Final Report on ...

The National Summit on Retirement Savings

SAVER

June 4-5, 1998
Washington, DC

U.S. Department of Labor

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The National Summit on Retirement Savings

June 4-5, 1998
Washington, DC

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

September 3, 1998

To: President Clinton, the Speaker and Minority Leader of the U.S. House of Representatives, the Majority and Minority Leaders of the Senate, and Chief Executive Officers of the States:

It is my pleasure to submit this report on the 1998 National Summit on Retirement Savings.

The Summit, held June 4-5, 1998, in Washington, DC, brought together leaders from both political parties, large corporations and small businesses, labor organizations, and numerous groups involved with employee benefits, personal finance and retirement issues. In accordance with the Savings Are Vital to Everyone's Retirement Act of 1997 (P.L. 105-92), their mission was to determine how best to raise awareness of the need for pension and individual savings so that working Americans and their families may enjoy a secure and comfortable retirement.

The Summit was historic in many ways. First, it was a truly bi-partisan effort to draw national attention to the need to build a secure financial foundation for our country's retirees. This was made abundantly clear during a keynote session attended by President Clinton, Vice President Gore, House Speaker Newt Gingrich, Senate Majority Leader Trent Lott, House Minority Leader Richard Gephardt and other Members of Congress. As Rep. Harris Fawell (R-IL), the principal author of the SAVER Act, put it: "We were attacking problems not as Republicans or Democrats, but to say 'What can I do to help?"'

Over the course of the Summit, delegates identified a number of barriers that individuals and employers face in saving for retirement. At the same time, delegates identified numerous meaningful steps that the government, employers, the media, community organizations, schools, and others can and should take to build a secure retirement for our nation's workers. As reflected in this report, while there was extraordinary diversity in views on both the barriers to retirement security and the ways to address the problem, delegates repeatedly returned to the theme that retirement education will be a crucial element in any strategy to increase savings.

The gathering also represented a unique public-private sector partnership of leading organizations with specialized expertise in retirement savings and a commitment to spreading an educational message about the need to prepare for retirement. I believe that the success of the 1998 Summit was, in many ways, attributable to the collective experience of our many private sector partners. In this regard, I would like to specifically thank the American Savings Education Council, the Employee Benefit Research Institute, and the American Society of Pension Actuaries and for their outstanding efforts in making the 1998 Summit a success.

Through the hard work of all Summit delegates and organizers, we have done much to move the issue of retirement security to the forefront of the national agenda. Now the challenge for all of us is to spread the savings message, and to share winning strategies that will inspire, convince and equip companies, organizations, communities and individuals to take immediate action. As President Clinton said at the Summit, "This is a wonderful moment, but it is a moment of responsibility that we dare not squander." As provided in the SAVER Act, future Summits in 2001 and 2005 will measure our nation's progress.

My sincere hope is that this report will serve as a catalyst to increase pension and individual savings so that all working Americans and their families, regardless of age, nationality, or income level, can look forward to a truly secure and dignified retirement.

Sincerely,

Alexis M. Herman

WORKING FOR AMERICA'S WORKFORCE

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I. Introduction

Americans must save more today if they are to realize the dream of a financially secure retirement tomorrow.

That is the message of the first National Summit on Retirement Savings, held in Washington June 4–5, 1998. Convened jointly by President Bill Clinton and the bipartisan leadership of Congress in accordance with the Savings Are Vital to Everyone's Retirement Act of 1997 (SAVER) (PL 105-92), the Summit underscored the need to fortify the American system of employer-sponsored pensions, to extend pension coverage to underserved groups—especially women, minorities and employees of small businesses—and to encourage individuals to save more themselves.

Virtually every institution and individual in America can contribute to achieving these goals. "Each of us has a role to play in meeting this great challenge," said Treasury Secretary Robert Rubin. "Government can take steps to encourage savings, as we are doing. Businesses can offer sound retirement plans for their employees, and convey the importance of saving. And each of us as individuals can take steps to make the most of the opportunities that make it easier to save."

This report details many possible steps toward achieving the goal of a financially secure retirement for all Americans. Not all of the delegates agreed on what steps to take. In fact, many proposals were controversial. But of all the possibilities that were discussed, one theme stood out: We must do a better job of educating the public—employers and individuals alike—about the importance of saving and about the tools available to ensure that we can afford to retire and remain financially independent. Too many individuals and employers are simply unaware of the basic facts of life concerning retirement.

To increase public awareness about the retirement savings issue, the following were among the ideas discussed:

- Enhancing the federal government's educational efforts through programs such as the Department of Labor's Retirement Savings Education Campaign, which seeks to inform Americans about pension and retirement issues, and other initiatives called for by the SAVER Act;

- Encouraging states to launch their own retirement-savings initiatives;

- Urging the media in all areas of the nation to assume a more active role in informing the public about retirement savings;

- Calling on the private sector to support public-education campaigns, and;

- Urging employers to sponsor retirement plans and educate employees about the importance of retirement saving.

