lives."

2

Digital devices will be even more central to money management. "Young people expect to interact with the financial system through their phones, and they expect information to be instantaneous and digestible. Designing easy-to-access systems that make sense is important not just from a marketing perspective but, frankly, from an intergenerational equity perspective."

3

Job volatility will remain the norm. "Some young people have the opportunity to ride a career trajectory in which they can do different things; others are buffeted by waves they don't control. It's imperative that our financial systems and the way we think about wealth building take both populations into account."

4

AI will play a part in individual financial decisions. "What I would call fintech 3.0 is how machine learning and artificial intelligence interact with individuals. We need to think about how data will influence our decisions or perhaps even make decisions for us."

5

Climate change will be a retirement issue. "Retirement savings and climate change are intimately connected. I'm an optimist, and I believe we will come up with sustainable systems. But that is going to require institutional debt investment, and that money is going to come from all the pools of capital that are retirement savings."

6

Chaotic disruption is inevitable—and okay. "Think about the kind of changes we've seen over the past 50 years that we didn't anticipate but figured out how to react to. Don't say we won't be able to respond in a positive way this time as well. We may not land very far ahead, but we've gotten pretty good at reacting."

PART 2

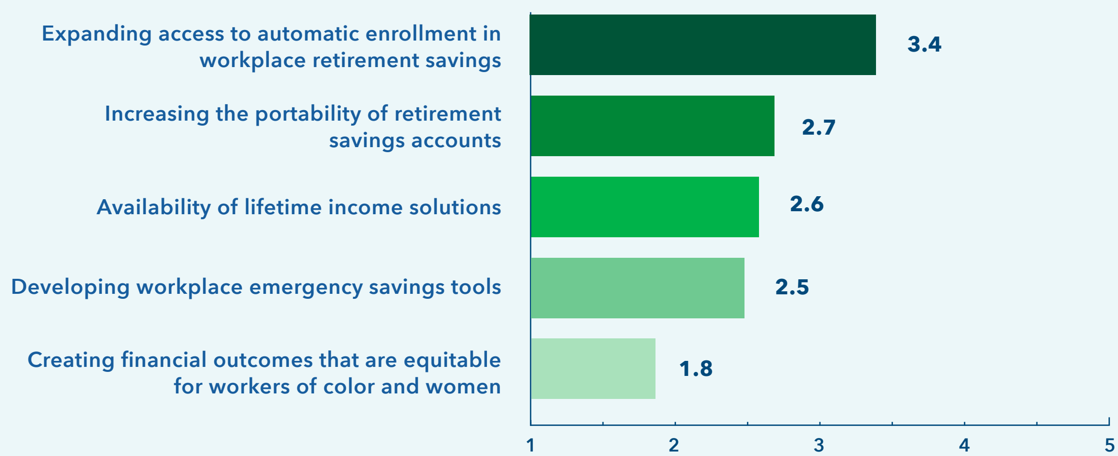
HEADING IN THE RIGHT DIRECTION

HOW DO WE BUILD ON THE PROGRESS WE'VE MADE?

At the outset of the Forum, participants were asked to grade recent progress in each of five pillars of retirement security. They proved to be tough graders. To be fair, the group's assessment doesn't diverge from how the rest of the world sees the American retirement system. In Mercer's latest rating of the adequacy, sustainability, and integrity of 44 pension systems worldwide, the United States earned a C+, tying it for 19th place.[11]

On a scale of 1-5, how much progress have we made in the past 10 years on … ?

[1 = no progress; 5 = a lot of progress]



Source: Poll of participants at the 2022 Aspen Leadership Forum on Retirement Savings

Still, despite their tough take, participants in Forum discussions were quick to point out victories and promising developments, and to share ideas on how to amplify the progress we have achieved.

> **"We're moving past commitments into action and accountability, and there's a lot more work to do."**

1. Access to Workplace Savings Plans

The turnkey practice of employers depositing money from workers' paychecks into tax-advantaged savings accounts is a linchpin of retirement security. Better still: when saving for retirement is the default. While it's true that nearly 57 million American workers still lack this option, Forum participants recognized the advances made here, most notably on the state level.

