Statement of the Pew Charitable Trusts

Submitted to the

2021 Advisory Council on Employee Welfare and Pension Benefit Plans

U.S. Department of Labor

“Gaps in Retirement Savings Based on Race, Ethnicity and Gender”

August 26, 2021

My name is John Scott, and I direct the Retirement Savings Project at the Pew Charitable Trusts (Pew). Pew is a nonpartisan, nonprofit research organization dedicated to applying evidence-based solutions to today’s pressing public policy problems. I want to thank the Advisory Council for holding these hearings and considering how retirement policy can help improve retirement security for all Americans regardless of race, ethnicity, or gender.

Pew’s involvement with retirement security extends back to 2004 when it funded the retirement security project at the Brookings Institution, which among other activities generated key proposals such as automatic enrollment that has significantly boosted participation in employer-sponsored retirement savings plans as well as provided the foundation for today’s state-facilitated auto-IRA programs. In 2014, Pew initiated the Retirement Savings Project to understand the barriers that workers face in trying to save for retirement; the challenges to small business in offering retirement benefits to workers; and feasible solutions to these issues. In the course of our work, we focused on state auto-IRA programs as a feasible solution that would boost participation and savings among groups of workers that have historically not had access to retirement savings plans.

I’d like to focus this statement on the following four areas:

1. A summary of what we know about retirement savings from a race, ethnicity, and gender perspective and with an eye on discussing possible solutions;
2. Research lessons from potential solutions with a focus on auto-IRA programs;
3. Outstanding questions for future research; and,
4. Steps that the Advisory Council or the Department of Labor can take in this area.

A summary of prior testimony and research on gaps in retirement savings based on race, ethnicity, and gender

The Council received a rich body of knowledge from the prior hearing on this topic, and I am sure the Department has provided additional information that augments your expertise. So, in my written testimony I want to summarize a few of the key points from that prior testimony and where appropriate provide some additional information from Pew's own work.

Abundant research has documented the gaps in access and participation by race, ethnicity and gender. Whether workers have access to employer-sponsored retirement plans differs by type of work and worker characteristics, as shown by prior survey work by Pew.[1] Hispanic full-time workers have substantially less access to plans than white full-time workers. Full-time workers at businesses with fewer than 100 employees are less likely than those at businesses with more than 250 employees to have access to an employer-sponsored plan. Workers in certain industries such as construction and retail trade are less likely to have a workplace plan than those in other industries, and many groups are overrepresented in these industries.

Many forms of employment or types of labor status are excluded from retirement benefits, such as contingent workers. Part-time workers, among whom women are over-represented, those with lower wages, and those who had experienced unemployment for an extended period are less likely than other employees to have access to a workplace plan. People of color have greater spells of unemployment or underemployment that make retirement savings very difficult to achieve. Other witnesses noted that unpaid caregivers are often left out of not just private sector retirement plans but are also penalized by not getting credit for Social Security.

Many witnesses at the prior hearing, based on a large body of research, stated that the gaps in retirement savings also could be traced to non-retirement factors: income inequality makes it difficult to save for the future, and a combination of financial shocks and a lack of emergency savings squeeze what little income is available for saving. Lori Lucas of EBRI noted that Black and Hispanic workers more likely to say debt is impacting their ability to save for retirement.

Retirement goals compete for dollars with other financial goals. For example, Ms. Lucas also testified that Hispanic and upper income Black families more likely to say that it is more important to help friends and family now than to save for retirement. For middle- and upper-income Hispanics, retirement savings is not a priority relative to current needs of family. Hispanics and low to mid income Blacks are also likely to say that paying for child's education or paying off child's education is reducing how much they can save for retirement

[1] The Pew Charitable Trusts, 2017, "Survey Highlights Worker Perspectives on Barriers to Retirement Saving," https://www.pewtrusts.org/en/research-and-analysis/reports/2017/09/survey-highlights-worker-perspectives-on-barriers-to-retirement-saving.

Lessons from possible solutions: auto-IRAs and the Saver's Credit

State-facilitated Auto-IRA Programs (auto-IRAs)

I'd like to summarize what we know about the biggest innovation today, state-facilitated automatic enrollment payroll deduction IRA programs, also known as auto-IRAs. As discussed above, auto-IRAs are extending coverage to a new class of workers who largely have not saved for retirement.