These steps clearly represent a beginning and not an end. Delegates presented a wide range of approaches to address retirement savings, including: (1) the need for legislative changes to encourage the creation of employer-sponsored retirement plans; (2) the need to make pensions more portable and to place additional focus on retirement savings for part-time and low-income workers, and (3) the need for a decrease in income and payroll taxes or a significant increase in tax incentives to encourage greater savings. Some possible strategies undoubtedly will prove controversial, and may conflict with other objectives. But the Summit demonstrated that Americans believe the underlying goal—a secure retirement for all Americans—transcends partisan politics. “Americans should be able to count on predictable and secure retirement benefits for life,” said Vice President Al Gore. “We must ensure that dreams deferred never become dreams denied.”

“This is something you won’t see very often,” noted Senate Majority Leader Trent Lott. “Here we are all together—the legislative branch, executive branch, Republicans, Democrats, maybe even liberals, conservatives, moderates and everything in between. This can be, may be, should be the beginning of doing something very important for this country.” As House Speaker Newt Gingrich stressed, “You know, having us up here together is more than just symbolic. When we work together, good things happen.”

The stakes are high. The future of millions of working Americans—and their children—may be shaped in important ways by what flows from the Summit and follow-up gatherings scheduled for 2001 and 2005. But the time to start is now.

As President Clinton said, “We have an obligation to deal with this challenge, and deal with it now. And we have an opportunity to do so.”

II. Current State of Retirement Savings and Education Today

The Summit rose out of concern over a simple but far-reaching fact: many Americans are not planning or saving enough to be able to afford to retire.

The Challenge

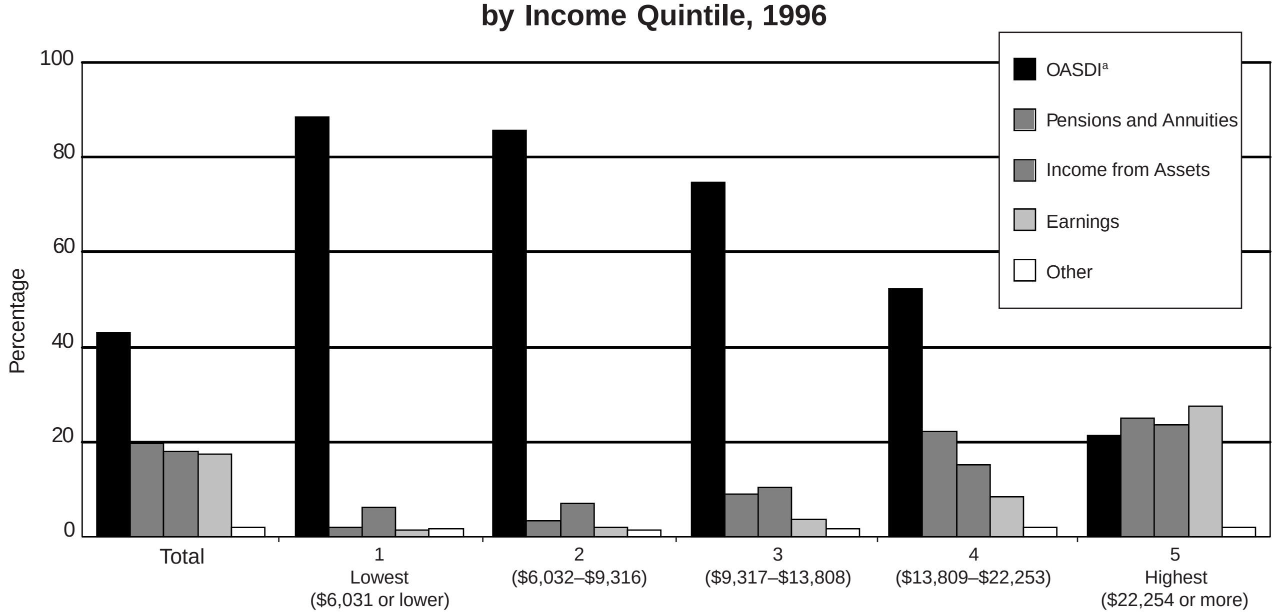
Delegates, who received a background report summarizing 20 years of research on retirement finance, reviewed the current state of saving during an opening plenary meeting. A presentation by the American Savings Education Council Chairman and delegate Dallas Salisbury set the context for their deliberations. Chart 1 from the report and Salisbury's presentation shows that employment-based pensions and personal savings currently account for a small share of retirement income received by the majority of Americans. Indeed, 80% of elderly Americans rely on Social Security for most of their retirement income, and the lowest-income 40% of Americans depend on it almost exclusively. (In accordance with the SAVER Act, Social Security reform was not a topic for the Summit, which focused on private pensions and individual savings.)

Despite these figures, Social Security was never intended to serve as the sole source of income for retirees. A person who earned $15,000 a year and retires in 1998 at age 65, for instance, can expect Social Security to replace just one-half of his or her preretirement income. And the "replacement rate" drops steadily for individuals in higher income brackets: an individual who earned $68,400 before retirement, for instance, will receive the maximum $1,248 monthly benefit, but that will equal less than one-quarter of his or her preretirement income.

