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Testimony Before the ERISA Advisory Council on

Disparities for Women and Minorities in Retirement

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Good morning. I would like to thank the ERISA Advisory Council for inviting me to provide testimony. I am Kilolo Kijakazi, a program officer in the Financial Assets Unit of the Ford Foundation. The Initiative that I manage is Building Economic Security Over a Lifetime. The goal of the initiative is to achieve intergenerational economic security through public policies that address inequities in current laws. These inequities stem from policies that facilitate saving and asset accumulation by middle and upper-income and white families while simultaneously inhibiting or excluding low-income families and families of color from saving and building assets. Through support for demonstrations, evaluations, policy analysis, and educating policymakers on these issues, the initiative aims to assist low-income families and individuals to save and invest in long-term assets that can help them to weather difficult economic times and move out of poverty on a sustainable basis. The information that I will present today is a summary of work conducted by Foundation grantees.

Status of Retirement Readiness by Race, Ethnicity, Gender, and Marital Status

All Workers

A study by the Employee Benefit Research Institute or EBRI (Copeland, 2009) showed that in 2008 about 51 percent of all workers held jobs with employers that sponsored a retirement plan (See Table 1). Just over 40 percent of all workers participated in a plan. These levels represent a decline from 2000 when almost 57 percent of workers were employed in a job where a retirement plan was sponsored and about 44 percent of all workers participated in a plan. The author attributed these declines to falling stock market returns, the economic crisis, and the declining and freezing of defined benefit plans as employers shifted from these plans to defined contribution plans.

The EBRI report focused primarily on full-time, full-year workers ages 21-64 since they are the workers most likely to be offered a plan at work. Among this group, 63 percent worked for an employer sponsoring a retirement plan and about 55 percent of workers participated in a plan. These levels represent a decline from 69 percent and 60 percent, respectively.

Table 1. Percentage of Work Force Who Worked for an Employer that Sponsored a Retirement Plan and the Percentage Who Participated in a Plan by Race, Ethnicity, Gender, and Marital Status, 2008

	All Workers		Full-time, Full-year, Wage and Salary Workers Ages 21-64	
	Employer Sponsorship Rate	Worker Participation Rate	Employer Sponsorship Rate	Worker Participation Rate
All	50.6	40.4	62.5	54.8
White	54.3	44.1	67.3	60.0
African American	50.0	37.8	60.3	50.5
Latino	33.7	25.2	42.4	34.5
Other	49.0	38.4	59.3	51.4
Male	49.6	40.5	60.8	53.7
Female	51.7	40.2	64.6	56.2
Married	55.8	48.0	65.8	59.7
Widowed	44.8	34.8	60.8	54.1
Divorced	53.6	42.9	63.5	54.2
Separated	42.0	31.0	52.1	41.1
Never Married	40.7	26.2	54.4	43.7

Source: Copeland, C. (2009). "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2008," *EBRI Brief,* No. 336, (November), Figure 2, p. 9.

A study by the Center on Retirement Research estimated that in 2009, 51 percent of all households age 65 were at risk of not having sufficient income to maintain their standard of living after retirement (Munnell, Webb, and Golub-Sass, 2009). This estimate varied by income level. Forty-two percent of households in the highest third of the income distribution were at risk, compared to 47 percent of the middle third, and 60 percent of the bottom third. This increasing level of risk has implications for people of color and women since they are disproportionately represented among low-income households.

Workers of Color

There is a gap by race and ethnicity in the percentage of workers who are employed in jobs that offer retirement plans, and a gap in the rate of participation of workers in plans. The EBRI (2009) report showed that 67 percent of white, full-time, full- year, wage and salary workers ages 21-64 are employed in jobs that sponsor a retirement plan compared to 60 percent of African Americans, 42 percent of Latinos and 59 percent of other workers of color. Sixty percent of white workers participated in an employer sponsored plan while 51 percent of African Americans, 35 percent of Latinos, and 51 percent of other workers of color participated.

A paper by the Economic Policy Institute (Eisenbrey and Spriggs, 2005) showed a growing retirement income gap between households of color and white households from 1989 to 2001. In 1989, white households had an expected retirement income of $59,100, on average, compared to $22,200 for African Americans and Latinos. By 2001, the expected retirement income for white households climbed

to $80,800 as opposed to $28,100 for households of color. This growing gap was attributed to the shift from defined benefits to defined contributions (which will be discussed more extensively in the section below on "Causes in Disparities in Retirement Readiness").

