FINANCIAL SECURITY PROGRAM
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LEADERSHIP FORUM ON
RETIREMENT SAVINGS

THE ASPEN LEADERSHIP FORUM ON RETIREMENT SAVINGS

2021

ACKNOWLEDGEMENTS

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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.

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EXPANDING WORKER ACCESS TO AUTOMATIC ENROLLMENT INTO RETIREMENT SAVINGS

A RAPPORTEUR'S SUMMARY

April 27, 2021

1:00 p.m. – 4:00 p.m. Eastern

About this Private Dialogue

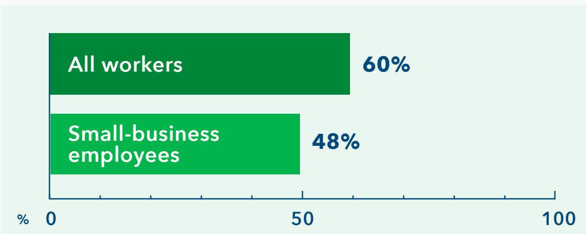
On April 27, 2021, the fifth annual Aspen Leadership Retirement Forum on Retirement Savings kicked off its series of private conversations with a far-reaching discussion of one of the most fundamental challenges to retirement security: how to ensure that every working American has access to automatic enrollment into a retirement savings plan. Over the course of the session, the 18 participants identified the most formidable barriers to access, debated the most promising solutions, and explored whether the ability to contribute is in itself a sufficient solution.

NINE STATS THAT TELL THE ACCESS STORY

Four of 10 working Americans lack access to a retirement plan on the job[1], but that big-picture view fails to capture the scope of the problem of inadequate long-term savings, or the systemic failures that have excluded millions of people.

1. **Access is uneven.**

Access to a retirement savings plan on the job:

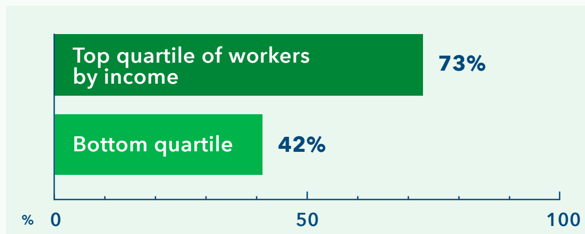


Notes: Civilian workforce only; small business = fewer than 100 employees

Source: U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" March 2020

2. **The highest-paid workers have a leg up.**

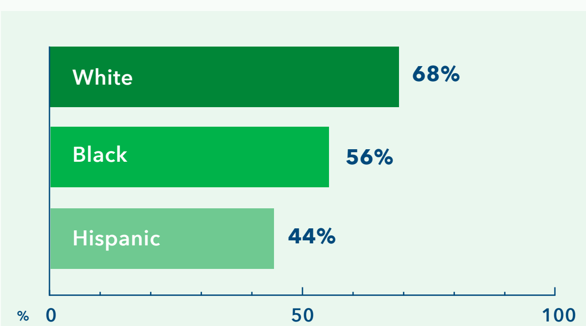
Access to a retirement savings plan on the job:



Source: U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" March 2020

3. **Workers of color are more often on the sidelines.**

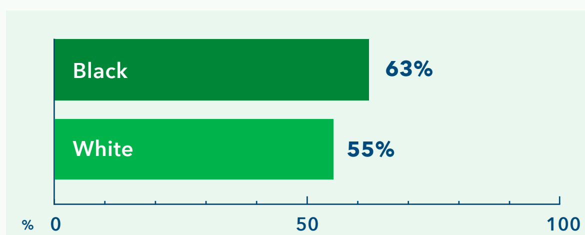
Working-age families with access to retirement plan at work:



Source: FEDS Notes, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," September 2020

4. **For Black investors, retirement plans are more likely to be an introduction to stocks.**

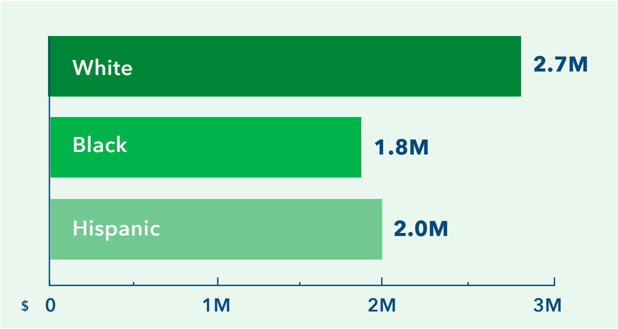
First invested in stock market through a retirement plan:



Source: U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" March 2020

5. Income disparities drive the savings gap, too.

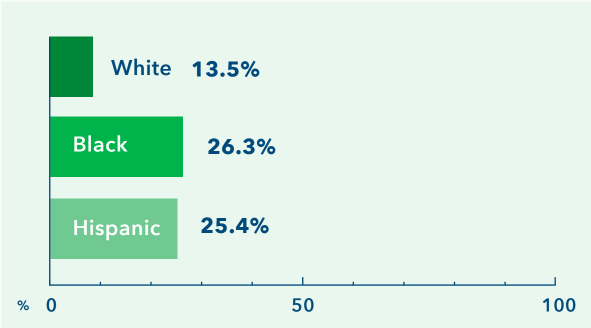
Average individual lifetime earnings:



Source: Urban Institute, "[Nine Charts about Wealth Inequality in America](#)", 2017

6. Social Security needs to be part of the conversation.

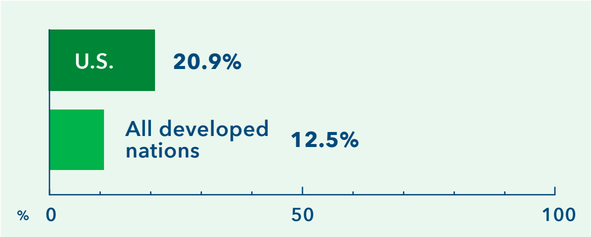
Reliance on Social Security for 100% of retirement income:



Source: AARP Public Policy Institute, "[Social Security: A Key Retirement Income Source for Older Minorities,](#)", 2012

7. A better outcome *is* possible.

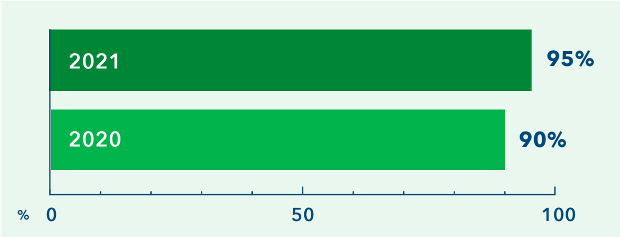
Poverty rates for citizens over 65:



Source: [Organization for Economic Co-operation and Development](#) (OECD)

8. Interest in creating plans is increasing among small businesses.

New 401(k) plans as a portion of business v. converting old plans, for a participating small business 401(k) plan provider:



Source: Private 401(k) provider

9. Reform *can* move the needle.

20-40M

number of additional workers who could contribute to a retirement plan by 2040 if national universal access is instituted

Source: Georgetown University Center for Retirement Initiatives, "[What Are the Potential Benefits of Universal Access to Retirement Savings? An Analysis of National Options to Expand Coverage](#)," December 2020

THE **BIG** QUESTIONS

1. While wider access to retirement plans is crucial, what else could help ensure savings adequacy?

Expanding access alone won't solve the problem of inadequate savings. The earnings gap drives the savings gap.

- Throughout the Forum, participants noted that gaps in retirement security originate in a widening wage gap in this country, especially for Black and Latinx workers compared with white workers. Access to a workplace retirement plan can be meaningless for any worker who struggles to cover day-to-day living expenses.
- Adequacy depends on higher incomes and more generous tax incentives. The most powerful tax incentive could be a refundable savers' credit that goes directly into a retirement plan.
- In a study of the potential benefits of universal access to retirement plans, the Georgetown University Center for Retirement Initiatives found that an auto-IRA could enable a young worker who saves steadily to age 65 to collect an additional $14,320 in annual income in retirement.[2] Coupling an auto IRA with a refundable savers credit would push that annual income up to $21,300.

OVERHEARD

"When we talk about the big divergence between Blacks and whites when it comes to wealth, it's important to remember the big divergence when it comes to earnings."

"If you take the scenario of a moderate-income worker saving from age 25 but make the savers tax credit refundable, ultimately, over time, you have the potential to boost annual income by an additional 50%."