The Progress

State auto-IRA programs—which require most employers that lack retirement plans to enroll workers in a state-facilitated account—are up and running in five states and being implemented in another nine. All told, 46 states have at least explored some version of a state-sponsored retirement savings program. More than 600,000 U.S. workers are saving in plans that didn't exist when the Forum kicked off six years ago; they have amassed more than $700 million to date.[12]

> **"State plans create a space where it's not okay not to offer anything."**

In another positive sign, state programs don't seem to be crowding out private plans. An analysis by The Pew Charitable Trusts found that in the first three states to adopt them, auto-IRAs haven't led employers to drop their own retirement plans in favor of the state's—nor are they discouraging businesses without plans from opening new ones.[13] In fact, in the first year after each program launched, the combined growth rate of private retirement plans was 35% higher than in states with no auto-IRA program.[14] As participants noted, auto-IRAs are lifting all boats.

State programs are not the only emerging engine of wider access. With the SECURE Act of 2019, Congress cleared the way for the creation of multiple-employer plans (MEPs) and pooled retirement plans (PEPs), opening up new options for small businesses.

The Work That Remains

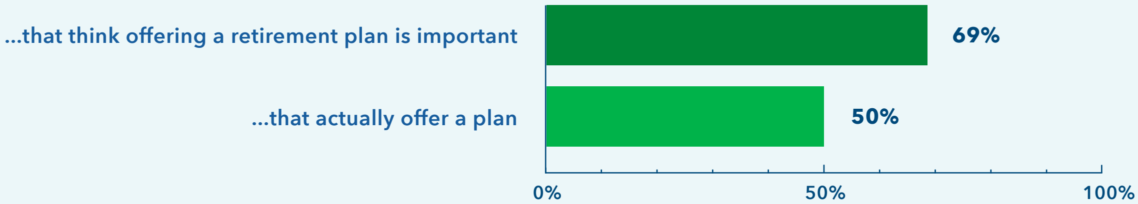
For all their success, state plans continue to face headwinds, including administration costs, high opt-out rates, continued opposition from some corners of the industry, and difficulty enrolling workers. In California, for example, more than four in 10 eligible workers cannot be enrolled because their identity cannot be verified in accordance with anti-money laundering regulations. Further, the number of MEPs and PEPs remains low.

> **"There's no plan-administration fairy. Public or private, it costs money. Who's paying? The more that is in the plan, the more expensive it becomes. Cost is the elephant in the room."**

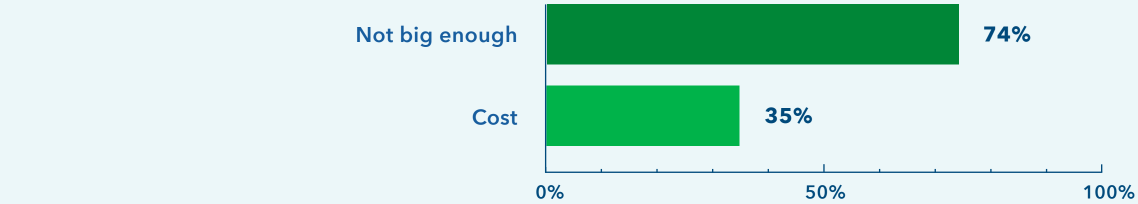
Although state plans are gradually connecting more workers to retirement programs, and at least some participants are confident that the number of MEPs and PEPs will grow, the challenges to universal access remain formidable. One long-standing problem is that part-time and contingent workers typically lack workplace savings options. Small businesses (those with fewer than 100 workers), employ 35% of U.S. workers, and are much less likely to offer plans. Those that do, a recent study found, have higher-paid employees.[15]

Small-Business* Barriers

Percentage of companies...



Why don't small businesses offer retirement plans?



Fewer than 100 employees.

Source: Center for Retirement Research, "[Why Do Some Small Businesses Offer Retirement Plans?](#)" December 20, 2022

In trying to ensure universal access, policymakers and retirement-plan sponsors also run up against the foibles of human behavior, including an inability to save.