Despite the changes in the kinds of retirement plans employers sponsored, the economy, and the stock market, when asked about their level of confidence in their retirement security, most workers indicated that they were confident that they would have a secure retirement (Helman and VanDerhei, 2007). This was true for African Americans and Latinos as well as white workers. Unfortunately, the reality does not support this level of confidence. A declining percentage of African Americans and Latinos reported that they were saving for retirement. In 2003, 62 percent of African Americans and 60 percent of Latinos said they were saving for retirement. By 2007, only 48 percent of African Americans and 41 percent of Latinos reported saving, compared to 66 percent of all workers. Moreover, the amount of savings was relatively small. Less than half of African Americans and Latinos had more than $10,000 in retirement savings while about two-thirds of all workers had savings exceeding this amount.

While workers of color were optimistic about their retirement security prospects, they were not completely oblivious to current dynamics in retirement benefits. Twenty-two percent of African Americans and 20 percent of Latinos reported a reduction in retirement benefits offered by their employers. Households with lower incomes were more likely than higher-income households to have had such a decrease. Among workers who experienced a reduction, 40 percent of African Americans and 21 percent of Latinos reported saving more to help compensate for the reduction.

The ability of low-wage earners to save for retirement, however, is constrained by their relatively low earnings. Given that people of color are disproportionately represented among low-wage workers, saving more may be a challenge. Another option is to work longer.

Researchers from Urban Institute and Howard University found the decision to work longer to increase the odds of having a secure retirement varied by income level (Simms and Betsey, 2009). Low-income African Americans were less likely than their white counterparts to say that they anticipated working longer but upper-income African Americans ages 50-64 were more likely than similarly situated white workers to report that they expected to work longer. (A separate study by Urban Institute found that African Americans in their fifties expected to retire earlier than other groups, but this study did not appear to control for income (Murphy, Johnson, and Mermin, 2007)).

Female Workers

The EBRI study showed that female workers with the greatest attachment to the labor market have a higher probability of working for an employer that sponsors a retirement plan (nearly 65 percent) than men (almost 61 percent). Women also had a higher rate of participation in retirement plans (about 56 percent) than men (less than 54 percent).

When all workers are considered, however, the participation rate for women is lower than the rate for men. This is because women are more likely to be part-time workers, to work in occupations that have

a lower likelihood of employers sponsoring a retirement plan, to spend time out of the labor market, and to have lower earnings (Papke, Walker, and Dworsky, 2008).

Women also had lower levels of savings in their accounts. In 2004, the median female worker near retirement (ages 55-64) held $34,000 in a 401(k) account or an IRA compared to $70,000 held by her male counterpart.

The shift from defined benefit to defined contribution plans has been a mixed blessing for women. Defined contribution plans are more portable and allow for faster vesting and accrual of benefits than defined benefit plans. These characteristics favor the work patterns of many women. On the other hand, defined contribution plans do not offer the automatic life annuity that defined benefit plans provide. In 2005, only 20 percent of employers sponsoring 401(k) plans offered an annuity option. Women have a longer life expectancy than men which makes an annuity more valuable to women, on average. Another disadvantage is that defined contribution plans do not typically require spousal consent for the worker's choice of a payout option. Under defined benefit plans, a married worker is automatically paid a lifetime annuity with survivor benefits for the spouse unless the spouse consents to waive the survivor benefits. This is not the case for defined contribution plans, so a worker can take a lump sum or annuity without a survivor benefit and without spousal consent.

Unmarried Workers

Table 1 shows that married workers are more likely to have jobs where employers offer a retirement plan, than unmarried workers. Married workers also have a higher rate of participation in retirement plans than unmarried workers. This is important given that fewer adults are getting married and those who do have higher rates of divorce and separation than in the past. While this is true for all groups, the decline has been greater for African Americans. The percent of white women who were married fell from 67 percent in 1960 to 54 percent in 2006 (Papke, Walker, and Dworsky, 2008). For African American women the decline was from 60 percent in 1960 to 34 percent in 2006.