2. Is it time for the state approach to go national?

Across the country, state governments are taking the lead in increasing access to retirement plans. In Oregon, California, and Illinois, most employers must offer a workplace retirement plan or automatically enroll their employees in a state-sponsored IRA funded through payroll deductions. Colorado, Connecticut, Maryland, New Jersey, and Virginia will be next up with similar plans, and some 20 other states have considered similar auto-IRAs.[3] But on the national level no such automatic enrollment exists, nor does the federal government require companies to provide workers with access to a retirement savings plan (though legislation has been introduced).

"The state programs are adding impetus to Congress to act on ideas that have been present for a good long time."

"Maybe we need to let the state experiment run a little longer to let more data flow in on what's working. Having a more data-driven policy at the federal level could be helpful."

- Forum participants expressed broad support for a federal law mandating access for all workers. Most, in fact, identified it as the single most powerful potential change to ensure sufficient financial security during retirement for people in America. This mirrors the results of a survey of retirement experts conducted on the eve of the 2021 Forum by the Aspen Institute Financial Security Program, in which 78% of respondents supported such a mandate.[4]

- There was less consensus over what form federal legislation should take, with options that ranged from enhanced tax incentives for employers who offer plans to a federal framework for the kind of plan offered.

- State auto-IRAs could play a role in expanding access in a variety of ways, participants noted. For one, state plans could be the catalyst that leads to a federal auto-IRA: If the number of states that adopt retirement savings mandates makes it onerous for companies operating in multiple states to manage benefits, it could spur the federal government to create a uniform standard. One participant noted that Social Security didn't exist until nearly three dozen states had initiated programs for the elderly, pressuring the federal government to act.

"If Congress were able to get a national employer mandate done without establishing a national public option, the state plans would figure out how to serve the smallest businesses across the country."

- Absent a federal auto-IRA, states could fill the public option void by allowing people from any state to sign up in theirs, or by forming multi-state plans. One crucial consideration is whether existing state plans could handle the increased volume.

- Some participants felt state plans should get more time to expand and mature before there's a mandate for a public auto-IRA option on the federal level. After all, states are proving to be useful labs to test plan design. In California, where the CalSavers auto-IRA is being rolled out to employers by size over three years, 90% of businesses are not yet subject to the mandate (though many have signed on early).

"The solution will not end up being a mandate. It's going to be bribing employers through tax credits. If technology makes hookups cheap enough, a bribe ought to do most of the work."

- One floated idea was to skip a federal mandate altogether in favor of more generous incentives in the tax code. Between employing technology that makes participation frictionless and compensating employers to cover their costs, one Forum attendee questioned whether a formal mandate is even needed.

FOR FURTHER REVIEW:

States and the Racial Wealth Gap

No discussion of retirement security in America can ignore the racial disparities in wealth and savings. One concern expressed in the session is that relying solely on states to be the means of increased access will not adequately address the racial wealth gap. That's because states least likely to introduce retirement savings mandates are also those with large Black populations. Case in point: the uneven expansion of Medicaid eligibility realized by the Affordable Care Act. Seven of the 12 states that have not yet adopted Medicaid expansion are Southern states with sizable Black populations.[5]

3. Do we already have the tools to build national coverage?

From the growing number of state auto-IRAs and multiple employer plans (MEPs) to pooled employer plans (PEPs) and private retirement plans, the components of nationwide coverage could already be falling into place. The Forum participants tried to envision how those pieces might fit together to expand access to all—closing the coverage gap for tens of millions of workers—and sought to identify what other pieces may be needed.

> "I'm hoping we can actually use our collective wisdom to make more than a minimum viable product, to create something that doesn't have to be altered again in five years. We shouldn't hold ourselves back by saying, 'politics are impossible'."

> "In my dream, there is a federal requirement that says that if you're an employer that has been around for two years or more and you employ five people or more, you have to offer a retirement savings program or facilitate retirement savings."

- One proposal was a three-tier approach that combined auto-IRAs, MEPs and PEPs, and private plans. Acknowledging that business size will be an important consideration in drafting such federal legislation, the proposal set the employee threshold at five.

- In this model, the first tier would be a simple, low-cost auto-IRA, either a state-run or federal plan. One participant described it as extending the retirement savings system entrance ramp to more workers.

- As noted above, some participants thought that, absent a federal auto-IRA, state plans could service employers from other parts of the country, going so far as to suggest that a national default plan is not needed. Others were not sure states could handle the volume.

- Small businesses often don't have human resources departments or the ability to act as a fiduciary for these plans, and those obstacles must be taken into account. Ideally, payroll integration and other technology could make plan

- participation virtually frictionless for employers, and fiduciary responsibilities could be outsourced. (Of course, any approach must include consumer protections.) Such ease of use might even bring on enough employers to achieve the necessary level of broad coverage, even without a federal mandate.

- Making it easy for employers to graduate from an entry-level option to the next tiers—MEP/PEP, then a private plan—is also key to this model's success. The goal has to be to move as many businesses as possible into plans that offer more features.

FOR FURTHER REVIEW:

Building the Base

Forum participants debated the proper foundation for the three-tier model: a Roth IRA, a 401(k)-style account, or a hybrid of the two. Roths offer simplicity and the ability to withdraw for emergencies without penalty—an important benefit for low-income workers lacking sufficient emergency savings. A 401(k), on the other hand, allows for more features, including employer matches on contributions. Some participants were strongly in favor of that structure, but one attendee suggested that Roth-based models could include an emergency savings program.

"We look at IRAs and we look at 401(k) models, but the reality is that the most significant factor in getting people to save isn't the model, it's who's covered in the model."

4. How can small businesses be brought on board?

One third of private-sector workers are employed by businesses with fewer than 100 employees, yet only 48% of those firms offer a retirement savings plan.[6] That makes small businesses a necessary focus of any discussion about expanding access, especially to underrepresented groups.

"The small business issue is also a race issue. There are about twice as many Hispanics working at small businesses than at large companies. So if you solve the small business retirement problem, you make a big impact."

- Traditionally, small businesses are resistant to regulation, but the question was raised about whether they are actually opposed to state-mandated auto-IRAs—and by extension any potential federal requirement to enroll workers in a retirement plan. Some participants noted that, in theory, businesses might be open to states making it easier for them to offer a benefit their employees want.

- What would it take to convince resistant businesses to participate in a government-run retirement plan? No or low costs, of course, but also ease of use and seamless

"We know what the pushback to a mandate will be. It will come from business, and it will be around the fact that it costs more, in time and real dollars."

- integration with payroll systems were deemed to be keys to widespread uptake. Time is a business owner's most precious commodity. As one speaker noted, glitches during the launch of a federal health insurance marketplace cast a lasting shadow over the Affordable Care Act. Any new government retirement program, then, must get the technology right from the outset.

- Participants looked at what effect public retirement savings options, such as state auto-IRAs, might have on the private-plan market. Will they crowd out company 401(k)s? Early evidence from states with auto-IRAs suggests that, in fact, mandates may be leading more companies to introduce their own plans. In California, for example, 401(k) providers are competing for small businesses newly subject to the mandate. The tax credits available to businesses to offset the costs of creating plans, part of 2019's SECURE Act, may also be driving private-plan formation.

> "One thing we know about state programs is that many employers see them as a catalyst, a reason to set up their own individual plans."

- It was proposed that a spike in the number of small retirement plans could present an opportunity for retirement-plan sponsors. Small plans might serve as a gateway to retirement savings, resulting in a larger pool of assets to manage. In considering a public retirement option, one idea that could win the support of the 401(k) industry is a starter savings plan capped at $15,000, after which the account holder would have to roll over the money into a private plan.

> "Creating lots of small plans shouldn't be a threat to the industry as a whole. All big plans start small. We have to create an on ramp."

- Participants noted that proponents of auto-IRAs can't assume labor will be an automatic ally. Workers who are automatically enrolled in a retirement plan that reduces their paycheck by 5%, say, could rightly see that as a pay cut if it is not covered by employers or the government. Encouraging more savings by low- and moderate-income workers may well require a combination of accessible automatic savings vehicles and more generous tax incentives.

FOR FURTHER REVIEW:

The Employer's Role

For all the discussion about how to bring employers on board, participants also noted the risks of centering the retirement system on private businesses. Ongoing technological change and the transition to a clean-energy economy, to name two significant commercial forces, may put even well-established companies out of business. Economic factors have already impacted pensions, which are more likely to be offered by traditional conglomerates. Could employer-sponsored retirement savings plans also be affected? Then again, if businesses no longer have to assume the role of fiduciary, who will look out for the interests of retirement savers?