Inadequate pension and personal savings may explain why many Americans look to retirement with considerable uncertainty. "Savings, retirement and retirement security are some of the most important features of life in America over a very long period of time," stated Rep. Richard Gephardt (D-Mo). "All of us know that there cannot be safe and secure retirement unless there is the ability to put away funds to save money while one is working."

Chart 1

Income of Elderly Individuals (Ages 65 and Older) from Specified Sources, by Income Quintile, 1996



Source: Employee Benefit Research Institute tabulations of the March 1996 Current Population Survey.
[a]Old-Age, Survivors and Disability Insurance.

Reporting on the 1998 Retirement Confidence Survey, Mathew Greenwald, president of Mathew Greenwald & Associates, told Summit delegates that 31% of current workers are “clearly worried” about their financial prospects in retirement. Another 44% are only “somewhat confident.” That means they believe they will have sufficient income if inflation remains subdued and they remain healthy—assumptions that will prove unrealistic for many Americans, according to Greenwald. He noted, for instance, 40% of current retirees had to leave work earlier than they had planned, many for health reasons. That leaves only about one in four Americans who are very confident they will have enough money to live comfortably when they retire.

The Need for Education

While the large number of people who face retirement with trepidation is cause for concern, it is equally troubling that individuals’ assessments are almost certainly uninformed. Greenwald noted that half of all current workers have never tried to figure out what they will need when they retire. And, he added, previous studies suggest that half of those who try to make such calculations do not succeed in coming up with a figure.

Moreover, Greenwald added, many people underestimate their life expectancy, which for today’s retirees easily can stretch 30 or more years beyond the traditional retirement age of 65. He also said relatively few people know the cost of long-term care, and therefore underestimate their retirement income needs.

In many cases, employers are as uninformed as employees, judging from the Small Employer Retirement Survey conducted by Greenwald with the Employee Benefit Research Institute (EBRI) and the American Savings Education Council (ASEC). Of the 35 million people employed in small companies, 26 million do not have access to retirement plans at work. “Small businesses that do not offer plans exhibit real misunderstanding of what is required,” Greenwald said. “Many think plans are more expensive than they have to be. They do not understand they can set up a plan for less than $2,000, that they aren’t required to match employee contributions or that they can share administrative costs with employees.”

Despite the clear importance of saving to ensure a retirement income beyond what Social Security will provide, one worker in three is not setting aside any money personally for retirement, according to the Retirement Confidence Survey. The personal savings rate is at or near a post-World War II low. (See Chart 2) Only 10% of eligible taxpayers are making tax-deductible contributions to individual retirement accounts (IRAs). And just 40% of the individual distributions of pension funds made to job changers were rolled over into tax-deferred retirement accounts, suggesting that many workers are not holding on to their retirement savings but rather are spending them for other, short-term purposes. (See Chart 3)

Most nonsavers say they have too many other financial responsibilities, but in many cases that is a myth, he added. Over half of individuals polled in the Retirement Confidence Survey said they could afford to save $20 more per week.

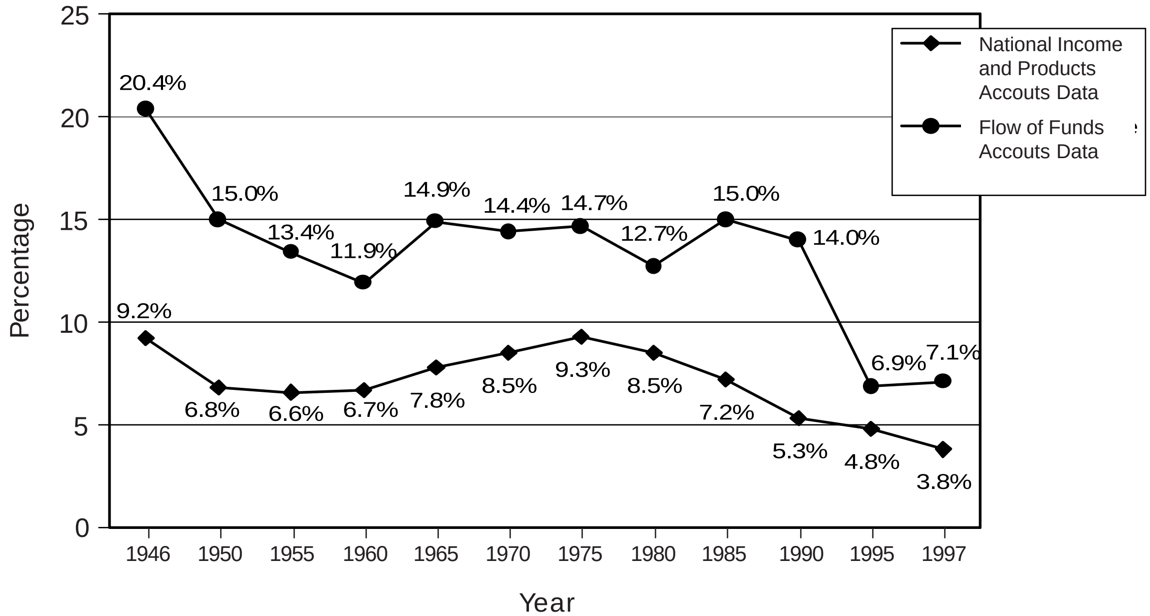
Consider this: if a worker starts saving $20 a week at age 30 and earns 10% on his or her investment, that would add up to a retirement nest egg worth $310,000 by age 65.

