Testimony Before the ERISA Advisory Council

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Issues and Considerations Around Facilitating Lifetime Plan Participation

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My name is Mark Fortier, and I am the Global Head of Defined Contribution Research and Product Development at State Street Global Advisors. I am honored to address the ERISA Advisory Council on a topic that is critically important to American workers: facilitating lifetime participation in employer-sponsored retirement plans. For my testimony today, I would like to build on the solid foundation established through prior testimony which highlights the attitudinal, economic, legal and commercial reasons why retirement assets leave the employer-based system, and I would like to provide an additional perspective and avenue that needs to be considered in the broader context of both, creating and facilitating lifetime plan participation.

My testimony will focus on three key areas that are meant to provide:

1. A historical perspective on the areas that have bolstered the facilitation of lifetime plan participation as well as the structural barriers that have hindered progress.

2. A current perspective of the retirement system and industry, and how a cooperative approach is needed to remove the structural barriers.

3. Recommendations for the Council to encourage ways to both create and facilitate lifetime plan participation.

History

In order to understand how we got here, we need to go back in time to 1978 and the birth of the Defined Contribution Plan- the conception of which has often been described as more of an accident than that of deliberate planning. And in the almost four decades since, much has changed. The economic and political climate has experienced financial crises, housing bubbles, Affordable Care Act, and an almost fivefold increase in the level of personal debt when adjusted for inflation(Sources: Treasury, Federal Reserve, Census Bureau, Bureau of Labor Statistics). American society has been reshaped by demographic, cultural and technological changes. Throughout history, plotting populations by age has generated a pyramid in which the young at the base far exceeded the old at the tip, but that pyramid is shape shifting into a rectangle as 10,000 Baby Boomers now turn 65 every day(Source: Pew Research Center). As a result, the social contract of the U.S. retirement system has shifted over time as Defined Benefit is now nearing its own retirement and Defined Contribution has grown into a 36 year-old with adult issues that include under-saving, under-planning, misunderstanding the number of years in retirement and, perhaps most significantly, broadly misunderstanding life in retirement. During this same time period, the DC industry comprised of the organizations that provide the products, services and support grew through competitive strategies built on differentiation and a customer focus best suited for early to midlife savers. And like plan participants, the long-term planning of the industry often suffered from the behavioral trappings of inertia, procrastination, and anchoring biases. Despite the industry's collective desire of improving retirement readiness, the heuristics have left stakeholders like the old parable of the blind men and the elephant in which each man grasps a different part of the elephant and therefore envisions a very different response.

Current Barriers to Future Enhancement

Where are we now? The shifting demographics coupled with a highly mobile workforce means that American workers are likely to hold multiple jobs and participate in multiple employer-sponsored plans over the course of a working life—and this will vary greatly from one person to another. The retirement system has moved away from the traditional three-legged stool analogy, and now retirement resources are best described as a pyramid with the surface area of each retirement source differing household by household. Labor trends and attitudinal surveys of pre-retirees show a 12% rise in the last ten years in the percentage of people working over the age of 55 (Source: Department of Labor) as well as a widening gap between those who "want to" versus those that "have to" work. A recent EBRI study (Source: EBRI Notes June 2014 Vol. 35, No.6) reports that 83% of the lowest income quartile households will run out of money in retirement versus only 13% for the highest quartile. Simply put, one-size-fits-all solutions won't solve the problem. Successful policies and outcomes will increasingly require a holistic and flexible approach that covers each individual's lifetime of saving and investing. The industry will now grow through collaborative strategies as it seeks to address the unique needs of a customer base that is increasingly transitioning into and living in retirement.