5. Given the politics of retirement, what's actually possible?

Recent years have seen a burst of bipartisan retirement legislation in Congress, from the passage of the SECURE Act in 2019 to notable retirement provisions in the 2020 Covid relief package. Pending legislation includes "SECURE 2.0," which would, among other provisions, mandate automatic enrollment for newly created retirement plans and enhance tax incentives for small businesses to offer plans. But how much has been achieved legislatively so far, what are the chances of significant reforms successfully passing, and who will champion retirement security going forward? Forum attendees tackled all those questions.

- Thirteen years elapsed between the 2006 passage of the Pension Protection Act and the next piece of major retirement legislation, the SECURE Act of 2019. If Congressional support for retirement reform can be mustered only every decade or so, the odds of passing a national retirement savings mandate seem long.

> "The difference between our aspirations and what Congress has produced in the last 10 years is pretty large."

- Some participants felt that the window to pass any meaningful retirement legislation could close within the year. Given that House Ways & Means chair Richard Neal (D.-Mass) has been a reliable champion of reform, much hinges on his continued tenure as head of that committee, and that, of course, is dependent on 2022's mid-term elections. Other notable leaders on this issue include senators Ben Cardin (D.-Maryland) and Rob Portman (R.-Ohio). Several attendees didn't see a pipeline of future congressional leaders; others, though, think there is a capable next generation on both sides of the political aisle.

- Retirement legislation typically originates in the House Ways and Means committee as tax policy. Participants, though, noted that framing it as tax policy is likely preventing the country from developing the solutions people need for a secure retirement.

> "The states have realized there are big problems in this country with access and adequacy. They are taking action where the federal government hasn't been able to do so yet."

- The slow pace of federal reform is why so many states have taken steps to ensure wider access to workplace retirement plans. And while the early adopters of auto-IRAs have tended to be "blue" states, participants noted that even Republican-led ones like Utah and Wyoming are considering similar programs. State governments, they said, recognize the huge potential costs of unprepared retirees. Furthermore, surveys show deep support among workers.[7]

FOR FURTHER REVIEW:

Picking Up the Pace

Though Congress has passed historic retirement legislation and continues to pursue a follow-up bill, participants called progress to date modest. The most important potential change—universal access to a workplace retirement plan—remains unrealized, and participants noted it faces stiff odds of passing anytime soon. The expansion of pooled employer plans (PEPs) and multiple employer plans (MEPs) made possible by recent legislation is an important step forward, but it's a small one in terms of closing the coverage gap. One participant noted that more PEPs and MEPs could give 700,000 new savers access to workplace retirement plans, but that pales against the estimated 30 to 50 million who would gain access through a national retirement mandate.

> "The order of magnitude of what PEPs and MEPs are likely to do to expand coverage is an entirely lower order than the potential of automatic IRAs. We ought to keep our eye on that ball and not fall into the misperception that Congress has done a lot recently."

6. Should any discussion of plan access include—or possibly start with—another pillar of retirement income, Social Security?

Though expanding the availability of workplace retirement savings is seen as crucial to increasing retirement security, the conversation repeatedly turned to the existing national retirement program as participants debated how universal plan access could take form.

- Given the universal nature of the Social Security system, some questioned whether an additional national savings system is even necessary. Instead of establishing new ways to save for retirement, could employers simply be allowed to make additional contributions within the existing system? That approach would, of course, require neither new technology nor additional sign-up as virtually all employers already make such payments.

> "To suggest that low-income workers should settle for Social Security benefits alone discourages savings. State plans have shown that given the opportunity to save, low-income workers will."

- Allowing employers to increase contributions to Social Security on behalf of their workers would free them of any new administrative burdens that might come with a national savings mandate, not to mention the fiduciary responsibility for workers' savings. Using Social Security as the means for helping low-income workers build greater retirement savings would, however, require changes to the benefit formula to ensure that those workers benefitted the most.

"Social Security is eventually just going to pay your health care bills because already 40¢ of every dollar goes to health care costs. When you're in your 80s, it's going to be like 90¢ per dollar."

- Some participants argued that even if Social Security were to be expanded, the more generous benefits would not override the need for outside retirement savings. Having both steady income from Social Security and a pool of savings to tap provides crucial breathing room in workers' budgets. That's especially true as expenses change over the course of retirement and health care costs eat up an ever-larger portion of Social Security income.

- Another argument for saving for retirement outside of Social Security is this lesson from state auto-IRAs: Even small monthly savings can make a meaningful difference in the long term. For instance, contributing as little as $100 a month can result in an additional $14,000 a year in retirement income.[8]

- Some participants weren't convinced that workers would take to relying on Social Security, pointing out that many younger Americans are already skeptical of the system. Workers who see payroll taxes coming out of every paycheck may feel that they are already contributing too much to a "broken" system. Lacking trust in the system, many may prefer to save on their own.

- Finally, any discussion of Social Security should recognize the disproportionate importance of the program for Black and Indigenous people. Black and Indigenous people have lower projected longevity and higher rates of disability due to a combination of factors, including limited access to high quality healthcare and environmental risk factors. As a result, Black and Indigenous are more likely to rely on disability and survivor benefits.[9] An additional retirement savings program may not address these very real risks.

FOR FURTHER REVIEW:

The Ticking Clock

Regardless of whether Social Security is expanded, shoring up and strengthening the system needs to be a legislative priority. With the trust fund insolvency date of 2033 moving ever closer, some felt that a meaningful conversation about Social Security is becoming more likely. The system may be on the cusp of a political moment.

ONE PLAN
THAT'S WORKING NOW

When OregonSaves launched in 2017, it was the first state-sponsored auto-IRA in the nation. Designed to aid the estimated one million workers in the state without access to a work-based retirement plan, the program requires most private employers that don't offer a savings option to enroll employees in OregonSaves, with a 5% default contribution rate. In the four years since, plan assets have surpassed $100 million, and more than 100,000 savers have funded accounts, set up as Roth IRAs. With participating workers contributing $143 a month on average, the average account balance currently stands at just over $1,100.[10]

A recent working paper published by the National Bureau of Economic Research found that OregonSaves has "meaningfully increased employee savings" among the primarily low-wage, high-turnover workforce it serves. And though roughly one third of enrolled employees opt out, the researchers noted that may reflect an understandable need for low-income workers to prioritize short-term savings.[11]

To date, local businesses appear satisfied with OregonSaves. In surveys by the Pew Charitable Trust, nearly three quarters of participating employers report being satisfied with or neutral about the program. What's more, employers who are actually funding accounts through payroll contributions expressed higher satisfaction than ones who have recently signed up—a possible sign that working with OregonSaves is a positive experience.[12]

ONE DEVELOPMENT
TO WATCH

Workers are typically paid every two weeks or even monthly, potentially creating a cash crunch for those who lack emergency savings. The wait can lead people to incur hefty overdraft fees or force them to turn to costly financial products like payday loans. A payroll approach called "earned wage access" eliminates the delay, permitting workers to collect what they earned on any single day right away, then have those advanced funds debited from their next paycheck.

At the Forum, the question was raised about whether this immediate payroll system could have an impact on retirement savings behavior. As one participant suggested, from a behavioral standpoint having ongoing access to cash may not encourage regular savings the way automatic 401(k) enrollment does. Still, by better matching income to spending needs and eliminating the fees associated with various forms of high-cost credit that erode low-paid workers' income, earned wage access could have a positive effect on overall financial health. It's a topic worthy of further study.

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

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

STRENGTHENING AND STEADYING CASH FLOW IN RETIREMENT

A RAPPORTEUR'S SUMMARY

June 8, 2021

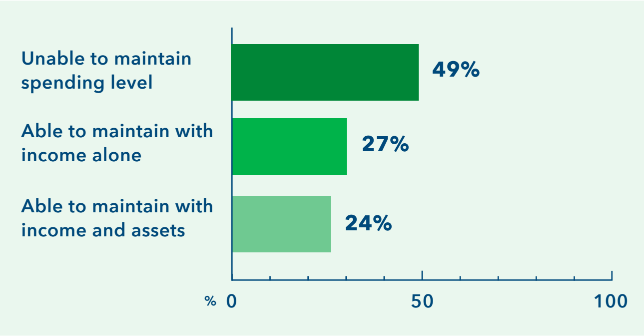
1:00 p.m. – 4:00 p.m. Eastern

About this Private Dialogue

On June 8, 2021, the fifth annual Aspen Leadership Retirement Forum on Retirement Savings convened a panel of 12 experts to discuss the challenges of creating a steady and sufficient income stream in retirement, especially for those who struggled to save during their working years. In this private dialogue, Forum participants examined the problems that retirees encounter in trying to make a career's worth of savings last a lifetime, while contending with unpredictable expenses and changing spending patterns. Participants debated the role of private businesses and governments in creating retirement income that is reliable and routine. The group also considered how Social Security—the bedrock of financial security in retirement—works in combination with income generated from savings, and how it could be strengthened, especially for low-income beneficiaries.