Today, more than half of companies automatically enroll employees in their retirement plan.[16] With all new plans required to automatically enroll new hires beginning in 2024 (thanks to the SECURE 2.0 Act), that portion is sure to rise. But neither access nor behavioral nudging ensures participation: In the U.S., 32 million workers who can contribute to a retirement plan at work, do not.[17] (Better data is needed to understand why workers opt out.) Nor does enrollment necessarily solve everything: Too many participants never progress beyond the low initial default contribution level, typically 3% of pay.

Some workers, participants noted, bring complicated emotions to the subject of retirement saving, including guilt or even shame at not having saved. Unfortunately, financial education, in implying that non-savers and not the system are at fault, may well exacerbate such counterproductive feelings.

> **"Auto enrollment is starting to hit the point of diminishing returns. We're reaching a population that can't afford to save."**

The Next Steps

One question floated at the Forum was whether the retirement market has become bifurcated: large-employer plans with an extensive menu of investment options vs. plain-vanilla state plans. Some participants did suggest that even a "lesser" tier is better than no tier.

And all agreed that savers and employers alike would benefit from a focus on making simplicity a virtue. Complexity is the enemy, one participant noted, and adds no value for savers.

Plan simplicity, with maybe just a single investment option, eases decisions and fosters saver trust while facilitating setup and lowering recordkeeping costs for plan administrators.

And cost remains an important consideration. Asset growth is key to pushing down fees and keeping plans viable. MEPs and PEPs may outsource the fiduciary role for small businesses and eliminate the fear of lawsuits over investment choices, but those advantages come at a price: third-party fees. One participant estimated that it will take five to 10 years for these plans to scale as affordable, viable solutions for small businesses.

> **We need to respect the position employers are in and hold up our end of the bargain by making the programs easy to use.**

In the interim, better payroll integration is a worthwhile goal, with technology that can make connecting to state plans more efficient and less expensive for employers.

> **We may be missing half the boat if we don't talk about auto escalation as well as auto enrollment.**

Since the 2006 Pension Protection Act, automatic enrollment of employees in a retirement plan has become a near industry norm; three-quarters of large-company plans do this.[18] To build on this success, there needs to be wider adoption of auto escalation and a rethinking of the low initial contribution level. Without auto escalation, too many workers will stay at the default deferral rate, leaving them with a false sense of security.

At previous Forums, participants noted that true universal access may be realized only with a federal retirement savings mandate. Though that was not widely discussed this year, several attendees did argue that expanding access does mean making it compulsory. As one put it, mandates are unpopular, but how far can we manage without them?

2. Workplace Emergency Savings Tools

Since the outset of the Forum six years ago, U.S. households' lack of sufficient short-term savings has remained a front-and-center topic, with discussions about solutions spotlighting emergency savings accounts that, like retirement plans, are funded through payroll deductions. These accounts are known as sidecar accounts or rainy-day funds.

> **Look at the 40 years of ERISA [Employee Retirement Income Security Act of 1974], before we had state plans: market forces never led to access expansion for low-income workers.**

The Progress

Now, with the Forum at the midpoint of its run, the conversation has matured into action. Passed just months after the most-recent Forum, the SECURE 2.0 Act included emergency savings provisions that were heavily shaped by several years' of Forum dialogue and advanced by many attendees. Soon, employers will be allowed to automatically enroll all but high-paying workers in an emergency savings account linked to their retirement plan at a rate of up to 3% of pay. Contributions, made with after-tax dollars, will be capped at $2,500 a year; after that, participants will be able to make contributions to their retirement account. Savers will also be able to withdraw funds at least once a month, which may help to preserve retirement savings.

A growing body of research supports the need for such accounts. A 2020 AARP study, for example, found that households with a savings buffer of $2,452 were significantly less likely to endure extreme financial hardship during the succeeding three years.[19]

One crucial question about short-term emergency savings accounts has been whether they will cannibalize long-term retirement savings. In fact, the opposite may be true: low- to moderate-income workers seem to be more likely to save for retirement when they have a cash cushion. And preliminary results from the United Kingdom's NEST pension system, which is currently running a trial opt-out emergency savings program, show an uptick in pension plan participation when workers are also given the emergency savings option.[20]

Intended Consequences

↑ 70% Increase in likelihood that low- and moderate-income workers will contribute to a retirement plan when they have emergency savings accounts.