And while much has changed, much has stayed the same. Many of the U.S retirement and benefit laws were written forty years ago and still predominantly reflect the past, not the future. And the infrastructure and supporting technology for the retirement industry address the legacy problems of yesterday, not the needed solutions of tomorrow. The roadways for retirement were built decades ago and do not provide the needed connectivity and integration across all phases of the lifecycle of a modern interstate highway system designed to facilitate lifetime participation

Recommendations

So where do we go from here? The solution to facilitating lifetime plan participation is dependent upon the evolving combination of three factors: Government, Employer and Technology. We must find a way to collectively redesign the infrastructure and information highway to be supportive of lifetime participation. The Department of Labor, with guidance from the Council, has an opportunity to encourage all stakeholders to seek a cooperative strategy to establish the simplicity, transparency and efficiency needed to facilitate and encourage a lifetime of participation. Specifically, I respectfully submit and recommend the Agency:

Foster the creation of a virtual "Retirement Positioning System (RPS)": Consider the global positioning system (GPS). This was a program that was launched by the government, revolutionized industries, and has infiltrated and integrated into nearly every aspect of our daily lives. Translating that to retirement, we can establish a system that provides the signals necessary to help guide participants over a lifetime of plan participation. By leveraging the assumptions and safe harbors provided for in Labor's proposed lifetime income illustrations and aggregating across all retirement accounts, a singular and simple lifetime stream of income based upon one's working life could be provided to plan participants. Imagine further, integrating the capabilities available through My Social Security with an interactive way to model different starting ages, how this could provide an even more comprehensive view and opportunity for plan participants to work, plan and save for their retirement with greater confidence. Aggregating and simplifying a virtual RPS could lower costs, increase awareness, drive engagement and improve the overall participant experience. An RPS could be achieved through a cooperative and open approach to developing the technology and infrastructure.

Encourage building the bridges to connect the employer-based system: Recent studies by AON Hewitt and EBRI reveal that a staggering 43% (Source: 2014 AON Hewitt Universe Benchmarks) of participants that terminated employment cash-out of their existing employer's plan and only .5%(Source: EBRI Notes May 2014 Vol. 35, No.5) roll-into their new employer's plan. In order to make it easier for participants to roll money into qualified plans as well as combat the issue of leakage, an industry cooperative is needed to develop the technology standards to efficiently and safely move retirement assets within the employer based system. One of the primary aspects of Australia's fairly recent retirement reforms (the "Stronger Super" initiative) is the introduction of ecommerce and data standards to help simplify the process and facilitate consolidation of accounts. Australia has also taken steps to require the consolidation of low account balances. By creating a common and open technology standard for the U.S. retirement industry, we could modernize our current awkward and ineffective policies and procedures to offer the simplicity and value of consolidation while preserving the freedom of choice for individuals along with greater efficiency and customer value for the industry.

Lastly, inspire and support the development of roads which lead not just to, but to and through retirement: Establishing the guidance system and connected roadways is needed to facilitate plan participant's lifetime participation by accumulating retirement assets throughout their working life in the employer-based system. But it is also critical to providing participants with the seamless transition and flexibility necessary to establish the employer-based system as a means of building and ultimately drawing retirement income. Bridging the journey of retirement with its destination also has the potential to engage participants that veer off course and need help getting back on track. By extending and preserving the fiduciary oversight of the employer-based system during the retirement phase, participants will continue to reap the benefits of a clear and consistently communicated process and standard of care. However, fiduciary concerns and lack of portability continue to be impediments to the broad adoption of retirement income solutions within the employer-based system. In addition to providing plan fiduciaries with greater clarity and/or safe harbors for offering lifetime income solutions within the plan, fostering an industry cooperative aimed broadly at the technology standards for portability and transferability within the employer-based system will provide the foundation necessary to drive greater availability and thus, portability for lifetime income solutions. As retirement continues to be redefined, technology will play a critical role in the industry's future as it seeks to redesign its products, services, and advice for the retirees of tomorrow.

In conclusion, the employer-based retirement system in the U.S. provides American workers with the opportunity to save and invest in their working years. Unfortunately the system's existing infrastructure and technology was designed and built to operate independently and does not easily facilitate this integrated journey to last over a lifetime. I urge the Council to recognize this structural limitation and encourage cooperative strategies by the industry and with the support of government. I appreciate the opportunity to share my experiences and perspectives with the Council and would be pleased to answer any questions at this time and provide any further support in the future. Thank you.

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