Causes of Disparities in Retirement Readiness

A study by the Center on Retirement Research found that, "for comparably situated individuals, Blacks, whites, and Hispanics respond in a similar fashion in terms of joining a 401(k) plan and deciding how much to contribute (Munnell and Sullivan, 2009)." However, African Americans and Latinos are less likely to have the jobs where employers sponsor a 401(k) plan. They are also less likely to have earnings and job tenure that would enable them to participate in a retirement plan. People of color and women are more likely to face unemployment, have longer periods of unemployment, work involuntary part-time jobs, and have lower wages than white workers (See Table 2).

Table 2. Not Seasonally Adjusted Monthly Household Data by Race, Ethnicity and Gender, February 2010

	Unemployment (%)	Average Weeks Unemployment	Involuntary Part-time (% of all Part-time)
All			25.6
Male			33.1
Female			21.4
White	8.8	28.2	
Male	9.0	28.3	32.5
Female	7.3	28.0	19.6
African American	15.8	33.8	
Male	17.8	35.6	37.6
Female	12.1	31.3	34.4
Latino	12.4	26.6	
Male		26.3	53.6
Female		27.2	36.5
Asian American		30.4	
Male		34.2	33.2
Female		24.3	21.3

U.S. Department of Labor, *Employment and Earnings,* March 2010, Vol. 57 No. 3, Figures A-4, pp.8-9; A-36, p. 46; A-18, pp. 26-27.

In addition, women are more likely than men to spend time out of the labor market caring for family members. As Table 1 shows, workers who are employed less than full-time and less than full-year are less likely to have a job with an employer offering a retirement plan.

The EBRI (2009) report showed that only about 30 percent of workers earning $10,000 to $15,000 per year had jobs with retirement plans. By comparison, over 70 percent of workers earning $50,000 or more worked for employers sponsoring a retirement plan.

Occupations also are a factor in the availability of retirement plans. African Americans and Latinos are more likely than white workers to be employed in service, farming, and construction occupations (see Table 3). These are the occupations least likely to have employers offering retirement plans, according to the EBRI report.

Table 3. Not Seasonally Adjusted Household Data, Employed Persons by Occupation, Race, Ethnicity and Gender, February 2010 (Percent)

	Service Occupations	Farming, Fishing, Forestry	Construction & Extraction
All	17.6	0.6	5.0
Male	14.2	0.9	9.2
Female	21.3	0.3	0.3
White	16.5	0.7	5.5
Male	13.2	1.0	10.0
Female	20.1	0.3	0.3
African American	24.8	0.3	2.5
Male	21.6	0.4	5.4
Female	27.4	0.2	0.2
Latino	26.8	1.8	10.0
Male	21.7	2.6	16.7
Female	34.1	0.7	0.4
Asian American	17.9	0.2	1.8
Male	14.6	0.2	3.0
Female	21.5	0.2	0.4

U.S. Department of Labor, *Employment and Earnings,* March 2010, Vol. 57 No. 3, Figure A-20, p. 30.

A study by the Retirement Security Project showed a similar pattern for women. They are more likely to be employed in service, sales, and office occupations than men (Papke, Walker, and Dworsky, 2008).

Country of birth also appears to be a factor. The EBRI study showed that Latinos born in the United States had retirement plan participation rates similar to African Americans and other workers of color—but still lower than white workers—while Latinos born in other countries had rates much lower.

Another reason for the disparity in retirement readiness is the shift from defined benefit to defined contribution plans and the differential impact the shift had on workers' decisions to participate in a plan. The Center for Retirement Research (Karamcheva and Sanzenbacher, 2010) found that male workers ages 25 to 64 employed in the private sector in 2007 were less likely to participate in defined contribution plans (67 percent) than in defined benefit plans (91 percent), when offered by an employer. The difference was greater for low-wage earners. While 96 percent of workers in the highest third of the earnings distribution participated in defined benefit plans when sponsored by an employer, 83 percent participated in defined contribution plans. By contrast, 78 percent of workers in the lowest third participated in defined contribution plans, but only 41 percent chose to participate in a defined contribution plan. Low-wage earners were more than three times more likely than the highest earners to indicate that money was the reason for not participating in a defined contribution plan. Given that African American and Latino workers are disproportionately represented among low-wage earners, they are more likely to have lower participation rates.