The auto-IRA initiative took hold at the state level with California passing legislation for a market study in 2012 and eventually program enactment in 2016. Today, 9 states and 2 cities in total have enacted auto-IRAs. Three states—California, Illinois, and Oregon—are active and enrolling savers.

The metrics so far are impressive. According to the consulting firm Massena Associates, combined assets are now over $275 million across the three programs. Program assets are up almost 60% since the start of the year. Funded accounts are over 346,000 – up 31% year to date and double where they were at the end of September 2020. Average account balances equal $756, which includes many new accounts. Average contributions in each of the programs are running at or over $115 a month. And, participation is approximately 68%.[2]

Auto-IRA effects on employees: The biggest effect of auto-IRAs has been on coverage and participation. We've long known that automatic enrollment is highly effective at boosting participation by using inertia to keep workers in a retirement plan. For example, according to Vanguard's latest review of its large client database, participation rates among voluntary or opt-in retirement plans is 62% while participation rates among plans with automatic enrollment is 92%.[3]

As noted above, the participation rate across the three operational states is approximately 68%. While this may seem small relative to the Vanguard data cited above, a closer inspection of Vanguard client data is instructive. Many auto-IRA participants are low- to moderate income employees who work in small to mid-sized firms. When the Vanguard data on employer-sponsored plans considers those plans with no more than $50 million in assets and only those workers who make less than $30,000, the participation rate for workers automatically enrolled

[2] Massena Associates, July 15, 2021, *Retirement Security Matters,* vol. 33, https://myemail.constantcontact.com/Retirement-Security-Matters---July-15--2021.html?soid=1133778904165&aid=swvPsJGI6cI.
[3] Vanguard, 2021, *How America Saves 2021,* Figure 29, https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/21_CIR_HAS21_HAS_FSreport.pdf.

is 72%, just above the state auto-IRA average.[4] The Vanguard data also includes plans with matching or other employer contributions, which are not permitted in auto-IRAs, so a higher participation rate is to be expected.

The auto-IRA programs are also enabling savings among many who have not saved before. As noted above, monthly savings are average at or over $115 a month. Average account balances are up to $756, which includes many new accounts that are being added every day.

These savings are not just enabling the growth of a nest egg but also developing a buffer against financial shocks, which can drain retirement savings. According to Pew's 2017 survey of workers at small to mid-sized firms, about a third of those who had ever had a retirement plan said at some point they had taken a loan or distribution to pay everyday bills.[5] A separate analysis by Pew focused on financial shocks, which are defined as large unplanned expenses, such as a major home or car repair, or income lost to unemployment, a pay cut, illness, injury, or death. The analysis found that many workers turn to their retirement accounts to deal with unplanned expenses.[6] Specifically, people with lower annual incomes were more likely than higher-income individuals or households to withdraw money from retirement accounts. In addition, African Americans were more likely than Whites to turn to retirement accounts to respond to financial shocks. African Americans have lower wealth on average than Whites, which means many have smaller cushions against financial shocks.

By design, many auto-IRA programs use Roth IRAs as the savings vehicle, which allows participants to withdraw their contributions tax- and penalty-free. Pew recently examined these vehicles as an emergency savings source in Oregon. Given the widespread financial disruption caused by the Covid-19 pandemic, a question is whether workers used their auto-IRA accounts to deal with pandemic-induced financial shocks. Although unemployment claims in Oregon rose sharply during the early stages of the pandemic as businesses shuttered and furloughed workers, an analysis by Pew of OregonSaves data through April 2020 showed that the state program continued to function as planned, allowing workers to save but also to dip into those savings if needed. As a percentage of program assets, withdrawals from OregonSaves for most of 2019 and the first two months of 2020 hovered between 2% and 2.5%. In March, however, this percentage increased to nearly 4%. The median amount