The Role of Employers and Unions

While suggesting that individuals need to save for their own retirement, Summit participants stressed that employers must continue to play a central role as well.

Chart 2

Personal Savings as a Percentage of Disposable Personal Income

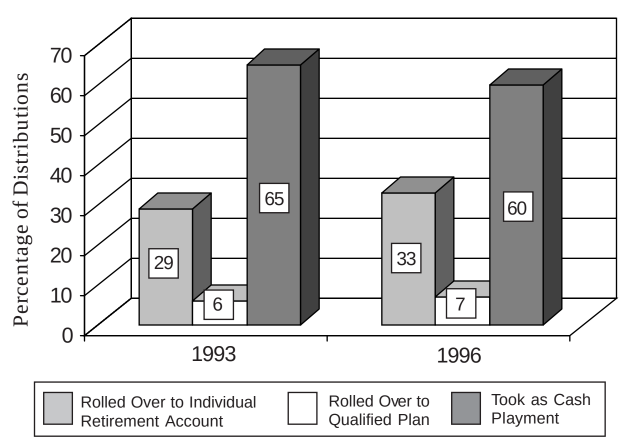


Source: http://www.bog.frb.fed.us/releases/Z1/annuals table F.9 Derivations of Measures of Personal Savings.

Josephine Tsao, vice president for global benefits and compensation for IBM Corporation, said that role is changing though. In today's complex and highly competitive global marketplace, "employer paternalism and altruism can no longer be the sole foundation for employer-sponsored retirement savings programs," she said.

Chart 3

Benefit Preservation among Job Changers, by Percentage of Distributions, 1993 versus 1996



Source: Employee Benefit Research Institute and Hewitt Associates tabulations of Hewitt Associates data.

Instead, she described the retirement system of the future as a partnership between employees, employers and government. Employees must assume more responsibility, she said. Employers must serve not simply as providers of benefits, but as "contributors to and facilitators of" individual savings efforts. And government must provide both a foundation through Social Security and a "stable framework" of rules that allow employers to adjust their retirement plans to meet competitive demands and employee needs.

This new partnership can work, Tsao argued. Fully 90% of IBM's U.S. workforce voluntarily participates in the company's 401(k) retirement saving plan. Some 60% of their assets are invested in equities, demonstrating that they understand issues such as long-term investment strategy. What's more, 25,000 IBM employees have worked with outside experts to prepare individual financial plans, and 40,000 are managing their own retirement accounts using the World Wide Web.

“Flexibility, choice and control” are the watchwords for a successful employment-based retirement-savings system today, Tsao suggested. And she concluded: “Together, we must educate our workforce, because otherwise we will have a workforce that is ill-prepared for retirement and that will be dependent on social programs. Both of these will hamper the competitiveness of our nation in the future.”

James Ray of Connerton Ray noted the role of unions and collective bargaining in expanding pension coverage particularly for low and moderate wage workers, as well as providing education about retirement needs. Emphasizing the need for continuity, Ray argued that traditional defined benefit pension plans, in which employers guarantee retirement benefits based on salary and years on the job, should be the mainstay of the retirement system. These plans best shield workers from risk, and unlike defined contribution plans, enable plan sponsors to provide pension benefits based on years of service, can be used to mitigate the effects of corporate down-sizing, and allow for post-retirement benefit increases, he argued.

But Ray also acknowledged the virtues of defined contribution plans, particularly as supplemental plans for those workers who can afford to save. A combination of both defined benefit and defined contribution plans would represent the “best of both worlds”—a “sound foundation,” guaranteed lifetime income and worker control, he concluded.

Problem Areas

While saving for retirement is inadequate among all segments of the population, delegates focused especially on several groups that are particularly at risk, including:

Small Businesses. According to Summit background materials, 79% of all private wage and salary workers whose employers have 100 or more workers have access to pension plans at work, compared to 42% of workers in companies employing between 25 and 99 workers and 17% of workers whose employers have fewer than 25 workers. (See Table 1)

Craig Hoffman, vice president and general counsel for Corbel & Co., said there are two basic reasons many small businesses do not offer pension plans. First, many employees do not demand pension plans, at least compared to cash compensation or health benefits. In addition, many employers worry about the cost of employer contributions and the expense of administering pension plans.

Table 1

Retirement Plan Sponsorship and Participation Among Private Wage and Salary Workers Ages 16 and Older by Firm Size

Firm Size	Total number of workers	Sponsorship Rate	Participation Rate
Total	88,679,369	55.6%	40.7%
Fewer than 25	22,894,696	17.2	12.9
25–99	11,806,119	41.7	29.6
100 or more	46,986,404	79.4	58.9
Unknown	6,992,150	45.2	28.1

Source: Employee Benefit Research Institute (EBRI) tabulations of the 1993 Current Population Survey employee benefits supplement.