The EPI study found that pension wealth declined for many households of color from 1989 to 2001 as defined benefit coverage declined (Eisenbrey and Spriggs, 2005). The percentage of workers ages 47 to 55 with any defined benefit coverage dropped from 68 percent to 40 percent and workers with only a defined benefit plan fell from 55 percent to 10 percent. The study indicated that lower wages made it harder for these workers to contribute to defined contribution accounts. So, many households of color did not lose just defined benefit coverage; they lost pension coverage of any kind.

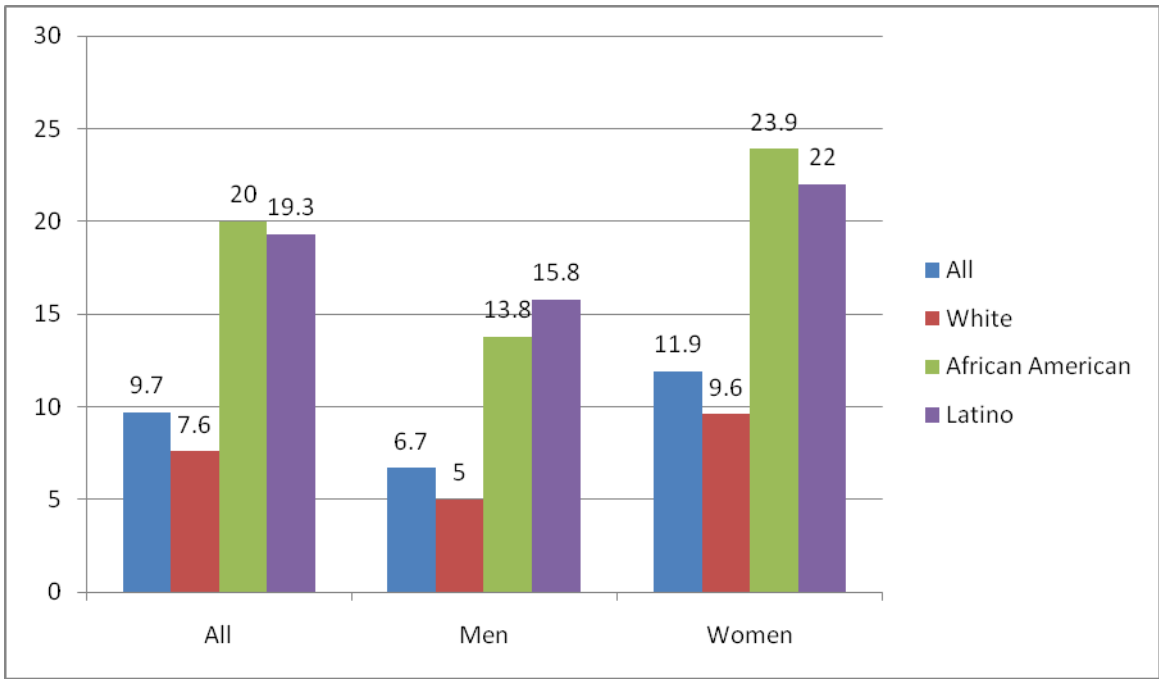
The authors of the EPI paper indicate that defined contribution policies exacerbate the racial gap in retirement income in two ways. First, due to labor market discrimination, young African Americans ages 20-29 are much less likely to have a job (60 percent) than white people the same age (75 percent). This means many African Americans are not able to establish and contribute to these accounts as early as white workers or benefit from compound interest as long. Moreover, the racial disparity in wages means that African Americans must obtain higher levels of education to earn wages equal to their white counterparts. In 2003, the median wage for a white high school graduate was $26,518, but an African American had to have some college education to earn the same wage. The additional years of education—to get the same wage as white workers—means fewer years are spent contributing to retirement savings.

The second way in which IRA and 401(k) structures contribute to racial disparities in retirement accumulation has to do with the timing of contributions that are invested in the stock market. African Americans are more likely than their white counterparts to be unemployed during economic slow-downs. During these periods, stock prices tend to fall providing better returns for those who have jobs and are in a position to contribute to retirement accounts. Conversely, when the economy begins to grow, African Americans are more likely to find jobs and be able to contribute to retirement accounts. However, this is also the time that stock prices rise, reducing the returns to accounts of African Americans, compared to white workers.