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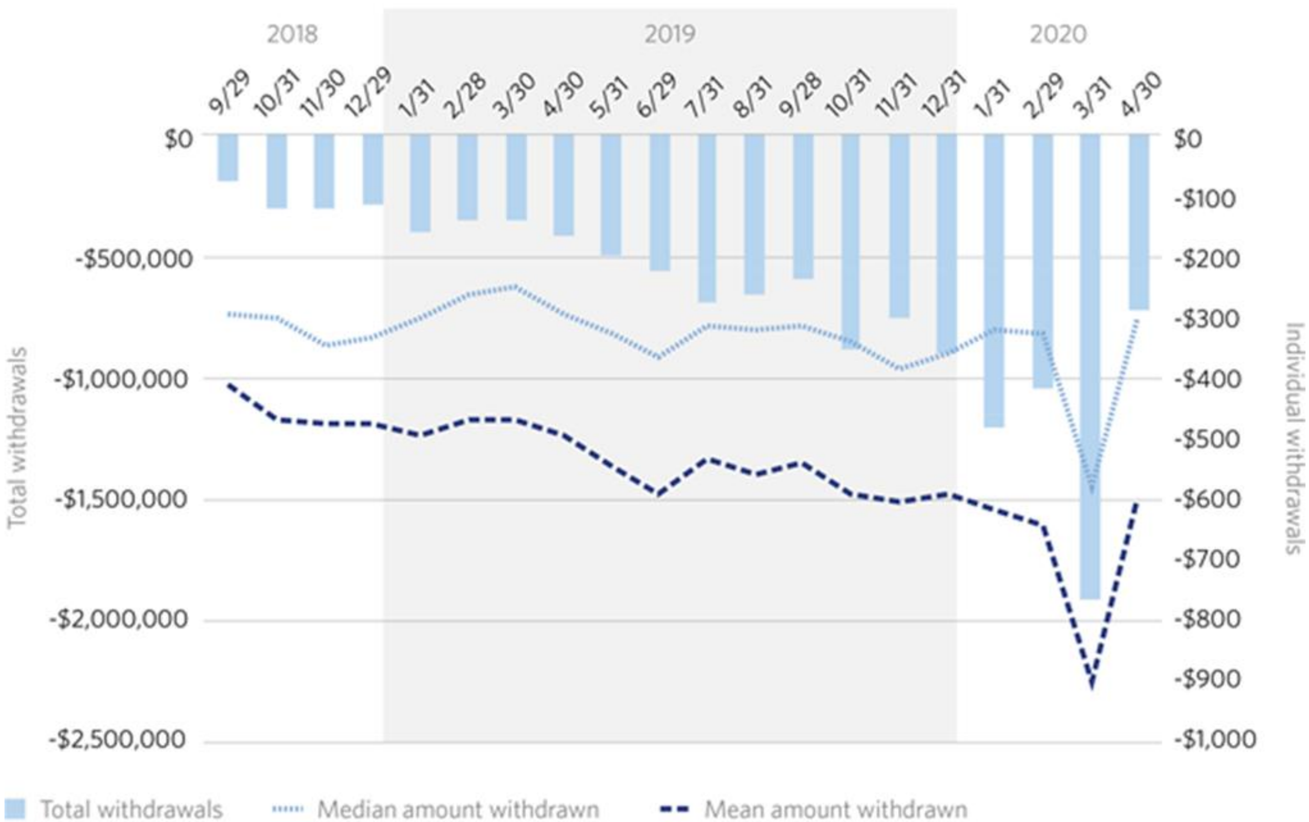
[4] Vanguard, 2021, *How America Saves 2021, Small Business Edition,* Figure 10, https://institutional.vanguard.com/offers/how-america-saves-small-business-edition.page?INCMPGN=BN;HM;TMP;HASSBE;20210713.
[5] Pew, 2017, "Survey Highlights Worker Perspectives on Barriers to Retirement Saving," https://www.pewtrusts.org/en/research-and-analysis/reports/2017/09/survey-highlights-worker-perspectives-on-barriers-to-retirement-saving.
[6] Pew, 2017, "Financial Shocks Put Retirement Security At Risk," https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/10/financial-shocks-put-retirement-security-at-risk.

withdrawn that month was $577, while the mean was $897. In April, however, withdrawals fell to 1.4%.[7] (See figure below.)

OregonSaves Withdrawals Spiked in March During Early Stages of Pandemic

Program withdrawals over time



Source: Analysis by The Pew Charitable Trusts based on administrative data from OregonSaves

It is not clear why withdrawals increased in March but dropped in April. Because of the pandemic, the program has slowed the onboarding of new employers and employees. These lower enrollment numbers, beginning in April, may help explain the decline in withdrawals, at least in part. As OregonSaves has come to scale, it has seen a baseline level of withdrawals associated with those who decide not to continue with the program after their first few contributions. Fewer people and companies joining may be lowering this baseline.