EIGHT STATS THAT TELL THE RETIREMENT CASH FLOW STORY

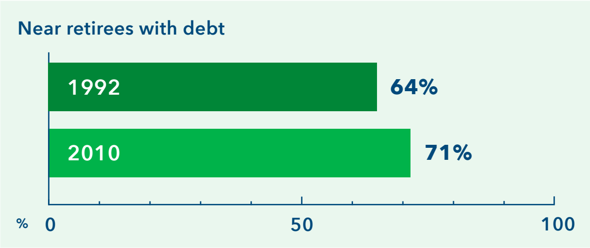
1. Many new retirees can't keep up pre-retirement spending levels.

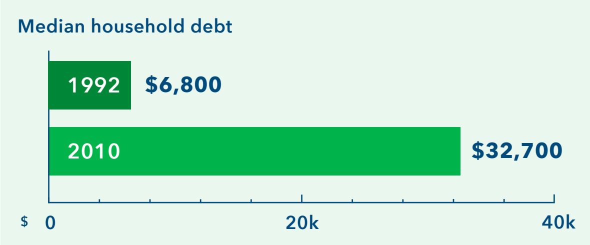


Note: Research based on people who retired between 1992 and 2014.

Source: Consumer Financial Protection Bureau, "[Retirement Security and Financial Decision-Making](#)," May 2020

2. More of today's retirees are dedicating cash flow to debt service, compared to previous generations.





Notes: For ages 56-61; median debt is in 2015 dollars.

Source: A. Lusardi, O.S. Mitchell, N. Oggero, "[The changing face of debt and financial fragility at older ages](#)," American Economic Association, 2018

3. Many on the cusp of retirement don't know what their Social Security checks will contain.

30%

of near-retirees can't even guess what they will receive from Social Security

Note: Based on individuals one to two years before they are eligible for benefits.

Source: Andrew Biggs, "[Improving the Social Security Statement](#)," Rand Corporation, 2010

4. Waiting to claim Social Security benefits provides a substantial financial advantage...

77%

increase in monthly Social Security benefit if claimed at age 70 vs. 62

Note: For those born 1960 or later.

Source: Social Security Administration

5. ... But most retirees make poor decisions about when to make their claim.

4%
of retirees claim Social Security at optimal time

$110,000
how much Social Security money an average household leaves on the table as a result of mis-timed claiming

Source: United Income, 2019

6. When given the choice between lump sum or income for life for their pension, workers often choose the former...

27%
Annuitization rate for pension-plan participants when there were no restrictions on lump-sum distributions

Source: EBRI Issue Brief, "Annuity and lump-sum decisions in defined benefit plans: the role of plan rules," 2013

7. ...and that single, up-front payment doesn't always last long.

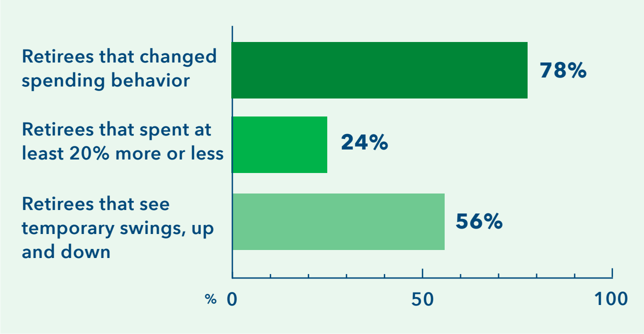
21%
of retirement-plan participants who took a lump sum depleted it within five and a half years, on average

Note: From defined benefit or defined contribution plan.

Source: MetLife, "Paycheck or Pot of Gold Study," 2017

8. Spending in early retirement can be unpredictable.

In first three years of retirement:



Note: For those who retired age 60–69

Source: JP Morgan Asset Management, "Three Retirement Spending Surprises," 2019

THE **BIG** QUESTIONS

1. How can we more effectively guide Americans through the complicated decisions about converting savings to income and claiming Social Security, to help them maximize their cash flow during retirement?

From having no idea about how much income their savings will produce to a poor understanding of longevity expectations, most retirement savers are largely ignorant of what lies ahead for them financially. Workers currently receive little guidance from employers or retirement-plan sponsors on the subject, and while that continues to be the case, they will be at risk of making costly mistakes when they begin to draw on their savings during retirement.

OVERHEARD

"The average American has no one to speak to and doesn't understand what they should be working towards. That's our challenge."

"Now, the agency is doing a better job of informing people that Social Security is not meant to be your only source of income in retirement."

- For millions of Americans, Social Security is the linchpin of their retirement. Yet many workers who are close to retirement do not even know what benefit to expect. The annual statements available to all workers are being overhauled, with new factsheets targeted at different age groups. Among the enhancements: personalized estimates of benefits by claiming age.[13] In addition, the statements will note that Social Security benefits are not intended to be one's sole source of income. Although Forum participants were optimistic that these statements would prove helpful, most workers have to create an online account and request one since Social Security no longer mails statements every year.

"I'm pretty sure our RMD rules were not written as optimal consumption rules, but as long as they are playing that role we have to have a conversation about what a sustainable RMD path looks like."

- A provision of the SECURE Act requires 401(k) plan sponsors to disclose an estimate of the monthly income that savings could produce for each participant. These lifetime income illustrations show what the plan balance would pay if annuitized. The new rule took effect in September 2021; its effectiveness is worth watching.

- Absent other direction, required minimum distributions (RMDs)—the base amount retirees have to take each year from their retirement plans once they reach age 72—have become the de facto determinant for how much to withdraw, participants noted. But RMDs were never intended to serve this function, and the fact that they've taken on that role for some retirees highlights the need for more and better advice.

"A simple strategy that's good enough for 80% of us—it could be written in three bullets on a slide—is what's missing in the accumulation and decumulation phases of retirement right now."

- Given the significant challenges of turning savings into a lasting income, workers clearly need more information before they enter their decumulation phase. Participants wondered if simple best practices could be developed that would sufficiently cover the interests of a vast majority of retirees.

- Workers may benefit from more workplace financial education focused on retirement cash flow. But employers remain hesitant to cross the line into perceived investment advice, as long as it could open them up to liability. More government guidance on the kinds of financial advice employers can offer could help.

- Professional financial advice is out of reach for many workers. One idea was to create a tax credit to cover a session with a financial advisor, integrated into the Social Security process, similar to the IRS volunteer taxpayer assistance program.

2. Are we doing all we can to strengthen and promote Social Security—retirees' most reliable source of income?

Revised Social Security statements are a positive development in terms of educating workers about what to expect, but more must be done to help retirees maximize their benefit. And given how much low- and even moderate-income retirees rely on Social Security, the system must be strengthened for these groups in particular.

"For low-wealth retirees, the only thing we can do is expand Social Security benefits, because it's the only universal program we have for them."

"It's very difficult to convince people to postpone Social Security—even when they know it's in their interest—because they are hesitant to draw down their savings balances."

- Called the "cheapest and best annuity" by one participant, Social Security is a powerful tool for strengthening cash flow in retirement. But often beneficiaries fall to take full advantage of their benefit. One study found that the average household misses out on $110,000 in lifetime income as a result of poor claiming decisions, including that of starting to collect benefits earlier than what would be optimal.

- Waiting to claim Social Security pays off with a significantly higher monthly benefit. Delaying from age 66 to 70 alone results in a 32% higher benefit. But few Americans stay on the job until age 70. So, what's needed is not only better guidance but also tools that help bridge retirees to a later claiming age. Taking higher withdrawals from retirement accounts early on—or purchasing an annuity to cover the beginning of retirement—could allow retirees to wait and collect what's in effect a bigger annuity.

"It's hard, but we need to educate people about the benefits of claiming Social Security at age 70. One thing we can teach them is to partially annuitize their 401(k)."