Problems Stemming from a Lack of Retirement Readiness

As a result of the disparities in retirement readiness, people of color, women, and single people are more vulnerable to poverty in their old age. A recent report by AARP's Public Policy Institute (O'Brien, Ke Bin Wu, and Baer, 2010) showed that while white elders experience a poverty rate of about 8 percent, 20 percent of African Americans and 19 percent of Latinos were poor in 2008 (see Figure 1). The poverty status for women of color is the highest. About 10 percent of white elderly women are poor compared to 24 percent of African Americans and 22 percent of Latino elderly women.

Figure 1. Elderly Poverty Rates by Race, Ethnicity and Gender, 2008



Source: O'Brien, Ellen, Ke Bin Wu, and David Baer. 2010. *Older Americans in Poverty: A Snapshot*, Washington, DC: AARP Public Policy Institute, Figure 18, p. 17.

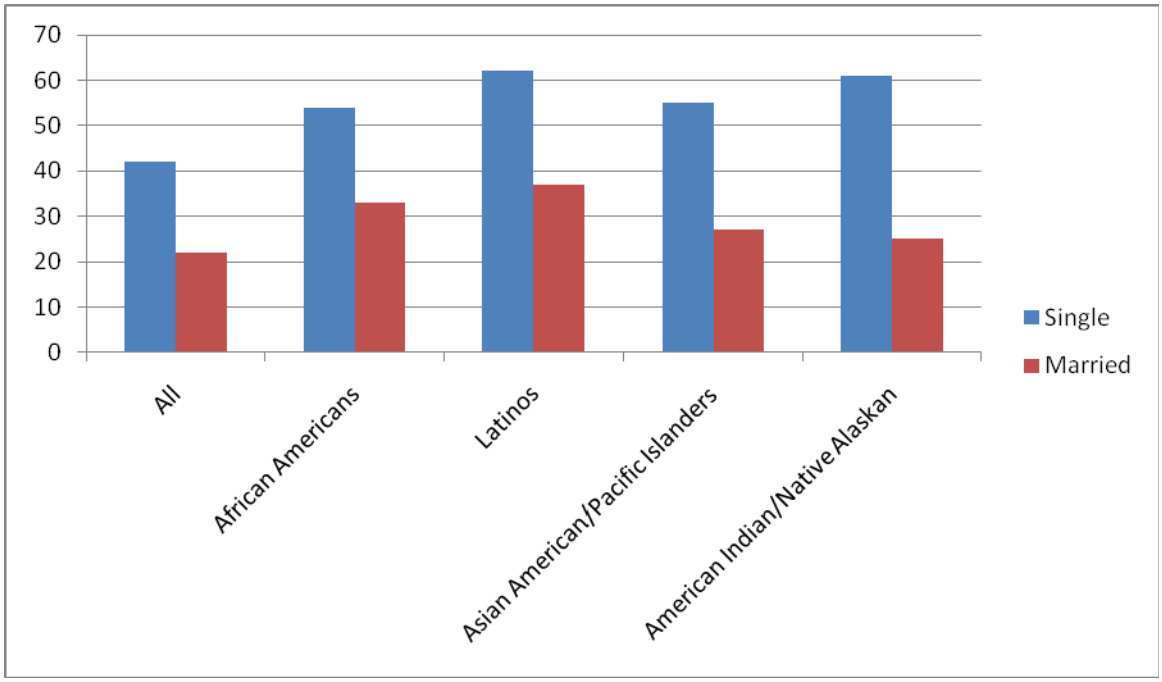
Single women are another group that is at risk of economic insecurity. In 2008, less than six percent of elderly married women are poor, however, over 15 percent of elderly widows, almost 21 percent of divorced and separated elderly women, and more than 18 percent of never married elderly women were poor (O'Brien, Wu, and Baer, 2010). Unmarried people may not have access to the pensions, assets, earnings, or Social Security benefits of a spouse. Their own resources are not as likely to keep them as economically secure as married couples, on average. The higher probability of women of color being single and low-wage earners places them at greater risk of being economically insecure (Rockeymoore Cummings, 2010; Kijakazi, 2002).