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[7] Pew, 2020, "Oregon State Retirement Program Growing During Pandemic—Despite Some Worker Withdrawals," https://www.pewtrusts.org/en/research-and-analysis/articles/2020/10/20/oregon-state-retirement-program-growing-during-pandemic-despite-some-worker-withdrawals.

Additionally, the federal coronavirus relief bill, which provided a range of financial assistance to employers and individuals, was enacted on March 27, and the number of new unemployment claims in Oregon began declining by mid-April. The spike in withdrawals in March may have come from newly unemployed workers filling gaps in their finances until they received benefits or could go back to work.

Auto-IRAs may also help increase retirement security among households of color and women via delayed claiming of Social Security benefits. By keeping total lifetime benefits relatively constant for different claiming ages, the Social Security formula is structured to eliminate any financial advantage from claiming early. Those who start collecting benefits at an earlier age receive lower monthly and annual payments because they will receive benefits over a longer period than those who start at the normal retirement age—67 years for most workers today[7]—or later. These reductions are adjusted using actuarial life expectancy tables to account for average lifespans, and they are permanent.

The actuarial reductions mean that somebody who claims Social Security benefits at age 62 would receive a monthly benefit 30% lower than if he or she waited until age 67 to claim. For example, the worker who starts collecting at 62 would receive $700 a month, compared with $1,000 for the worker who waits until 67. In general, if a worker can delay claiming benefits for just a year, monthly benefit payments will increase by 7% to more than 8% for the worker's lifetime.[8]

Delaying the start of Social Security payments, and thus increasing the amount of each payment, can be especially advantageous to married couples, because when a recipient dies, the surviving spouse continues to receive the higher of the two spouses' benefits—whether he or she was the primary earner.

At Pew's request, the Social Security Administration (SSA) used a simulation model to estimate how many retirees could use their auto-IRA accounts to delay claiming Social Security by one or more years. The results showed that a sizable percentage of auto-IRA participants would be able to use their auto-IRA account balances to delay claiming Social Security by at least a year:[8] By 2050, more than half of workers in these programs could delay claiming Social Security by a year or more. More than a third of retirees could delay claiming for at least two years.

The SSA simulation results show benefits for some groups that often are not able to, or do not, save in traditional retirement systems. For example, the modeling indicates that Black and Hispanic workers would be able to use auto-IRA accounts to delay claiming Social Security benefits for somewhat greater lengths of time than White workers because they're less likely to

[8] Pew, 2020, "How Auto-IRAs Help Retirees Delay Claiming Social Security: An Update," https://www.pewtrusts.org/-/media/assets/2021/03/how-auto-iras-help-retirees-delay-claiming-social-security.pdf.

work for an employer that offers a traditional defined-benefit or defined-contribution pension plan.[16] Thus, Black and Hispanic workers on average would participate in auto-IRA plans for longer periods of time than Whites—and therefore accumulate relatively higher auto-IRA balances. That money could then be used to increase Social Security benefits by delayed claiming of benefits.

Effects on employers: An important aspect of the discussion about auto-IRAs is the effect on employers. Across the three programs in operation, more than 34,000 employers have now registered, and over 14,000 have started payroll deductions for their employees.

In the Oregon auto-IRA program, Pew surveyed participating employers in 2019 and 2020 to assess how they experienced the initial registration and ongoing payroll contribution processes.[9] Nearly 3 in 4 (73%) said they were either satisfied or neutral about the program.

OregonSaves does not charge businesses any participation fees, and 79 percent said that they have not experienced any related out-of-pocket costs. Those that have faced additional costs said office supplies and payroll processing time were the most common. Eighty percent also said that they are hearing only "a little" or "no questions at all" from their employees about OregonSaves. One reason for that may be that workers are helped directly from the program's client service team.

This positive reaction among employers to a no-cost retirement benefit can also be seen in California. As of Aug. 31, 2020, before any enrollment deadline, 2,249 firms employing nearly 100,000 workers had enrolled. More than 700 companies had started processing payroll contributions, and the program had amassed over $8.7 million in assets.

Why the positive response? According to Pew's 2017 survey, many employers want to offer retirement benefits to their workers but say they cannot because of high startup costs and limited administrative capacity.[10] Some said they see offering retirement benefits to attract and retain workers, but 67% of those who supported auto-IRAs said they felt such a program simply "would help my employees."