Source: Commonwealth, "Emergency Savings Features That Work for Employees Earning Low to Moderate Incomes," August 2022

> **"The fear of an emergency leads people to opt out of retirement savings, so it's hard to think of something that would increase equity more than emergency savings accounts."**

The Work That Remains

Even before the new legislation enabling automatic enrollment in emergency savings plans, some big companies were offering workers the option. Independent financial firms have already developed out-of-plan products as well. That said, workplace emergency savings accounts are still not widely available. This did not concern Forum participants, as they agreed the idea has reached a tipping point. The question today is no longer "if?," but "how?"

Still, it's time to bring more employers and recordkeepers on board, and to support workers with tools, design features, and additional benefits to help them make use of their retirement savings accounts. Based on the NEST experience in the U.K., auto enrollment continues to prove a powerful driver of participation. When workers could choose to opt in to payroll savings, only about 1% did, but when enrollment was automatic with the choice to opt out, participation reached 48%. An ally worth nurturing: labor unions. In the U.K., unresolved concerns about low take-home pay have meant that some labor groups have been focused on fixing this issue, at the expense of broader financial wellbeing solutions.

> **"We have seen all these negative effects of tying retirement to an employer. Won't we run into that with emergency savings?"**

Another outstanding issue is whether a workplace model is even the best one, given the access and portability problems besetting the employer-centered retirement savings system. No one wants emergency savings plans to end up as one more financial tool that is out of reach of the workers who need it most.

The Next Steps

From a policy standpoint, progress to date has been made in enabling auto enrollment in employer retirement plans. Providing more regulatory and legislative guidance to out-of-plan savings accounts, though, could help millions more—specifically, those workers without access to a 401(k).

Some participants noted that state auto-IRAs, as Roth IRAs, already do double duty as retirement and emergency savings accounts; savers can withdraw from them without penalty at any time. That said, though workers do make those withdrawals—10% of assets on average per month[21]—the messaging surrounding state IRAs remains focused on long-term benefits.

Especially if emergency savings accounts develop as an employer plan, the issue of portability will have to be addressed. (See item 3 below for more on portability.) Finally, some participants suggested that we should also be looking at employers to contribute to these accounts, similar to retirement account company matches.

3. Retirement Plan Portability

With retirement plans housed with employers and workers routinely changing jobs, lost savings is a persistent problem. The onus of moving and tracking old plans is on the employee, and that does not work well: Anywhere from a third to nearly a half of retirement savers withdraws at least some money when they switch jobs, depleting total savings by an estimated $60 billion to $105 billion a year.[22] Millions of low-balance plans are simply lost or abandoned, in part because employers can shed accounts holding less than $5,000 after an employee departs. Stemming this leakage remains a Forum priority.

The Progress

In 2022, retirement plan portability took a major step forward when three major plan recordkeepers—Fidelity, Vanguard, and Alight—teamed with the Retirement Clearinghouse to make the process of transferring workplace retirement plans seamless and automatic. (Since the Forum convened, both Empower and TIAA have joined the consortium.) Aimed at workers with less than $5,000 in their plan—that small-balance threshold will be raised to $7,000 in 2024—the new Portability Services Network could facilitate auto portability for millions.

> **"[The Portability Services Network] is the biggest thing to happen to the retirement system in my lifetime."**

When a worker switches jobs, the network identifies both the old and new defined contribution plans—be they 401(k)s, 403(b)s, or 457s—then automatically transfers the balance. (The worker can still opt out). Generally, plan-to-plan rollovers cause the most friction; plan-to-IRA rollovers tend to be cleaner. Still, by connecting a large portion of workplace retirement plans for the first time, the network could preserve billions of dollars of retirement savings.