Reliance on Social Security

In addition to pensions, assets, and earnings, workers and their families rely on Social Security as an important source of income. Two-thirds of elderly beneficiaries ages 65 and older receive at least half of their income from Social Security (Social Security Administration, 2010a). These retirement benefits are particularly important to communities of color and to single retirees of all races and ethnicities given their lower likelihood of having sufficient income from pensions and assets. Figure 2 shows that among

all beneficiaries ages 65 and older, 42 percent of single persons and 21 percent of married couples relied on Social Security for 90 percent or more of their income, in 2008. Among African Americans 54 percent of single persons and 28 percent of married couples received this proportion of their income from Social Security. For Latinos, the figures were 63 percent for single persons and 38 percent for married couples. Fifty- nine percent of single Asian American and Pacific Islanders and 29 percent of married couples receive at least 90 percent of their income from Social Security. And among American Indians and Alaskan Natives, the figures were 61 percent for single persons and 25 percent for married couples (National Academy of Social Insurance, 2008).

Figure 2. Reliance on Social Security for 90% or More of Income by Beneficiaries Ages 65+, 2008* (Percent)



Source: Social Security Administration. 2010a. *Income of the Population 55 or Older, 2008*, http://www.socialsecurity.gov/policy/docs/statcomps/income.pop55/2008/sect09.pdf. Table 9. A3.
*Data for Native Americans and Native Alaskans are for 2006 and the source is National Academy of Social Insurance, "Social Security is Worth $225,000 for a Typical Retiree," Press Release, February 1, 2008.

Social Security is the country's most successful social program, providing benefits to over 51 million people in 2009 (Social Security Administration, 2010b). In the absence of Social Security, the overall poverty rate for seniors would be about 45 percent (AARP Foundation, 2008). The Social Security Program is a social insurance system that is intended to be universal and provide coverage for all eligible workers and their families.

Social Security Coverage

Not all communities have an equal probability of being covered by the Social Security System, however. In 2008, 89 percent of white people ages 65 or older received Social Security benefits (Social Security Administration, 2010a). By comparison, 81 percent of African American seniors, 75 percent of Latino seniors and 67 percent of Asian-American seniors received Social Security. This lack of coverage for workers of color is the result of several factors. Some Asian-American elders may not have lived and worked in the United States when they were young and would not have sufficient Social Security credits to qualify for benefits (Lee and Shaw, 2008). African Americans and Latinos make up a disproportionate share of household and farm workers. These occupations were not covered by Social Security until the 1950s. While these occupations are now covered, they have a higher rate of non-reported wages by employers to the Social Security Administration (Kijakazi, 2004). Consequently, workers in these occupations are less likely to accumulate the number of credits needed to qualify for Social Security benefits.

Another challenge is that more earnings are required to receive Social Security credit for household workers than for other workers (Grillo-Chope and Rodriguez, 2005). To receive credit, household workers' earnings must reach the "coverage threshold." Earnings below this level are not taxable under Social Security and do not count toward future benefits (Social Security Administration, 2010c). In 2010, the coverage threshold was $1,700 for household workers. By contrast, workers in other occupations need only $1,120 in earnings to receive a credit (Social Security Administration, 2010d). Even more challenging is that the coverage threshold is for a *single* employer (Social Security Administration, 2010e). In other words, a worker must earn at least $1,700 from a single employer to receive a credit. A worker who does household work for several employers cannot combine the earnings across employers to reach the $1,700 threshold. These rules were intended to make reporting easier for employers. The rules simultaneously make it more difficult for workers to receive Social Security coverage and benefits.

A final factor contributing to the lack of coverage for some workers is their undocumented status (Grillo-Chope and Rodriguez, 2005). These workers may have false or non-work status Social Security numbers. Although these workers frequently pay Social Security taxes, many will not collect benefits based on these contributions. Others who eventually obtain a valid Social Security number may become eligible for benefits.