Table 2

Mean Value of Pension Wealth for Selected Wealth Deciles, 1992

Wealth Decile	Pension Wealth	Social Security Wealth
1	$1,356	$42,312
3	$19,181	$93,920
7	$125,635	$142,981
10	$389,865	$161,605

Source: Moore and Mitchell, 1998.

Note: In this table, wealth is the present value of all defined benefit and defined contribution pension accruals.

Table 3

Pension Participation Rates for Wage and Salary Workers, 1993

	Total	Men	Women
All Workers			
Total	49%	51%	46%
Hispanic	32	32	33
African-American	46	46	47
White	51	55	47
Asian-American	41	41	41
Private-Sector Workers			
Total	43	46	39
Hispanic	26	24	28
African-American	38	40	36
White	46	50	41
Asian-American	35	36	36
Public-Sector Workers			
Total	71	80	74
Hispanic	72	82	74
African-American	71	65	76
White	78	84	74
Asian-American	70	67	68

Source: U.S. Department of Labor tabulations of the 1993 Current Population Survey.

Low-income workers. Dallas Salisbury, president of the Employee Benefit Research Institute and chairman of the American Savings Education Council, noted that the nation faces “tremendous challenges” in helping low-income families accumulate what they will need to retire.

According to figures in slides presented by Salisbury, the 10% of families with the lowest income in the U.S. have pension wealth worth, on average, $1,356, and the present value of their Social Security benefits is $42,312. In comparison, the wealthiest 10% hold pension assets worth an average of $389,865, and the present value of their Social Security entitlements is $161,605. (See Table 2)

Women and Minorities. Ann Combs of William M. Mercer Companies, Inc., noted that women and minorities on average are less likely to receive retirement income from pensions than white males.

Specifically, 32% of current female retirees received pension benefits in 1994, compared to 55% of male retirees, and the average benefit for women was only half as large as that paid to men. At the same time, 32% of Hispanics received pension benefits, compared to 40% of African Americans and 52% of white retirees. Not surprisingly, older women are twice as likely to be poor. Elderly African Americans are three times as likely to be poor.

The problem, according to Combs, is that both groups tend to earn lower wages than white males and to have shorter job tenures. That, in turn, reflects in large part the fact that these groups, especially women, are more likely to work part time, and are disproportionately represented in the retail and service sectors where relatively few employers offer pension plans and are less likely to belong to unions.

The challenge in meeting the needs of these groups, then, will be to expand the access to pensions available among the employers where such workers tend to be clustered, Combs concluded. (See Table 3)

III. Models for Educating the Public about Retirement Saving

During the two days of the Summit delegates returned repeatedly to the need to educate individuals and employers alike on the retirement-saving issue. Concerning individuals, Treasury Secretary Robert Rubin argued for a three-pronged educational strategy aimed at: encouraging those who are not saving at all, particularly lower and middle-income workers, to start saving; teaching young people the value of saving; and helping those who already are saving to understand how much to save and what vehicles for saving are available to them.

Other delegates noted that educational strategies aimed at individuals must be tailored to reach different groups, including minorities, women, low-income workers, and people who do not speak English as a first language.

Employers need to be better informed as well, the delegates agreed. Too many employers, especially small-business owners, do not currently understand the options they have—some quite inexpensive—to sponsor retirement plans for employees.

In a plenary session on the second day of the Summit, the speakers discussed five models that exemplify the kind of public and private commitment required to get working Americans on track toward financially secure retirements. David Walker, moderator of the panel, noted that, "The rapid movement by the private sector to defined contribution type vehicles and voluntary savings arrangements serves to increase the importance of retirement planning and investment education."

Retirement Savings Education Campaign

Launched by the U.S. Department of Labor in 1995, this public-information project has grown from 65 public- and private-sector partners to over 250 today. The Department has distributed more than 25 publications geared to educate individuals and employers about savings and how to protect pension benefits. In addition, it has produced public service announcements that have appeared in English and Spanish in more than 90,000 separate issues of approximately 11,000 newspapers and periodicals. Separate public service announcements have been distributed to local television stations around the country.

As described during the Summit by then-Assistant Labor Secretary Olena Berg, the project's signature brochure, *Top 10 Ways to Beat the Clock and Save for Retirement*, presents a basic, easy-to-follow list of steps individuals should take to ensure their financial security. Steps include determining how much money one will need in retirement, how to find out what one's Social Security benefits are likely to be, and how to find out what retirement savings options are available through one's employers.

"Most importantly in this brochure, we directed people to other sources of information," Berg said. The brochure is available in English and Spanish.

To reach women, the Labor Department worked with organizations such as the Women's Pension Consortium and the National Council of Negro Women to produce a checklist that encourages women to find answers to questions particular to their needs. Again, said Berg, the questions are basic ones: "Does your employer offer a pension plan? What kind of plan is it? What happens to your benefit if you change jobs? What happens to your benefit if you retire early? What entitlement might you have to your spouse's pension or survivor benefits?"