Taking It With You

$1.5 TRILLION

Preserved savings over 40 years if auto portability of sub-$5,000 plans is broadly adopted

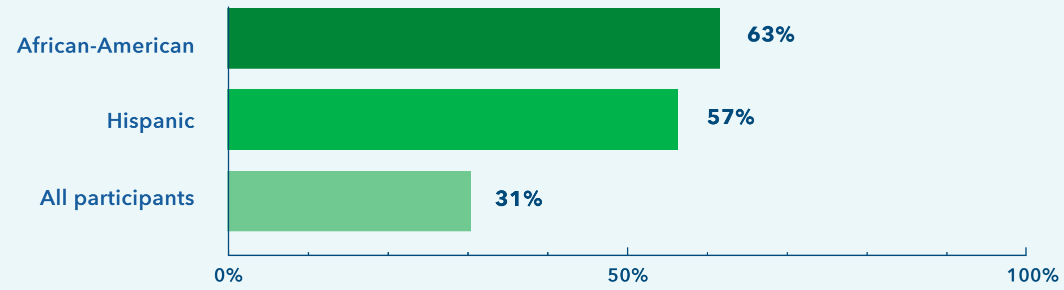
Source: EBRI, "The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage," August 15, 2019

The Work That Remains

While the Portability Services Network represents a breakthrough for retirement plan portability, Forum participants characterized it as the beginning of the solution, not the end. For starters, while the three initial recordkeepers represent a significant portion of the retirement plan market—roughly 44 million workers in 48,000 employer-sponsored plans[23]—more companies need to be onboarded. Until a worker's former and current recordkeeper are both in the network, auto portability will remain a work in progress. Forum participants were optimistic about employers signing on, though, with one calling the enterprise "a ball rolling down a hill."

Unequal Damage

Cash-out rates for small-balance plans:



Source: Portability Services Network

Problems of portability go beyond the difficulty of transferring a retirement plan from one employer to another. America's "accidental retirement system," as one participant called it, leaves some workers hunting down their savings not only in the employer's plan, but in traditional and Roth IRAs, health savings accounts, and emergency savings accounts, too. It is a potential morass that can be overwhelming to track, leaving income planning in retirement that much more challenging.

> **"If your retirement savings move with you, it changes how you think about the money. The impact that it has is more than just in easing the process."**

Even with a smoother rollover process, workers will continue to have to contend with the allure of cashing out when they switch jobs. This will remain a weak spot in the retirement savings system.

The Next Steps

Upon leaving a job, cashing out a retirement plan is not only a tempting path, it may also seem like the easiest one. Clearer explanations of choices and trade-offs—with standardized language across plans—could better guide job switchers. For instance, if employees understood that cashing out triggers income tax consequences and potential penalties, they might be more likely to keep their money in a retirement savings account.

Changing the rules that prohibit Roth-IRA-to-401(k) rollovers could help as well, particularly for workers in state auto-IRAs who move to jobs with a retirement plan. As state auto-IRA plans continue to expand, this scenario will likely be more common. Furthermore, today, employer-sponsored retirement plans are not required to accept a direct rollover from another plan. Obviously, this too needs to be corrected. Similarly, making it mandatory that recordkeepers offer an option to transfer a plan electronically would be a positive tweak in the system.

There are already mechanisms—for instance, a national registry of unclaimed accounts—that connect American workers to lost retirement savings. Such data sharing could also complement portability. Participants, though, were split on whether this would require public-private data sharing. Another simple, semantic fix: Call a default IRA, created when an employer rolls a small-balance plan into an IRA, something that makes sense to savers—a "transfer IRA," for instance. As one participant noted, the language we currently use is too often meaningless outside the room.