Social Security Benefit Adequacy

Among workers who are covered by Social Security, the program substantially reduces poverty for them and their families. The program has a benefit formula with two components that help to compensate for the labor market factors which negatively impact people of color and women. First, in computing a worker's benefit, the five years of lowest earnings, or no earnings, are eliminated. This is particularly helpful for workers who have spent time out of the labor market due to unemployment or care giving, or who work involuntary part-time. Second, the formula is progressive and replaces a larger share of

pre-retirement income for low-wage workers than high-wage workers. In 2009, a low-wage worker with annual earnings of $18,500 who retired at age 65 would receive a Social Security benefit equal to 54 percent of his or her pre-retirement earnings. By contrast, a high wage earner with annual earnings of $80,000 would receive just 30 percent of his or her previous wages (Sass, Munnell, and Eschtruth, 2009).

Social Security's progressive benefit formula cannot completely ameliorate negative labor market impacts, however. And, as seen in Figure 1, a substantial percentage of some elderly, especially people of color and single people, remain poor even after receiving Social Security benefits. Moreover, Social Security's replacement rates will decline in the future as the retirement age for full benefits increases from age 65 to age 67. In addition, rising Medicare premiums that are deducted from Social Security checks will further lower benefits (Reno and Lavery, 2009).

Data Collection

The EBRI study states that:

> "the datasets that contain [employment–based retirement plan participation] information focus only on private-sector workers, are slow to be released, do not contain detailed demographic data on the participants, or are compiled from surveys taken only at three- or five-year intervals. …Furthermore, the official compilation of private-sector plan assets and participants by the U.S. Department of Labor from the Form 5500 data that all private sector sponsors of pension or retirement plans must file with the Internal Revenue Service (IRS) is currently available only through 2006. Public employers are not required to file these forms, making detailed data from those plans difficult to obtain even after a few years" (Copeland, 2009).

It would be beneficial to have data collected from both public and private sector employers on an ongoing and more frequent basis that include information about the employers, the plan, and workers, such as:

- Characteristics of the firm (e.g., public, private, type of industry, number of employees);
- Whether the employer sponsors a retirement plan;
- Whether the plan is a defined benefit or defined contribution plan, or whether both are offered;
- Whether there is an employer match and the matching rate;
- Whether there is an annuity option and survivor benefits;
- Eligibility criteria for workers to participate in a plan;
- Type of plans for which workers are eligible to participate;
- Participation rates by workers; and
- Number and demographic characteristics of workers including race, ethnicity, national origin, American Indian nation, gender, age, wage, level of education, other retirement assets.

The last item includes more detailed data on race and ethnicity than is typically collected in surveys. However, to understand the problem of racial, ethnic, and gender disparities thoroughly, sufficient data are needed. When data are too highly aggregated, problems that need to be addressed are hidden. For example, data presented on Asian Americans and Pacific Islanders often suggest that this community is doing well financially. However, studies that have disaggregated this group by national origin show a wide range of income and assets held by different Asian communities (Patraporn, Ong, and Houston, 2009). While members of the Japanese-American community were well situated with respect to financial assets, members of the Southeast Asian-American community held only a small fraction of the assets owned by members of the Japanese-America community, on average. What is invisible goes unaddressed.

The Ford Foundation has just funded Duke University's Research Network on Racial and Ethnic Inequality to undertake a study to design and implement a national asset scorecard. This scorecard would provide an assessment of the wealth position of members of various racial and ethnic groups that comprise the U.S. populations. The initiative is intended to examine separately the assets and debts, as well as other demographic information, of individuals by race, ethnicity, national origin and American Indian nation.

The cost of such an undertaking has limited the research to a pilot study where several sites will be selected for telephone and in-person surveys. The data collected from this study will be used to discern the wealth status for each group. These data will also be used to determine what would be required to scale the survey process up to a national level while simultaneously targeting specific sites to ensure sufficient sample representation of the various subgroups of interest. This study will yield a template for establishing a long-term research infrastructure for annual or bi-annual updates and associated reports. The template could provide a basis for forming a collaborative effort between public and private institutions to fund a national survey in the future.

Role of the U.S. Department of Labor

The Department of Labor can play a crucial role in addressing disparities in retirement readiness. One important step would be to work collaboratively with the Social Security Administration to enforce the requirement for employers to report wages of their employees so that these workers will receive Social Security credits.