- A bridge to Social Security is the idea behind a proposal for a new kind of workplace retirement savings plan: Supplemental Transition Accounts for Retirement (STARTs). Funded by employees, employers, and the government, STARTs would be drawn down by retirees before Social Security starts, enabling a later claiming age.[14] Withdrawals would match what the retiree would have otherwise been collecting from Social Security.

"Do you look at something like giving caregiver credits for women who left the labor force for a few years and thus won't have the full 35 years? Can we fill in those zero years with some sort of average?"

- For low-wealth retirees, Social Security will continue to be a primary income source, if not the only one. It can be as crucial for middle-wealth retirees too. Participants discussed ways to expand benefits for these groups, including work credits for time spent outside the workforce for childcare, indexing taxation thresholds to inflation, or a stronger guaranteed minimum benefit for lifelong low-wage workers.

- Black and Latinx retirees are more likely to rely on Social Security for most or all of their income.[15] Strengthening the system as a whole will help address racial inequities in retirement security.

3. How does debt hinder retiree cash flow, and what can be done to counter it?

Americans are heading into retirement with more debt than ever—from mortgages, medical expenses and even student loans.

- Comfort level with debt varies by generation. That makes generalizations about carrying debt into retirement harder to establish.

- Retirees and near-retirees need more guidance around debt-repayment strategies. If a retiree has little in assets, should debt repayment even be the priority?

"For some low-wealth workers, the smartest thing they can do with $25,000 in savings is to pay off debt. The result will be increased borrowing capacity to smooth out shocks. Or will they just borrow more?"

- Social Security benefits can be garnished to collect on defaulted student loans, a practice that can have a harmful impact on retiree cash flow. Participants discussed whether reforming collections practices should be on the table.

"Why should companies write down debts? Companies exist for a reason, and it's not social policy."

- One participant raised the possibility of lenders writing off or relieving debts of financially vulnerable retirees as a form of targeted cash flow support. That suggestion sparked an objection on the grounds that such forbearance isn't the role of private business.

4. Are annuities a solution to the retirement income dilemma, or just another potential problem?

When it comes to creating predictable and sufficient cash flow in retirement, there are clear advantages to the steady, guaranteed income that annuities deliver. To make retirement savings vehicles work the same way pensions do, annuities may be key. Yet take-up rates are dreadful. What can turn around the reluctance to annuitize? And what are the limits to how annuities should be used?

- For starters, annuities need better branding. Two participant suggestions: "income for life" and "personal pension."
- The SECURE Act removed some of the barriers that prevented employers from offering employees the ability to convert some savings to income. It's not yet clear, though, if those safe-harbor provisions have led more plans to offer annuities.

> "The SECURE Act created a safe harbor for annuity selection. It's almost like we called their bluff. But I'm not sure it has moved the needle."

- To get more retirees to create pension-like income with a 401(k), should plans automatically convert a portion of retirement savings to an annuity, while giving participants the ability to opt out? Similarly, the idea of an annuity mandate was raised, although it was considered a tough political sell. Defaulting savers into an annuity, however, is far different than automatic 401(k) enrollment, participants noted. In any case, it's the kind of innovation that must be treated carefully.

> "Whatever we put out there, we have to be cautious about leaving people in a situation which can't be undone easily."

- Another challenge with automatic annuitization is the amount to be converted. Typically, retirees might create enough income with an annuity to cover essential expenses, but, as one participant noted, it's hard to do in every case because individuals themselves are the only ones who know their consumption patterns and what they consider to be essential.
- Collecting a systematic paycheck with an annuity, one participant noted, can affect spending behavior, giving retirees more confidence to spend.
- To help retirees get past a reluctance to part with a lump sum—and even to make a 401(k) annuity default palatable—the idea of a trial annuity was floated. This would allow retirees to change their minds within a defined period and get back their upfront investment, at no cost.
- If new products like trial annuities might have the potential to simplify and extend retirement cash flow, how else could policymakers foster innovation in the lifetime-income space? Participants discussed creating some sort of innovation lab within a federal agency, like Project Catalyst at the CFPB, but legislation would be required to enable it.

- Participants agreed that for low-wealth retirees the proper use of annuities calls for a bit of a balancing act. Locking up a small pool of savings in an annuity leaves little liquid savings for emergencies. On the other hand, locking up that savings can be a protection against fraud, a major concern for low-wealth retirees.

"With only a small amount of savings, annualizing could do more harm than good."

5. How can trends in actual retiree income and spending inform reforms?

Spending in retirement is not steady, and the unpredictable nature of retiree expenses can make planning more difficult.

"The question remains whether lower spending just naturally occurs with age, or to what extent retirees are actually cutting back on basic things and the overall quality of their lives?"

- As a rule, spending drops over the course of retirement, though not necessarily in the first few years. Participants questioned whether that was by choice or because retirees just don't have the money to continue to support their lifestyle.
- The decision to retire is in many cases caused by health, and that may be associated with higher spending early in retirement. Caring for a family member might be a similar trigger. Understanding the reason for retirement could help to explain the spending flow in the first post-work years.
- Certain health-care expenses are impossible to predict, but some—say, dental and vision costs—are known to produce spending spikes. Expanding Medicare to cover those costs could smooth out those spikes.
- The biggest long-tail risk in retirement is the high cost of long-term care, and the fear of those costs may cause retirees to hold back on spending.

"What do unexpected health expenses mean for folks who are not able to afford long-term care insurance and may be reliant on Medicare and, potentially, Medicaid? How do we help address cash flow in that space of unpredictability?"

6. What role can businesses play in improving retirement cash flow?

For low-wealth retirees in particular working longer is an important tool for improving retirement cash flow. Not only does it allow older workers time to build more savings, but it enables them to delay collecting Social Security.

"Aside from avoiding age discrimination, employers can help with the transition from work to retirement, whether it's providing a bridge job or job flexibility, because that's likely to be part of how individuals will improve cash flow."

- Because older workers are able to stay on the job or are even hired late in their work life, many people assume they can remain employed longer than what's realistic. The ability to work longer is not universal—what might be an option for an office worker will not be so for more physically demanding occupations.

- Employers could play a role by creating the kinds of flexible jobs that enable near-retirees to delay retirement. Tackling hiring biases and other age discrimination is also crucial.

- Aside from enabling them to stay on the job longer, employers may have few levers to pull to help low-wealth workers on the cusp of retirement. Targeted financial counseling could help at this juncture, especially as financial advisors tend not to work with this group.

"Interventions help when you're far away from retirement. There's nothing the private sector can do for those who are 60 and have few assets."

Thought Starter

How can we help retirees create income from what might be their most valuable asset: their house?

For retirees with modest savings, a house is likely their largest asset. As such, it can improve their cash flow, if tapped prudently. Reverse mortgages, which allow homeowners who are at least 62 years old to pull cash from their homes while continuing to live in them, is one potential tool to do that, especially for retirees with little in savings. These products are, however, complicated and carry high origination fees. To make them more useful to low-wealth retirees, participants wondered if the limit on borrowable amounts could be more progressive.

What's more, participants wondered who benefits the most from reverse mortgages: low-income or wealthier homeowners? One participant noted that though the industry markets reverse mortgages to higher-net-worth individuals, they are disproportionately used by low-income homeowners. Another question: to what extent are residents of communities of color able to capitalize on rising home values? Recent research published by the Urban Institute found that while more older Americans are tapping home equity to build wealth through cash-out refinancing, home equity loans, and reverse mortgages, a racial gap persists, with Black owners far less likely to extract equity than white owners are.[16]

Reverse mortgages weren't the only option introduced by participants. Widespread adoption of a state property tax-deferral program—which has been proposed by Alicia Munnell, director of the Center for Retirement Research, among others[17]—would also allow seniors to improve their cash flow as they age in place at home. This kind of program gives property owners who are 65 and older the opportunity to defer the payment of property taxes until the home is sold or they die (subject to certain limits). Simpler than a reverse mortgage, property tax deferral eliminates what might be older retirees' most significant housing expense.