In the 2020 survey in Oregon, responses to an open-ended question reflect similar sentiments. Among the answers were:

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[9] Pew, 2020, "Employers Express Satisfaction with New Oregon Retirement Savings Program," https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/30/employers-express-satisfaction-with-new-oregon-retirement-savings-program.

[10] Pew, 2017, "Employer Barriers to and Motivations for Offering Retirement Benefits," https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/06/employer-barriers-to-and-motivations-for-offering-retirement-benefits.

- "It has been an easy and transparent method for our employees to begin saving for their future. As a very small business it has been so appreciated as other options seemed out of reach for us."
- "It is great having a free option for savings for our employees. We eventually want to offer our own program, but this is nice for the time being."
- "I do appreciate the program overall. It helps younger staff start saving early. From a small business that can't afford to have a retirement plan it is a nice option for our team."

The research shows that there is significant small business support for a public-private partnership that can help employers facilitate a benefit at no cost that helps workers build a secure retirement.

State auto-IRA effects on private sector retirement services market: As more states enact auto-IRAs for private sector workers who can't save through their jobs, policymakers and analysts have speculated about the potential impact on employers: Would these state programs "crowd out" the private market for plans such that businesses would not adopt their own 401(k)s or comparable alternatives? Would some employers decide to no longer offer their own plans? Or, alternatively, could these programs encourage new plan growth?

These questions are rooted in earlier surveys. Pew's 2017 national survey of small-business owners and benefits managers detailed their views of hypothetical auto-IRA programs. Among those with retirement plans and five to 250 workers, only 13% said they would drop theirs and enroll in such a program if launched in their state.

Among small and midsize employers without plans, 52% said that they would start their own plan rather than enroll workers in the state-sponsored program. That survey also suggested one reason that these employers might be prompted to adopt their own plans: Most of them won't offer retirement benefits until they are financially stable and already offering other benefits. The availability of a statewide auto-IRA might encourage those employers that have the means but have not decided to sponsor their own plans.

Pew analysis of data from Form 5500 annual filings to the U.S. Department of Labor by employer-sponsored plans suggests that in states that have created auto-IRAs, employers with plans continue to offer them and businesses without plans are still adopting new ones at similar or higher rates than before the state options were available.[11]

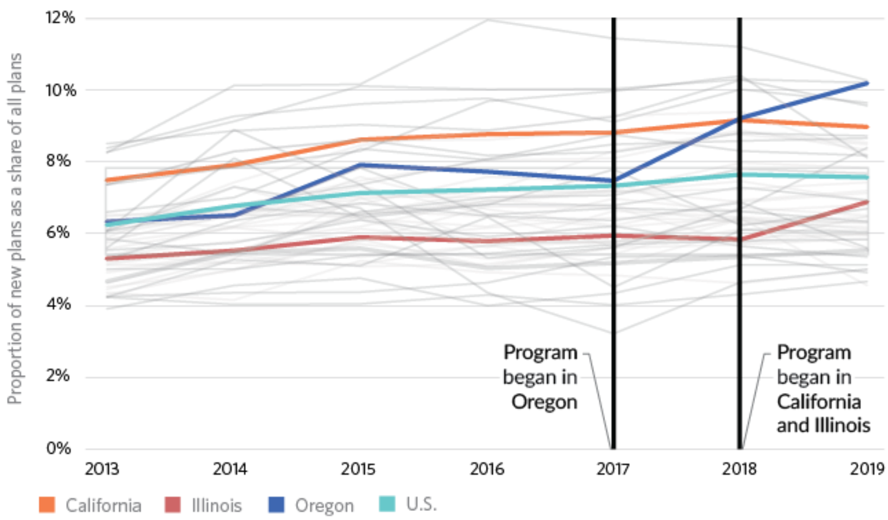
[11] Pew, 2021, "Availability of State Auto-IRAs Appears to Complement Private Market for Retirement Plans," https://www.pewtrusts.org/en/research-and-analysis/articles/2021/06/17/availability-of-state-auto-iras-appears-to-complement-private-market-for-retirement-plans.

Since 2013, before the first state auto-IRA programs were introduced, the percentage of new plans as a share of all employer-sponsored plans increased nationwide from roughly 6% to nearly 8% by 2019.