In its public service announcements, Berg said, the Department wants "our message to cross gender lines, income and cultural lines so, that all American workers can identify with this retirement savings message." One advertisement features Oseola McCarty, who washed clothes for 75 years and never earned more than $10 a bundle for the laundry, yet managed to save $250,000. Another shows Girl Scouts in Nashville who are starting their own investment club, in the process demonstrating that it is never too early to start saving.

Besides encouraging people to get into the pension system, the Labor Department program seeks to make people already in the system feel secure about their benefits. To that end, it has produced a variety of materials on protecting one's pension and knowing pension rights, such as *What You Should Know About Your Pension Rights* and *Protect Your Pension*.

For small business owners, the Labor Department in conjunction with the Treasury Department have produced a booklet explaining options such as SIMPLE (Savings Incentive Match Plan for Employees) plans, SEP (Simplified Employee Plans), 401(k) plans, profit-sharing plans and payroll-deduction individual retirement accounts (IRAs). The Department partnered with the National Association of Women Business Owners to distribute its small business materials to their more than 9,000 members, who are primarily small business owners. The week of the Summit, the Department also unveiled on its website (www.dol.pwba.gov) an interactive "small business retirement savings advisor" that will help employers determine which type of plan is most appropriate for them—and then help them set in motion the process of establishing a plan for their employees.

"We are trying to help American workers wade through what seems to them like a sea of information," Berg said. "We are trying to turn that sea into a pond to make it more accessible."

Oregon: A Model State Initiative

Jim Hill, the State Treasurer in Oregon, believes it will take *all* levels of government to address the retirement savings problem—and the levels of government that are closest to the people can be especially effective in getting information about the issue to the public.

Hill helped persuade the Oregon State Legislature to establish a task force on retirement, which subsequently found that less than half of Oregonians were saving through employer-sponsored pension plans, that the state ranked fourth in the nation in nonmortgage consumer debt, that last year it hit an all-time high in bankruptcies and, as in the rest of the nation, most people did not know how much money they have or how much money they will need for retirement.

To help correct the problem, Hill subsequently formed a partnership with public- and private-sector partners to organize Project Green Purse: Everywoman's Money Conference. The conference, to be held in September, is expected to attract about 1,300 women to the Portland Convention Center and perhaps a thousand more to live satellite sites all around Oregon to address the particular retirement issues faced by women.

"This conference is not just about talk," Hill told Summit delegates. He said the conference will bring nationally recognized experts to address substantive issues.

The conference will not be a one-time event. Hill also is working toward holding a conference or series of conferences to develop a small business pension education agenda. He has drafted an Oregon Savers Act to give permanent focus and resources to the savings issue. And he is seeking to add a standard on retirement to the Oregon Benchmarks, a series of goals by which Oregonians gauge their quality of life. And as next year's president of the National Association of State Treasurers, he hopes to spread the idea to other states around the nation. "In our way of thinking, the retirement issue is really a part of a larger issue of economic security for all Oregonians," Hill said.

"Choose to Save": A Model Media Campaign

Many delegates to the Summit argued that the media should play a major role in conveying to the public that it is important to save for retirement and in helping people get the tools they need to accomplish that task. The speakers cited as a model for such public education a six-month information campaign conducted in Washington, DC, developed by the ASEC and the EBRI, and undertaken in partnership with WJLA-ABC 7 television, News Channel 8 and radio stations of the Bonneville Corporation: WTOP, WGMS, Z104. Associated Press Radio and the
Washington, DC Metro Area Transit Authority joined in the partnership as well.

ASEC and EBRI provided their expertise on retirement issues to help WJLA, the local ABC affiliate in Washington, produce a series of public service announcements, weekly news segments, community forums and town hall meetings. The project culminated with a one-hour, prime-time special aired in June. The entire effort was underwritten by Fidelity Investments.

Contrary to the belief of at least some journalists, the public is very interested in learning about retirement issues, argued Horace Holmes, a WJLA reporter and anchor. "What I have learned over the past six months is that the public is extremely interested in personal finance, and that local television newscasts do a very bad job of giving them all the air time and the type of stories and the type of information that they want," he told delegates. All of the viewers that I've talked to over the past six months have said the same thing: `I want to save for my future but, with all of my responsibilities, I don't know how. I don't know where to begin and, even if I did come up with a plan to put some cash aside, I don't know the best place to put that money in order to make it grow and work for me.'"

The "Choose to Save" Campaign produced a number of resources that will be available to television and radio stations in other cities. For instance, it designed specific public service advertisements geared to each of the three major personality types that experts say characterize those who are failing to save for retirement—"strugglers," who want to save but are having trouble making ends meet; "impulsives," who spend for immediate gratification rather than considering their long-term needs; and "deniers," who flatly refuse to face the reality that someday they will reach retirement age.