CENTERING RACIAL EQUITY AND WEALTH BUILDING IN AN INCLUSIVE RETIREMENT SAVINGS SYSTEM

A RAPPORTEUR'S SUMMARY

June 29, 2021

1:00 p.m. – 4:00 p.m. Eastern

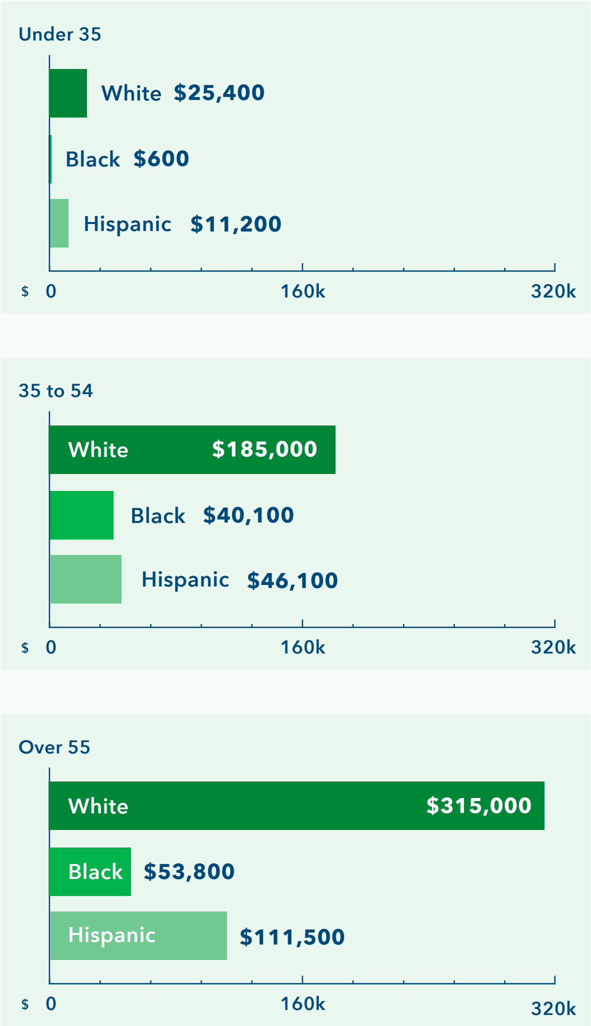
About this Private Dialogue

On June 29, 2021, the fifth annual Aspen Leadership Retirement Forum on Retirement Savings concluded its annual series of private dialogues among cross-sector leaders with a focused discussion about racial equity in the U.S. retirement system. Compared to white families, Black, Latinx, and Indigenous households have lower incomes and less wealth – including less retirement savings. During this dialogue, 18 diverse, cross-sector experts on wealth and savings acknowledged this country's history of exclusionary and predatory policies as a key driver of the racial disparities in retirement savings outcomes today. Importantly, Black, Latinx, and Indigenous workers' disproportionate lack of access to workplace retirement savings programs is working to maintain retirement savings gaps. The participants then explored multiple specific opportunities to improve both our private and public retirement savings systems and tools to better serve historically excluded communities, in an effort to imagine what true racial equity could look like in retirement savings and security.

EIGHT STATS THAT TELL THE RACIAL INEQUITY STORY

1. When it comes to wealth, Black and Hispanic households are behind at every age.

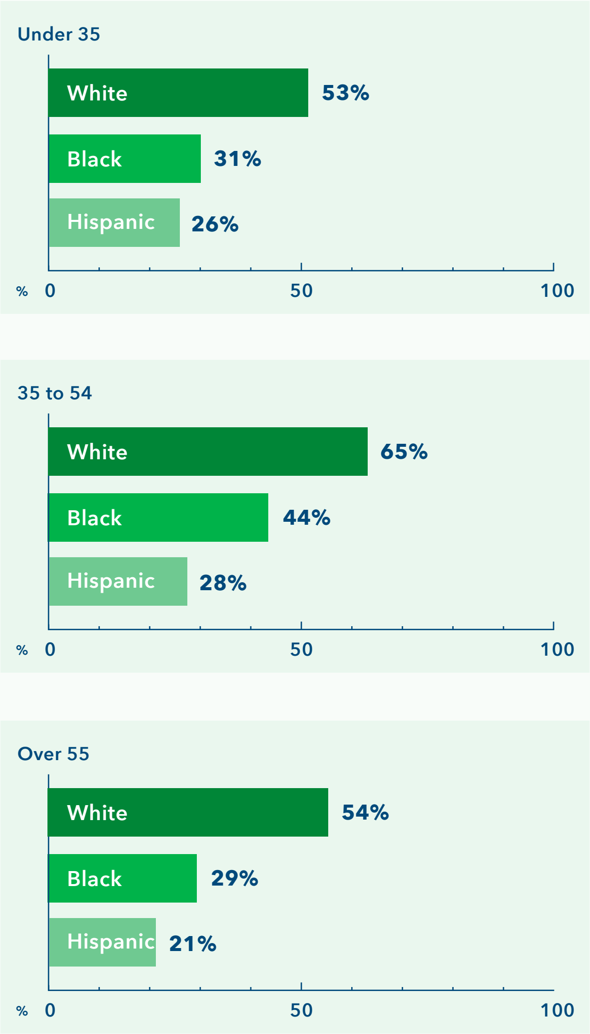
Median wealth, by age:



Source: Board of Governors of the Federal Reserve System, "2019 Survey of Consumer Finances"

2. Black and Hispanic households are also less likely to have retirement savings.

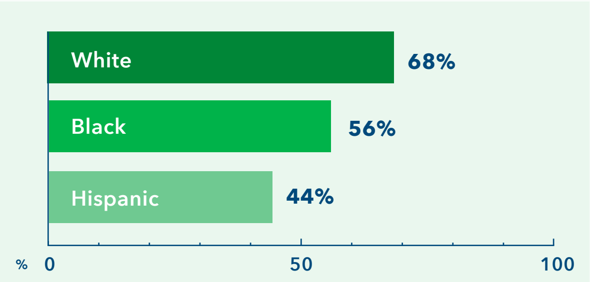
Ownership of IRAs and defined-contribution savings plans by age:



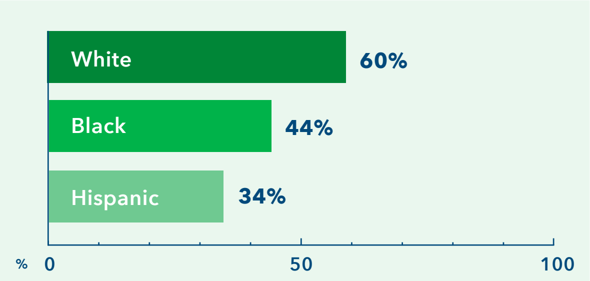
Source: Board of Governors of the Federal Reserve System, "2019 Survey of Consumer Finances"

3. With more limited access to a work retirement plan, Black and Hispanic workers are less likely to participate.

Access to an employer-sponsored retirement plan:



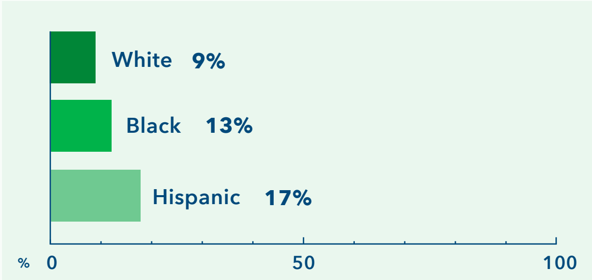
Participation in an employer-sponsored retirement plan:



Source: Board of Governors of the Federal Reserve System, "2019 Survey of Consumer Finances"

4. Black and Hispanic households are less able to handle unexpected bills.

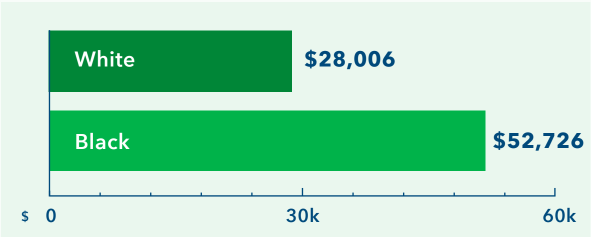
Adults who say they wouldn't be able to pay some bills if faced with an unexpected $400 expense:



Source: Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2020," May 2021

5. The burden of student loans is heavier for Black graduates.

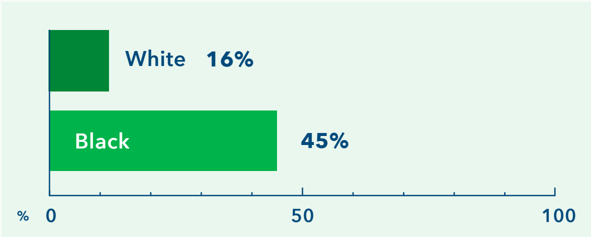
Average student loan debt, four years after graduation:



Source: Economic Studies at Brookings, "Black-white disparity in student loan debt more than triples after graduation," 2016

6. In Black families, intergenerational wealth transfers more often go from child to parent, as compared to white households.