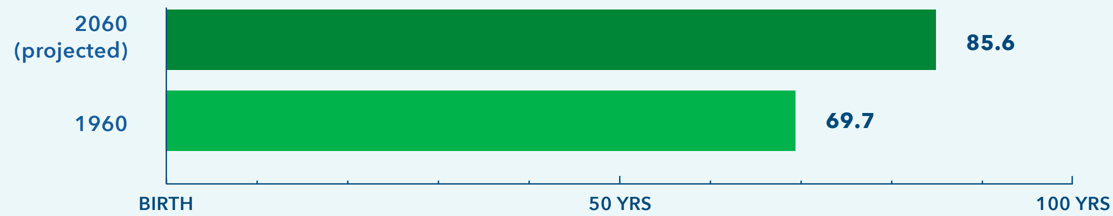
Finally, participants discussed thinking about portability in an entirely different way. Specifically, instead of developing better methods for moving retirement accounts, could the ideal plan be one that stays put? In such a model, workers would continue to contribute to the same retirement plan no matter who their employer was.

4. Lifetime Income

Despite recent drops in life expectancy caused in part by the Covid-19 pandemic, Americans are living longer—certainly longer than they were when the defined contribution retirement system began to take shape decades ago. The upward trend is expected to continue, thus begging the question: Will we be able to fund our extended retirements with personal savings?

Longer Lives = Longer Retirements

U.S. life expectancy at birth



Source: U.S. Census Bureau, "Living Longer: Historical and Projected Life Expectancy in the United States, 1960 to 2060," February 2020

The Progress

Congress gave employers more flexibility in the types of retirement income products they can include in their plans, including annuities. Still, Forum participants conceded that it will take more to solve the tricky issue of lifetime income. Even if so many of the products that have been made available weren't difficult for laypeople to understand, the powerful motivations that guide retirement spending would likely still impede their widespread adoption.

> **"With the rise of the defined contribution system, we've lost the thread of what a pension system is supposed to do—provide income."**

The Work That Remains

The psychology of money colored discussions on this subject. As participants noted, when retirees have no idea how long they will live, they are more likely to worry about running out of money. And these worriers might then lack the confidence to draw down savings, underspending as a result. Retirees' self-worth can be tied up in their retirement balance, seeing it, as one participant suggested, as a reflection of their economic achievements in life so far. In short, the shift from saving to spending can be tough. Further complicating the issue, many retirees, including those with lower incomes and lower wealth, want to leave a bequest, which reinforces their reluctance to spend retirement funds. Developing retirement income products that workers embrace means first recognizing these very human emotions, motivations, and goals.

> **Nobody asks for a retirement income product, because nobody thinks they need one until they get one.**

The Next Steps

In exploring ways to balance the need for retirement cash flow with the inclination to preserve capital, Forum participants considered the examples of government-mandated retirement systems in Singapore and Australia, both of which include universal retirement income products. Those real-world examples combined with the track record of lifetime income products in the U.S. led them to suggest these principles for guiding future solutions:

- **Consider how to frame the problem.** "Life expectancy" can be a hard concept to fathom, let alone plan for. As one participant noted, you get different definitions depending on how you frame the question. That is, when people are asked how long they'll live, they say they don't expect to live to 85. When they're asked if they think they'll die before 85, though, the answer is more often no. Clearly, the proper framing will help workers embrace longevity pooling.
- **Speak a language people understand.** In all corners of the retirement system, terms are used that savers find baffling, and that includes "annuity." We need to find names that better convey the benefits of this type of longevity pooling.
- **Keep it simple.** Asking workers to choose among too many options can lead to decision paralysis. Singapore, for example, began with 12 lifetime income options; today, that number is three.
- **Balance income with control.** Retirement income products need to address the natural reluctance to give up flexibility, including the hope of leaving behind a bequest. Australia's program features a nominal return of remaining capital to address savers' concerns.
- **Nudge retirees.** Just as saving for retirement has become automatic for many workers, participants discussed whether defaulting retirees into a lifetime income product could also be part of the solution.

- **Give permission to spend.** The biggest selling point of lifetime income products should be peace of mind; they should be "sure things" that counter the uncertainty of one's lifespan. In addition, retirees need to understand that there is an amount of money they can spend no matter how long they live as a result of longevity pooling.