To help people get started in planning for retirement, the campaign highlighted the "Ballpark Estimate," a one-page form developed by ASEC that enables individuals to make quick and easy estimates of what they will need to save and invest each year to meet their retirement objectives. News stories and other features of the campaign delved into retirement issues in more depth.

"Whenever we've been able during this campaign to inform our viewers about just how simple it is to formulate that retirement plan, and when we've been able to get them hooked up with organizations like ASEC and EBRI to help them out, the response from the public has been nothing but positive," Holmes added.

Private-Sector Support

The Choose to Save Campaign owes much of its success to generous financial support from Fidelity, which allowed for the production of high-quality public service announcements that could be aired during prime viewing hours. Robert L. Reynolds, president, chief executive officer and managing director for institutional investment at Fidelity, said the decision to sponsor Choose to Save was an easy one for the mutual fund company.

"It fit with everything we thought education should be," Reynolds said. "It was an outreach program, it had a very strong television presence and, I think, above all, it was a campaign on the basics. If you can take that type of message into people's homes, you can make tremendous strides in educating people about savings."

Of all the advantages of employment-based retirement savings plans—the opportunity to make tax-deferred investments, payroll deductions, loan options, even the availability of employer matches—education is the single most important key to success, according to Reynolds.

He should know. Fidelity works with more than 5,000 corporations, handling 401(k) plans for more than five million participants. Educational efforts are starting to pay off in a dramatic way, he says: the average balance in the 401(k) plans managed by Fidelity is over $50,000. Fully 85% of eligible employees participate in the plans. And the average participant is putting 75% of his or her funds in equities—a "very, very healthy asset mix" that reflects a good understanding of what type of investment is likely to produce the best returns over the long run.

Reynolds said efforts like WJLA's should be replicated around the country, and he noted that exciting new ways of getting the word about retirement savings out to the public are emerging. He said the Internet, in particular, offers a promising new avenue for educating people about retirement saving and investing because "it puts real-time information in front of people, and allows you to put material out that is customized to the individual user."

All this demonstrates, Reynolds concluded, that "public education is a process and not a one-time event."

Employers, Retirement Plans and Education

Nobody is in a better position to help employees come to grips with the financial issues surrounding retirement than employers, who have the opportunity to sponsor tax-advantaged retirement plans, the access to employees to explain retirement issues and, importantly, the chance to build trust needed to make the message about retirement savings take hold.

But getting that message across takes effort. Summit delegates lauded Hard Rock Cafes, a RankAmerica unit, for demonstrating how employers can communicate effectively with their workers about retirement—even to a population of employees that is relatively disinclined to consider retirement issues because it is young and receives relatively low income.

Hard Rock offers employees who invest the minimum 2% of pay in the company's 401(k) plan an employer contribution equal to another 3%. Employees can defer as much as 19% of their pay. In addition, they can invest in any of seven different mutual funds, can transfer funds between accounts daily, and can change the amount they are deferring every quarter.

Despite the appeal of such a plan, the level of employee participation was disappointing at first, says Anthony R. Amato, director of compensation and benefits for the company. But that changed after the company adopted a new education program geared to its own employees, who tend to be young and rely on tips for a substantial portion of their income.

“Think of it as a 150% tip,” the company said on a new brochure that explains the details of the plan and such arcane topics as compounded interest, vesting rules and loan features, all in a breezy tone. “For those of you who haven’t gotten it yet, THIS IS FREE MONEY,” the brochure adds, returning to the issue of the employer match.

The award-winning brochure, developed and produced by Hard Rock’s own graphics and design group with help from Buck Consultants in Atlanta, incorporates other aspects of Hard Rock’s corporate culture. But Amato says companies cannot rely solely on paper brochures to convey the message about retirement. That’s partly because of the cost: the company last year shipped six tons of paper explaining its retirement program to employees. But it also is a question of effectiveness.

“We need to leverage technology and create a self-service environment for employees,” Amato said. “What we are hoping to do is get into an all-access, 24-hour, seven-day-a-week kiosk where employees can have access to all the information they normally would get through printed material. And it would include interactive videos and games and things of that nature, located in the restaurants.”

Important as such efforts are, employers cannot do the job of educating workers alone, according to Amato. He emphasized the importance of teaching children at an early age—in elementary schools—to learn attitudes likely to help employment-based retirement plans take root.

“We should be targeting elementary schools and our children and talking to them about saving and getting that message across,” Amato said. “It is important for them to come up into the ranks of the Hard Rock, if you will, already with the notion `I can save, I know how to save and take advantage of the programs that employers offer.’”

IV. Break-Out Facilitators Reports: Barriers and Opportunities

Much of the hard work of the Summit was done by delegates participating in nine break-out sessions. Over the two days of the Summit, delegates met twice in small groups to identify barriers that stand in the way of increased retirement saving and to brainstorm about various opportunities for overcoming them.

The goal of the Summit was not to reach consensus; time was too short for that. Nevertheless, a number of themes arose repeatedly: the need for individuals to make an increased personal commitment to savings; the need for a strong commitment from employers to help employees build future retirement security; the need for government policies that are clear, simple, consistent, flexible and stable; the need to provide appropriate incentives and reduce costs to plan sponsors, while at the same time protecting workers; and the need to raise the profile of retirement savings in the minds of the American public.