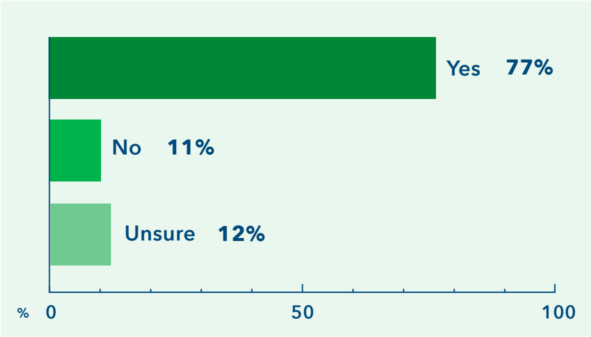
College-educated households reporting giving money to parents during the year:



Source: Federal Reserve Bank of St. Louis, "Family Achievements?": How a College Degree Accumulates Wealth for Whites and Not For Blacks," 2017

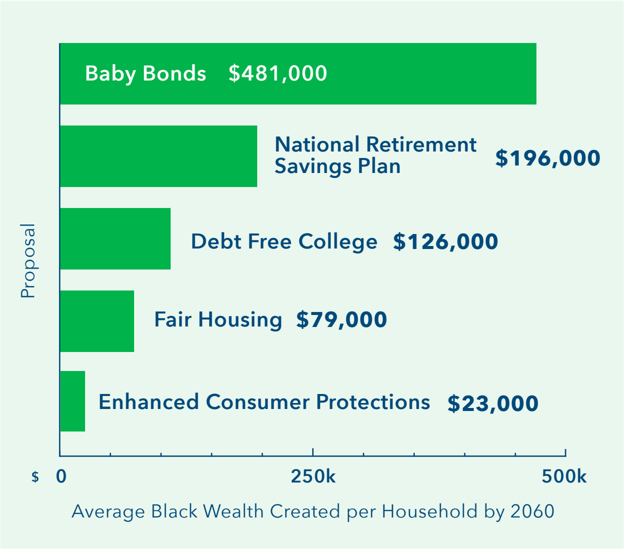
7. Retirement experts believe the retirement savings system contributes to the racial wealth gap.

Has the U.S. retirement savings system impacted differences in wealth levels between white households and those of Black, Indigenous, and other people of color?



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

8. Among a series of ambitious proposals to build wealth for Black households, universal retirement savings access is the second most effective policy.



Source: Center for American Progress, "Simulating How Progressive Proposals Affect the Racial Wealth Gap" August 2019

THE **BIG** QUESTIONS

1. How can we address racial equity within the retirement savings system, given that inequitable savings outcomes result, at least in part, from policy choices and economic forces elsewhere in the economy?

In looking at how the retirement savings system in America could better serve workers of all races and ethnicities, participants first tackled the issue of whether racial disparities in wealth and retirement-plan access and participation could even be solved within our employer-based retirement savings system.

OVERHEARD

"The ability of the current retirement savings system to produce retirement adequacy is dependent on so many things beyond the system. How much can we compensate for some of those externalities inside the system, and how much do we have to commit to working on dynamics that extend beyond it?"

The current employer-based retirement system already doesn't perform adequately for many people, including part-time and gig workers and those who come in and out of the workforce. What's more, the racial and ethnic economic disparities can be traced to this country's long history of exclusionary and predatory policies—from the 19th-century Homestead Act granting free land only to whites, to the denial of G.I. bill benefits to Black WW II veterans to more-recent redlining and discriminatory bank lending—has had a compounding effect, leaving Black and Latinx people more likely to work in jobs that pay less, and that are less likely to offer retirement saving benefits.

"All these systemic problems didn't start with the retirement system. They were baked in when the retirement system was created."

None of that means new approaches and innovative product offerings can't help, but it does suggest that retirement savings inequality won't be solved solely within the existing system of workplace programs or individual retirement savings accounts.

- With retirement inequality rooted in wage inequality participants agreed that the income side of retirement security has to be addressed. If you don't have income sufficient to

"During the pandemic, we saw a huge portion of essential workers deplete their savings. This obviously impacts retirement because how are you going to save when you need to continue paying the bills and putting food on the table?"

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" or "non-white Hispanic." When discussing this demographic more generally, we use the gender-neutral "Latinx."

In addition, we use "people of color" where applicable. 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.

- cover day-to-day bills and accumulate the short-term savings needed to handle emergencies, how will you be able to save for the long term while keeping intact whatever you do manage to set aside?

  Investing for retirement needs to begin decades before a worker leaves the workforce. Participants thought we should be focusing as early as childhood, perhaps seeding savings accounts at birth or directing more investment into education. Without quality education for everyone, one participant noted, the balance will forever be fundamentally skewed. Others pointed out that education alone is no panacea, as the racial income gap holds even among college graduates.

> "What companies can do is provide individualized support that makes retirement security feasible—for instance, student loan support, as communities of color are disproportionately affected by student debt."

Any discussion of racial retirement savings gaps also needs to include the unequal impact of student loan debt, including the higher default rates of Black and Latinx graduates compared with those of their white counterparts.[18] Not only do Black college students borrow more than every other ethnic group, but they also take more time to pay off their loans, in part because wage disparities cause them to accumulate more interest along the way.[19] According to a joint study by Morningstar, the Aspen Institute Financial Security Program, NORC at the University of Chicago, and the Defined Contribution Institutional Investment Association Retirement Research Center, having student loan debt was correlated with 36.4% lower retirement savings in 2020.[20]

Action Opportunity:

Employers could help employees tackle student loan debt by offering customizable financial coaching and student loan debt repayment matching.

- Retirement security is built upon financial stability, so strengthening the social safety net to help workers weather financial shocks should be part of any plan to support retirement saving. That could mean modifying or expanding public social-insurance programs—including Social Security, the minimum wage, and unemployment benefits—and seeding baby bonds at birth.
- One participant noted the higher disability rates among Black and Indigenous people in the U.S., suggesting it is one more interrelated issue to tackle in building retirement security for all.

2. How do we move beyond one-size-fits-all program design?

Not all workers have the same definition of "retirement security," or even "wealth." For some, those terms refer to tangible assets; for others, they represent the means of supporting children who may later support you. Whatever the case, how do we help everyone save and invest for the future without dismantling the existing social and cultural structures that undergird those definitions?

- After centuries of structural racism, many Black workers, including those who are highly educated, find themselves in the position of having to provide a safety net for extended family members and previous generations. In fact, research has found that college-educated Black households are nearly three times as likely to provide financial support to their parents as white college grads are.[21] This makes it tougher to build their own savings.

> "What structural racism has done to Black Americans, including college graduates, is make it so we are the safety net for extended family members. Family obligations are such that we can't participate in a retirement plan."

- Participants referenced financial-support mechanisms that exist outside the traditional financial system. Take, for example, the savings and lending circles popular in communities around the world and in many immigrant communities in the United States, in which a group of extended-family members or friends and neighbors regularly contributes to a fund that, in turn, redistributes lump sums to members. Several nonprofit organizations have developed formal systems that enable this kind of community—or even intergenerational—assistance. Supporting these and similar programs could further assist these communities.

- The current retirement system is not well designed for those who dip in and out of the workforce as a result of family-care obligations. One participant noted that this is especially true for Latina women, where familial care for aging parents is common. Research by AARP on the out-of-pocket cost of providing unpaid care to family members found that the financial strain was heaviest among Latina caregivers because of their lower household incomes.[22]

> "In Latin communities, women are always more impacted because it's customary for them to take care of aging parents, not to mention their own children."

3. What is the private sector's role in creating a more equitable retirement system?

In April 2021, the Aspen Institute Financial Security Program published the Expert Survey on Retirement Savings, which gauged retirement experts' support for solutions meant to create a more inclusive retirement savings system. Two thirds of respondents said that addressing racial inequality was a top priority for their organizations.[23] How individual companies should do that was an ongoing topic of discussion at this session.

- Affecting change begins with self-examination. Companies should be conducting regular audits of the racial and ethnic disparities in their ranks and examining how organizational practices and decisions—about worker classification, benefit access or wage levels—contribute to those gaps. One participant noted that companies may be shocked to learn how many of their employees aren't earning a living wage and suggested that such knowledge just might spur action.