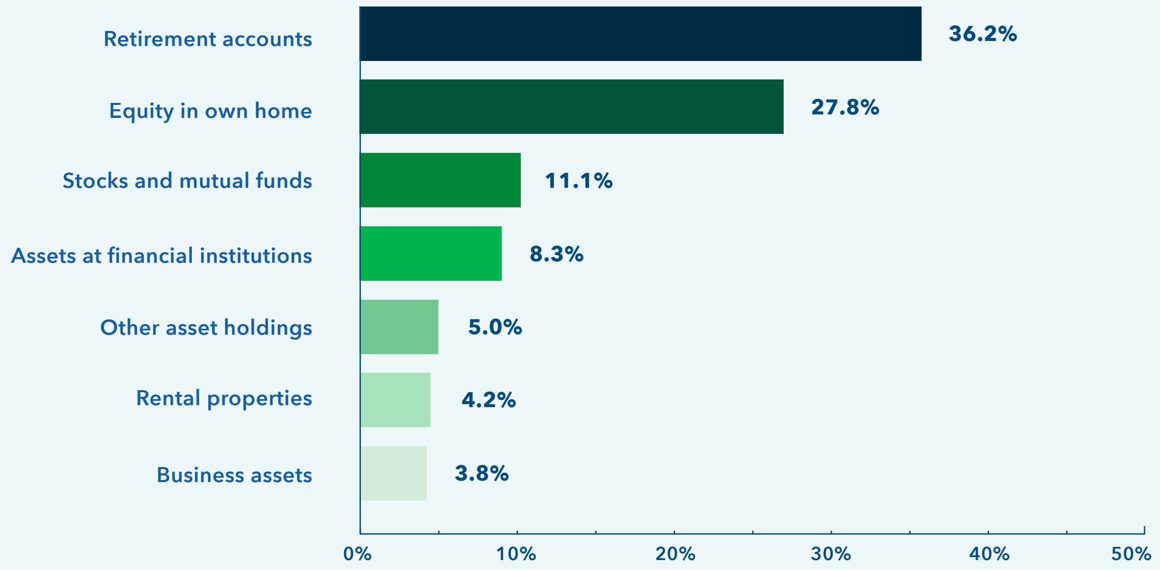
> **The problem people have is not that they're going to get very old. The problem is they don't know how long they're going to live.**

5. Ensuring Equitable Savings Outcomes for All

With nearly 57 million employees—disproportionately workers of color and women—lacking access to workplace retirement plans, access expansion will be key to ensuring equitable retirement savings outcomes. But retirement plan access alone won't eliminate racial and gender gaps in balance accumulation. Black and Latinx workers are less likely to participate in an employer-sponsored retirement plan.[24] Even when workers of color do save in such a plan, they set aside less than their white colleagues do—and as a result are less likely to fully benefit from a company match, should one be available.[25] And with 32 million private-sector workers opting out of contributing to their plan altogether, there is work to do to understand how to make these accounts effective for everyone.

Retirement savings are a primary generator of household wealth...

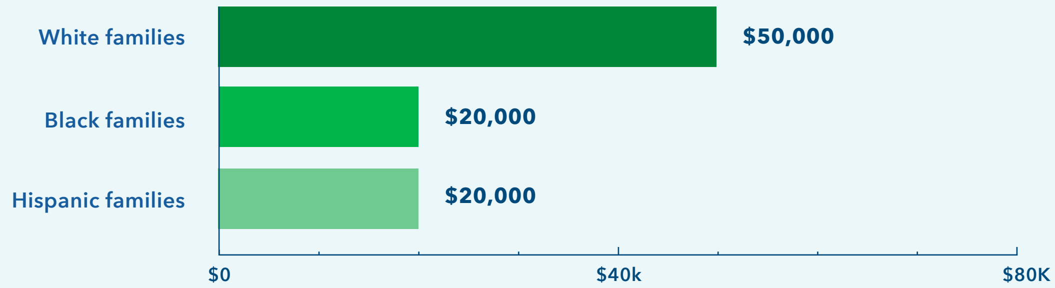
Excluding the top 1% of households by wealth, aggregate American household wealth is held in:



Source: U.S. Census Bureau, "The Wealth of Households: 2020," August 2022

… but retirement savings balances differ by race.