In addition, the Department of Labor can carefully consider the options below that have been proposed by Ford Foundation grantees working on this issue. It may be possible to achieve some of the proposed improvements through regulatory action.

Plan Designs that May Reduce the Retirement Readiness Disparities and Improve Coverage

The Center for Retirement Research concluded that the best way to increase retirement savings for people of color is by focusing on plan design (Karamcheva and Sanzenbacher, 2010). The Center recommended automatic enrollment into defined contribution plans to increase participation since studies show that requiring workers to opt out of pension enrollment raises participation as much as 35 percentage points. Other research supporting plan design improvements include the study by the researchers at Urban Institute and Howard University (Simms and Betsey, 2009). They found that low-income African Americans are twice as likely to participate in a retirement plan if there is an employer match. The EPI report states that a refundable tax credit and substantial employer matches are needed to ensure that households of color are able to accumulate sufficient wealth in defined contribution accounts (Eisenbrey and Spriggs, 2005).

In addition, the Pension Rights Center conducted a six-year project called Conversations on Coverage during which it assembled a wide range of stakeholders—including representatives of business, labor, the financial industry and academia—to discuss ways to expand pension coverage for low- and moderate-wage workers (2007). They developed several proposals to improve coverage:

- *The Guaranteed Account Plan (GAP)* would be a hybrid plan with individual accounts funded by the employer based on a percentage of the employee's pay. The employer would also guarantee the return on the contributions by assuming the risk of investing the funds to obtain the promised rate of return. The basic benefit would be paid as an annuity that would begin at the time of retirement and carry a guaranteed survivor annuity for spouses.

- *The Plain Old Pension Plan* would be a new and simplified version of the basic traditional defined benefit pension plan. It would be an employer- funded plan with a modest guaranteed benefit. The basic benefit would be based on a percentage of the employee's career average pay. The benefit would be paid as an annuity with a guaranteed survivor annuity for spouses. The plan would also allow companies to provide bonus benefits in good years and to scale back to the basic benefit formula in lean years.

- *The Retirement Investment Account* would establish a government-sponsored clearinghouse to administer portable lifetime individual accounts, not unlike the Thrift Savings Plan approach. The clearinghouse would receive contributions from employees through payroll deductions facilitated by employers. All eligible employees would be automatically enrolled unless they opt out. Self-employed and contract workers could contribute when they file their quarterly taxes. Tax credits could be added to the plan to encourage savings for low- and moderate- income workers. This approach would allow workers who are not covered by a plan to save for retirement and keep their accounts when they change jobs.

- *The Model T Plan* would be a simplified multiple employer payroll deduction plan offered by financial institutions to small businesses. Employers would sign up for the plan with a financial

institution. Employers and employees, both full-time and part-time, could make contributions. Employees would contribute through payroll deductions provided by participating employers. Employers would be encouraged to make contributions.

Finally, the Aspen Institute's Initiative on Financial Security has proposed a default product for IRA accounts in which workers are automatically enrolled (2010). The default investment is called Real Savings + and is intended to ensure that accounts grow enough to make a meaningful contribution to the workers' retirement income. The Real Savings + default would invest a portion of a worker's contributions in Treasury Inflation Protected Securities and the remainder in a low-cost stock index such as the S&P 500. This product would have a guaranteed return of principal and protect the worker's contribution from default, market risk, and inflation.

Improvements Needed in Social Security to Ensure Coverage and Benefit Adequacy

August 2010 is the 75th anniversary for Social Security. The program has improved with age as coverage was extended to more workers and their dependents, and benefits were increased to reduce the risk of poverty. New improvements are needed to ensure that all eligible workers are covered and to further increase benefit adequacy. Some options offered by Ford Foundation grantees include:

- Enforcing the requirement for employers to report employee earnings for Social Security credit, particularly for employers of household and farm workers;
- Implementing an effective minimum benefit that pulls people out of poverty;
- Restoring student benefits for children until they are age 22 if they are enrolled in college or other post secondary institutions;
- Providing family care credits for workers during periods when they have young children or elderly parents who are unwell; and
- Increasing the surviving spouse benefit.

Such improvements can provide greater economic security to workers and families who are currently at risk of poverty.

That concludes my remarks. Thank you again for inviting me to testify.

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