> ### Action Opportunity:
>
> Employers and plan administrators should collect and analyze plan participation data by race, ethnicity, and other demographic characteristics. The more they know about who is and is not using the plan, the better able they will be to customize for various needs.

- Given that a key driver of retirement security is income, private companies could push harder to create quality jobs that pay well, rather than simply offer access to a savings plan. And individual companies can make sure they are closing the racial income gap within their firms, while ensuring the sort of foundational income that is a prerequisite for better retirement savings outcomes.

> "The most important thing is income, because if you don't have it, you can't save. Firms need to make sure they are closing their own racial wage gaps."

- There may be more that private companies can do to make sure every employee takes advantage of the workplace savings plan. That could include targeting communications to employees of color and frontloading employer matches to get workers off the sidelines. In general, employer matches strongly motivate workers to save: A 2017 Pew study found that plan take-up rates went from 69% of eligible workers to 85% when a match was in place.[24] Some 21 million workers who have access to retirement plans don't use them.[25] What more can be done to engage them?

> "Ours is an employer-based system, yet there is no mandate that dictates that companies offer plans. That makes no sense. As managers of retirement assets, we need to be advocating for such a mandate."

- Another solution could be for private companies to rethink how they classify workers, including those who are part time, as that often affects savings-plan eligibility.
- In the Aspen Institute Financial Security Program's 2021 Expert Survey on Retirement Savings, respondents who considered support of racial equity to be a priority focused on obvious actions like hiring, promoting and retaining diverse candidates. Some, though, also mentioned advocating for field-leveling policy proposals such as automatic enrollment in retirement savings programs.

Action Opportunity:

Companies should be doing more advocacy for policies that expand access to retirement plans, including an automatic enrollment requirement for employers, and that enhance the solvency of critical social services, such as Social Security.

- Private-sector support for a national savings mandate may be more palatable now that state plans, Pooled Employer Plans (PEPs) and Multiple Employer Plans (MEPs) are making it cheaper and easier for employers to help workers save.
- Participants also discussed stakeholder capitalism and to what extent racial equity should be considered in environmental, social, and governance (ESG) investing. A broader view of ESG could include employer-audit best practices with respect to wages and retirement-plan access from a racial equity perspective.
- One participant noted that building collaboration within the industry can be tricky from a competitive standpoint, and possibly even an antitrust standpoint. On the other hand, competition may also drive progress.

TALKING POINT:

Can financial education mitigate systemic inequities?

The question of whether financial education has a role in closing the racial wealth gap elicited strong reactions from participants. Some argued that companies could do more to educate employees about how to save for retirement, pointing to examples of interventions believed to be effective. However, research has found that financial education does a poor job of changing behavior, whether that means saving more or borrowing less. Further, several participants countered that trying to "fix" savers obscures the root causes of racial inequity. Low-income workers do, in fact, know how to save money, and they don't squander funds when they have them. So, the spotlight needs to remain focused on the structural drivers of disparities. As one participant noted, just as discussions of the gender gap tend to turn on one's choice to take a particular job, discussion of racial disparities may focus on financial choices, such as not starting a 401(k). Unfortunately, this perspective essentially pushes the subject of policy reform and institutional improvement to the sidelines.

4. What policy changes could foster greater racial equity in retirement savings?

Making the retirement system more equitable may also require new approaches from regulators and legislators. Participants discussed several avenues of action.

"I don't want to presume that all the best solutions are in the employer-sponsored retirement saving system. I think we need to think about modifications to our broader social-insurance programs."

"The tax code is ripe for incentivizing the right kind of racial equity behavior, but we never hear that conversation."

As the tax code creates incentives that steer individuals and companies to behave in certain ways, participants wondered if it could be used to promote racial equity too. For example, could tax breaks for sponsoring employment retirement plans be tied to achieving racial equity goals, such as reducing the racial gap in plan participation rates?

- Participants identified one more policy lever that could make sure everyone—especially employees from historically excluded groups and communities—benefits from retirement plans: the expansion of non-discrimination rules that cover high-income vs. non-high-income employees to encompass racial equity goals. This would fit well with President Biden's executive order that committed the federal government to racial equity.

"We have rules about non-discrimination, but they are basically with respect to high-income versus non-high-income employees. We can define non-discrimination in a completely different way."

Action Opportunity:

Redesign 401(k) plan non-discrimination rules to cover plan participation by racial and ethnic groups.

- The public-sector workforce is disproportionately made up of people of color, one participant noted, so the continued strength of defined benefit pension plans is an important factor in cultivating racial equity in retirement.

Action Opportunity:

Ensure that the public employee pension system is adequately funded. States have some leeway in deploying federal stimulus monies. In Connecticut, for example, some of it has been dedicated to shoring up the fiscal health of the state's public pension system.

- Another challenge: the retirement savings shortfalls of gig, contingent, and independent workers, who are less likely to learn about retirement options or be in a peer group that saves for retirement. How can these workers be reached, either through the private sector or new policy approaches?

5. Would better data on racial disparities make a difference?

While there is a wealth of information about racial inequality generally, participants identified gaps in data collection in retirement savings and discussed the extent to which more granular data could inspire solutions.

"We have a robust amount of information about what people do in their retirement-savings programs. But we don't know who they are, and there's a whole lot we could do if we were able to connect the dots."

There is no one-size-fits-all solution. The way forward begins with first figuring out the various problems."

- To address shortcomings in wealth and savings data by race, the Federal Reserve Board recently announced that it will be doing an oversampling of Black, Latinx and Asian households for its Survey of Consumer Finances (SCF) in 2022. This will allow the SCF to break out what is now an "Other" category—which includes Asian respondents—as well as track wealth accumulation by race over time.
- Another recent working paper on income inequality disaggregates the data of Asian-Americans, dividing that category into six sub-groups. But even six sub-groups can't capture the full diversity of this community; deeper data collection is needed on AIAN (American Indian and Alaska Native Resources) and NHPI (Native Hawaiian and other Pacific Islander) groups, to name just two. Forum participants applauded the need for more nuanced data within broad race categories, noting that similar disparities exist among Latinx families.

Action Opportunity:

Government agencies must move to address the dire need for better, disaggregated data on racial differences, including longitudinal data.

- Another question raised by participants: Would President Biden's racial equity order apply to data collection by the Internal Revenue Service and Social Security Administration, and would it be part of the solution?
- The need for better data by race also applies to the retirement industry, where recordkeepers and plan sponsors currently cannot connect data sets.

Action Opportunity:

To do the kind of work that's called for, recordkeepers—or a centralized clearinghouse—must be able to access more demographic identifiers, a process currently in its early stages.

- Despite the broad support for the gathering of more granular data, several participants raised doubts about the effect it will have. Would a better understanding of just how bad the problems compel the industry to act or change the conversation in the seats of power? One participant noted that, to this point, any government documenting of disparities has been received with little more than nonchalance.

> "I'm curious: If you knew at a more granular level just how wide the gaps were, would that change conversations with your boss?"

6. How can we encourage more innovation in the retirement space?

In the past, retirement product and program enhancements such as automatic 401(k) enrollment and auto escalation have boosted plan participation and efficacy. But as one participant noted, automatic enrollment has essentially become table stakes in the retirement- benefits game. There's room for much more innovation, from student loan supports to emergency savings to individualized coaching and beyond. Yet, participants wondered what will be needed to produce the kind of innovation, in the public and private sphere, that will help alleviate racial inequality in the retirement system.

> "The employee-benefits gap is exceeding the income gap. There's a lot of value left on the table, and an opportunity to innovate within that space."

> "If I've learned anything from five years of the Aspen Retirement Leadership Forum it's that this industry is highly risk averse. Not only do you need incentive to try something new, you need legal cover."

- Given that the retirement industry is risk averse, participants discussed whether companies needed not only incentive to introduce a new product or system but also legal cover. Currently, providers and plan sponsors who want to do the right thing may hesitate for fear of legal or fiduciary liability. Do companies need a safe harbor that allows them to experiment?
- One participant noted that there's a difference between safe harbor and empowering firms to conduct pilots in a safe, legal environment. "Safe harbor" that deals only with what is unsafe often leads companies to do no more than the minimum.

Action Opportunity:

Create a laboratory of innovation, with legal protections. Participants discussed what federal agencies might be involved, from the CFPB to the IRS, Treasury and Labor departments.

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