The median balance for working-age families who have a retirement account:



Source: The Federal Reserve, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," September 2020

One Forum participant called these disparities the "in-plan access" problem, echoing the general sentiment that plans must be designed to work equitably for all people, regardless of race, gender, marital status, and other demographic factors. Because employers have historically kept employee demographic data and 401(k) transactional data in separate systems, we currently do not have a comprehensive data-driven understanding of the range of factors that produce varied outcomes for those workers who do have access. While there is broad agreement that differences in labor income contribute to inequities in accumulation, there remain questions about how—and to what degree—other factors play a role. Specifically, what kind of influence does contribution level, employer-match design, investment selection, loan activity, hardship withdrawals, and cash-outs at job change have? Further, what plan design, benefits changes, and employee communication approaches will best support women and workers of color given their unique financial realities? Given that the retirement savings system offers such a significant opportunity to help close racial and gender wealth gaps, it is no surprise that answering these questions has emerged as a priority within the Forum community.

The Progress

One cause for measured optimism, participants noted, is the level of corporate America's interest in addressing inequities. Increasingly, companies are looking at internal racial divides in terms of pay, career paths, and savings. That momentum must be maintained.

Participants also noted that some large employers are beginning to do this kind of analysis in concert with their recordkeepers, which, in turn, is causing them to consider changes to their current retirement plan design and other benefit offerings. Unfortunately, that analysis is being kept confidential, so we will continue to lack important data on retirement plan usage by race, gender, and generation.

There are other ways to fill the gap, though. The DCIIA, the Aspen Institute Financial Security Program, and Morningstar have partnered in the Collaborative for Equitable Retirement Savings, which anonymously connects participating employers' employee demographic data with transactional 401(k) data from recordkeepers to provide the retirement savings ecosystem with new, public insights into how plan design and benefits offerings can better support all workers' ability to save and invest for the future. The collaborators shared some early progress with the Forum community, who applauded the first-mover employers who contributed their data to the work.

The Work Ahead

Several Forum participants sensed the dawn of a new era, one of habitual analysis of plan data, disaggregated by race, gender, and other variables. With employers beginning to assess how to implement relevant tweaks, some participants posited it as an opportunity to engage employee affinity groups throughout the process.

There remains a critical need to create an environment in which employers can confidently share what they have learned. Many smaller employers will not have access to sophisticated data analysis and benefits consulting, so public reporting on what is working will be crucial to helping them contribute to improving equitable outcomes at scale. Policymakers, too, may well be interested in these new insights and the best practices that emerge from them.

> "We place so much weight on a system that's already not working for people of color."

CONCLUSION

Coming at the halfway point of its planned 10-year dialogue, the 2022 Forum provided an appropriate opportunity to measure progress that has been made since kick off. One concrete example of that progress emerged shortly after the Forum was convened: the passage of SECURE 2.0 in December 2022. The bill, though falling short of universal workplace retirement savings access, contained many important provisions that have been discussed and incubated over six years of Forum convenings. Not surprisingly, many of the primary authors of that legislation have been part of Forum discussions and have honed their ideas with the other experts in the room.

Consider that when the inaugural Forum convened, the idea of workplace emergency savings accounts was in its infancy. At succeeding events and in working-group meetings that launched from discussions at the Forum, participants dug into the details of how such an account could play out in practice—not to mention, what it might be named—then worked to craft those ideas into public policy. That work significantly contributed to the emergency savings provisions included in SECURE 2.0. Now, the Act, in paving the way for companies to automatically enroll workers in these plans, has laid important groundwork for the financial wellbeing of millions of Americans.

Impactful forward motion like this is a testament to the power of gathering a diverse group of engaged stakeholders who are willing to share and debate provocative ideas about improving financial security for all Americans, and to turn that talk into innovative policy and market action. As we look to the future, we're eager to deploy a similar set of tools for such issues as access expansion, equitable savings outcomes, portable solutions for gig and independent workers, and thoughtful solutions for income generation. The job of charting a course toward an inclusive retirement savings system continues.

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