The three states implementing state auto-IRA programs show a similar trend—with the proportion of new plans holding steady or increasing in each. In 2019, for example, Oregon and California had some of the highest proportions of new plan adoption, with Illinois' proportion just slightly lower than the national average (See figure below).

Employers Continue to Launch Retirement Plans in Auto-IRA States

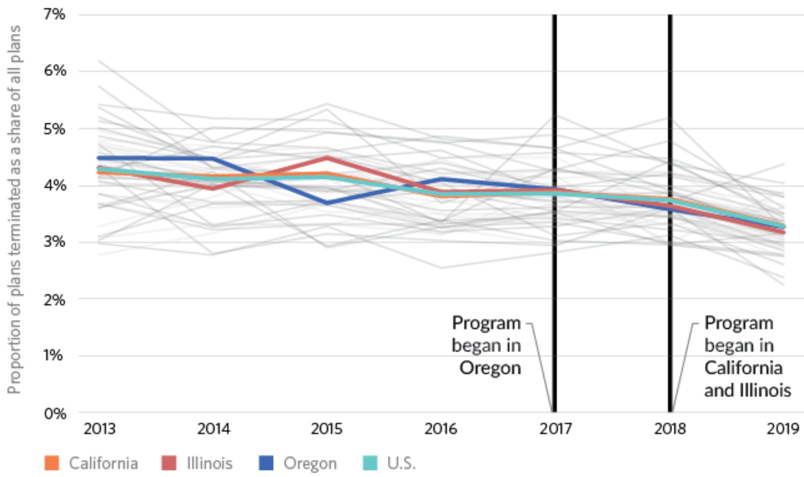
Data shows share of new plans steady or up after state-sponsored savings options enacted



Source: The Pew Charitable Trusts' calculations from Form 5500 data filed by employers with the U.S. Department of Labor

During the same period, the proportion of employer-sponsors terminating their plans was consistently about 4% of all plans, both nationwide and in the states implementing auto-IRA program. The share of plans that were ended began to trend down slightly toward the end of the period: The U.S. average and the proportion of plans terminated in California, Oregon, and Illinois fell to just 3% in 2019. (See figure below.)

Proportion of Retirement Plans Terminated by Private Sector Employers, 2013 to 2019
Little change nationwide or in states that enacted auto-IRA plans



Source: The Pew Charitable Trusts' calculations from Form 5500 data filed by employers with the U.S. Department of Labor

This early evidence from California, Oregon, and Illinois indicates that auto-IRAs appear to complement the private sector market for retirement plans such as 401(k)s. Some employers may be moving toward plan sponsorship in response to the state auto-IRA programs. Meanwhile, those that cannot afford their own plans can take advantage of a no-cost, basic savings program for their workers.

Expanding the Saver's Credit

Proposals in Congress would expand the Saver's Credit, which could significantly improve retirement security for many low- to moderate income workers. Senator Wyden is proposing an expansion of the Saver's Credit in the Encouraging Americans to Save Act, an idea that has bipartisan appeal as evidenced by a similar proposal from Senators Ben Cardin (D-MD) and Rob Portman (R-OH). The Saver's Credit currently provides a nonrefundable tax credit of 50%, 20%, or 10% of the first $2,000 of contributions to a retirement account during the year (up to a maximum of credit of $1,000), depending on a household's adjusted gross income. As currently structured, the Saver's Credit does not have a direct impact on retirement accounts. The credit is nonrefundable so it can reduce any required tax repayment to zero but not below. Moreover, the Saver's Credit is also reduced for households with children because it is applied after the nonrefundable Child Tax Credit.[12]

[12] The Center for Retirement Research at Boston College has an excellent issue brief that provides helpful illustrations of the Saver's Credit and its shortcomings: Alicia Munnell and Anqi Chen, "Could the Saver's Credit Enhance State Coverage Initiatives?", Issue Brief Number 16-7, April 2016.

Sen. Wyden's proposal would revise the Saver's Credit in three ways. First, the proposal expands eligibility for the credit by increasing the income maximum to $32,500 for individuals and to $65,000 for couples, with the maximums indexed for inflation. This increase in income limits would increase the pool of savers eligible for the credit. Second, the Wyden proposal would also make the credit refundable so low- to moderate income workers, who often do not have an income tax liability to offset with a credit, could receive a direct benefit. Third, and most critically, the credit would be deposited directly into the retirement account, including an individual retirement account (IRA), of the saver.

The proposed expansion of the Saver's Credit could boost retirement security in two ways. First, the revamped Saver's Credit could act as a quasi-matching contribution that would encourage greater participation by working Americans who need to save for retirement. Like many other research organizations, Pew has found that the presence of a matching or employer contribution increases participation by workers. In our 2016 national survey of workers at small to mid-sized firms, for example, fulltime employees were more than twice as likely to participate when employers contribute to their retirement accounts than workers whose employers do not contribute.[13] When we asked workers their reactions to a hypothetical auto-IRA program, the least favorable reaction was to the lack of an employer contribution. And according to Pew's analysis of the Survey of Income and Program Participation (SIPP), take-up rates rise by 18 percentage points when employers match worker contributions.[14]

Today, approximately 68% of eligible workers, almost 400,000, are saving in the three operational state auto-IRA programs, but if a contribution in the form of a refundable tax credit has the same effect as found in the SIPP, that participation rate could jump to nearly 86% with more than 100,000 additional savers in just those three states currently running auto-IRA programs. Beyond just the jump in overall participation, a refundable tax credit acting as a matching contribution could induce younger workers to start saving earlier in their careers, which would be an especially impactful benefit as their savings would have more time to grow through investment returns.

The other benefit of an expanded Saver's Credit is the increase in savings. If a saver put away $2,000 a year over a 30-year career and earned a real rate of return of 5% per year, that person would have $139,522. If that saver qualifies for the full $1,000 Saver's Credit each year by saving under the same assumptions, they would have $209,282 by year 30. In other words, an expanded Saver's Credit could increase retirement savings by nearly $70,000.

[13] Pew, "Survey Highlights Worker Perspectives on Barriers to Retirement Saving."

[14] Pew, 2016, "Employer-Sponsored Retirement Plan Access, Uptake and Savings," https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/09/employer-sponsored-retirement-plan-access-uptake-and-savings.

Given that the median private sector retirement account balance for households in their late 50s and early 60s is less than $100,000,[15] the proposed expansion of the Saver's Credit would lift many older households out of a financially vulnerable position. The additional funds would enable retiring workers to delay claiming of Social Security, boosting their benefits by 7 to 8% for each year that claiming is delayed as discussed above. The additional savings would also provide a critical buffer for unexpected financial shocks in retirement, not least of which are medical bills that are not covered by Medicare or private insurance and that are a leading cause of debt in old age. The expanded Saver's Credit might also make annuities, whether life or delayed/longevity insurance, more meaningful and thereby provide an additional income stream to supplement Social Security.

Outstanding research questions for future work

At this point, research and practice have identified both some key barriers for people of color and women to achieve a secure retirement as well as possible solutions. However, there is a great deal that we do not know, and research could help advance racial and gender equity in retirement security. Here are some of the questions that might drive future work:

- While structural barriers, such as income inequality, loom largest in explaining wealth inequalities, there are opportunities to help guide behavior for certain groups. More research into communications about retirement savings and financial security could be useful. How do we read information about benefits? Does it matter how information is presented to certain groups. In his June testimony, John Rogers of Ariel Investments discussed his experience at McDonalds in which the mode of communication, via managers and affinity groups, made a great deal of difference in increasing participation among Black workers. Communications also need to reflect attitudes toward savings. As noted above, some groups may view retirement savings as a different priority relative to other financial goals or needs, and research might seek to understand how retirement savings could be viewed differently.
- In her testimony, Nari Rhee of UC-Berkeley discussed how different type of workers are left out of auto-IRAs and retirement plans more generally. Pew has embarked on new research on the retirement needs of what we call 'nontraditional workers' such as independent contractors, online workers, sole proprietors, etc. But given the diversity of work situations in the United States, more research needs to be accomplished in this area. Given the Department's purview over not just benefits policy but also labor and employment, it is especially well-positioned to facilitate this work. Related to this line of

[15] Vanguard, *How America Saves,* 2021, Figure 52: The median account balance for participants between the ages of 55 and 64 is $84,714.

inquiry is understanding how the immigrant status of a worker might affect their ability to save for retirement, as Professor Stein noted.

- An interesting area for future work is the interplay between financial shocks, emergency savings, and retirement savings. As noted above in my discussion of how participants withdraw funds from the accounts in OregonSaves at the start of the pandemic, money in the same account could be viewed as either short-term or long-term savings depending on the context. It would be useful to know more about how workers view their savings and when they would be tempted to tap them when a financial need arises. For example, does the perception of an accessible source increase participation while also increasing withdrawals? In addition, the laws and rules around retirement benefits and banking do not work well together so additional research into how these rules could be harmonized to facilitate emergency savings in retirement accounts could be very helpful.
- As discussed above, the expansion of the Saver's Credit could provide several benefits for many workers of color and women. But the discussion was hypothetical in a few respects: For example, how would the funds make it into a saver's account? Would a refundable saver's credit work like an employer match? What is the effect on wealth inequality over time? This research could inform the development and implementation of any expansion of the Saver's Credit.

Recommendations for the Advisory Council and Department of Labor

In closing, I'd like to make some recommendations for the Advisory Council and the Department of Labor.

Fund research – The Department can fund research in a wide variety of areas, and as noted above, there are many questions that could be addressed. This is particularly true of the questions involving communications with workers as well as employment and immigration status. New information on these and other topics would have an immediate impact on issues of race, ethnicity, and gender.

Facilitate and encourage auto-IRAs when possible – Under legislative action taken under the Congressional Review Act in 2017, the Department is barred from providing guidance on auto-IRA programs. However, given the growth of these programs since 2017, there may be opportunities to provide guidance on limited questions that are not covered by the 2017 CRA resolution. In addition, the Department could encourage these innovative programs by using its position to highlight their growth and encourage the development of interstate programs or even a national program.

Support a commission on federal retirement policy - The interaction between auto-IRA programs and the private market for retirement plans just discussed provides a segue to the topic of national retirement policy. In just 3 years, we will reach the 50th anniversary of the passage of the Employee Retirement Income Security Act (ERISA). While enormous progress has been made in retirement policy since 1974, much more needs to be accomplished, and in some areas, we may have slid backwards in terms of ensuring employee retirement income security for all Americans regardless of race, ethnicity, or gender.

Employees amass the bulk of their retirement savings through workplace plans. After the IRS released regulations implementing the 401(k) plan in 1981, we have seen a large increase in the number of savers because of employers adopting these plans. However, that progress was offset by the decrease in the number of defined benefit (DB) plans.

Moreover, this shift from DB to defined contribution (DC) plans like 401(k)s has meant more decision-making burdens for workers, who cannot perform many complicated tasks such as deciding how much to save, how to invest savings, and how to spend down savings in retirement. For example, our own research has shown that many plan participants do not read fee disclosures or even when they do, they do not understand them, potentially exposing their savings to high fee investments.[16] The shift of burdens from employers and the government to workers has meant that workers are not as well prepared for retirement as they could be even with behavioral-based tools like automatic enrollment.

While the auto-IRA programs exhibit innovation and an increase in coverage in a way that complements the voluntary, employer-based system, they suffer from the same shortcoming as employer plans: the burden is on workers to achieve their retirement security. Moreover, the development of auto-IRA programs has been haphazard across the states, and while programs are similar from state to state, there are differences in terms of coverage and scope.

Social Security also is showing signs of aging as it faces a funding shortfall. Without action by Congress, retirees face a significant benefit cut. We all assume that Congress will act in time, but continued inaction erodes the faith in the system and narrows options for a long-term solution.

All these forces taken together suggest that we need to revisit national retirement policy as we approach ERISA's 50th anniversary. ERISA promised to create a coherent policy that would support a decent standard of living in retirement. As I discussed above, the state auto-IRA programs appear to complement the private employer-sponsored retirement system, but despite these and other innovations, retirement policy is developing in a piecemeal and halting

[16] Pew, 2017, "Many Workers Have Limited Understanding of Retirement Plan Fees," https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/11/many-workers-have-limited-understanding-of-retirement-plan-fees.

fashion with a consequent and ongoing erosion in retirement security except for a privileged minority. The goals of access to retirement plans, high participation, and credible income security in old age should be revisited and reformulated as a shared responsibility among workers, employers, and the government.

I would encourage the Advisory Council to support the creation of a national commission on retirement security for private sector workers with a particular emphasis on people of color and women.

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Thank you for holding this hearing and providing an opportunity to submit our views. I would be happy to supplement this statement with additional information.

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