Significantly, numerous delegates suggested that the ultimate solution to America's retirement savings challenge lies in fundamental cultural change, in finding ways to put more value on saving and less on consuming. They consistently said such change will require the participation of institutions and individuals from every sector and every walk of life. And, they repeatedly returned to the theme that education—whether by schools, employers, government, the media or others—will be the crucial element in any successful strategy to increase retirement saving.

Summaries of the break-out group deliberations, which stretched over both days of the Summit, follow. They were compiled from presentations prepared by group facilitators and note-takers. A more detailed list of the ideas produced in those sessions can be found in Appendix 3 of this report.

These ideas were suggested by individual Summit participants. They do not represent a consensus. They were not prioritized.

A. "Dark Blue" Group

This group was characterized by an extraordinary diversity in views on both barriers to retirement saving and opportunities to ameliorate the problem. Moreover, the suggestions ran the entire spectrum from generic themes to unique items.

Delegates identified several major barriers to retirement savings, including consumerism among Americans—especially young people, who have no real understanding of delayed gratification. Most Americans have no heritage, or culture, of saving, members said. This is partly because many people do not understand financial issues or existing retirement saving programs and opportunities, a problem that arises at least in part from the lack of attention the media pay to this issue.

In general, the group said that no one is taking the lead to start a massive, national campaign to whip up enthusiasm for saving for retirement. In particular, no one is reaching small employers with persuasive reasons to start retirement plans.

The group noted, however, that there probably are no easy answers for marginal workers, women and minorities.

The group seemed united in believing there are very real opportunities to simplify existing rules and regulations and to create partnerships involving government, business and educational institutions in the effort to reach the younger generation and teach savings behavior instead of consumption. Moreover, it said opportunities exist to expand the public's knowledge of economic security issues in general.

Barriers for Individuals and Employers

The group identified three categories of barriers to increased retirement savings: current laws, economic realties and lack of understanding among employers and employees.

Concerning the current legal environment, group members said the tax code penalizes saving outside of qualified retirement plans. The group discussed several suggestions for creating tax incentives for saving and for taxing consumption rather than saving.

The group also discussed whether certain retirement plans, particularly defined contribution plans, may be too easily accessible before retirement. It explored the idea of modifying cash-out rules. It also considered the possibility of requiring a "cooling off period" during which job changers could not spend funds received as lump-sum distributions.

Delegates in the group also suggested that lack of portability is a barrier for many employees. This was discussed in the context of both defined benefit plans and defined contribution plans. The group discussed what some described as rather arbitrary constraints on transferring funds between defined contribution plans that originate under different sections of the Internal Revenue Code.

The group cited a number of economic "realities" that it says militate against retirement saving:

- It is hard for working people to save.
- Individuals and employers often take a short-term view, focusing on more immediate concerns than retirement.
- Part-time and older workers, as well as cyclical workers, often lack access to retirement plans.
- Women face special complications arising from periodic interruptions in their careers to raise children and due to divorce.
- Post-retirement health issues often are not addressed in retirement planning.

The need for more education occurs among employers and employees and involves all savings and financial issues, the group said. It also suggested that the "savings industry" often neglects non-English speaking populations.

The group identified specific types of education needs:

- How much saving is needed for retirement.
- We need a broader definition of "security."
- Employers need a better understanding of existing retirement programs, such as SIMPLE and SEP plans.
- Employees need to be more aware of the bargaining power they have during times of high employment. They can demand more coverage with respect to employer-sponsored retirement plans.
- People need help in understanding the impact of inflation. Reporting accumulated balances in nominal terms may mislead some employees.
- The media need to be educated on how to report financial issues.

Opportunities

The group identified a number of opportunities for the private and public sectors to encourage retirement saving either unilaterally or in partnership with each other.

Private-sector opportunities include:

- Education projects.
- Payroll deductions and direct deposit for IRA investments.
- Invite workers' spouses to attend retirement planning seminars for employees.
- Educate people on the costs of retirement.
- Use regular statements for investors as a tool to educate.
- Consultants and service providers may need to push employers to cover rank and file workers.
- Offer stock options.
- Remove barriers to portability.

Possible public-sector initiatives include:

- Education projects that start at a young age.
- Create stronger public demand.
- A national campaign tailored after the "Buy War Bonds" effort.
- Try to decrease consumerism.
- Create tax incentives, or perhaps eliminate taxes on savings.
- The government should conduct a survey or analysis of existing trends in defined benefit and defined contribution plans.
- Stimulate new saving rather than the transfer of existing assets.

The group agreed that collaborative efforts would be useful. Some examples of these include:

- Link employers with someone else to increase trust among employees.
- Develop curriculum, public service announcements and media advertisements.
- Develop financial planning curriculum for high schools and colleges.
- Groups like the Chamber of Commerce and various labor unions should promote pension concepts to their members.
- Encourage voluntary but automatic enrollment and contributions in retirement plans.

B. "Gold" Group

During the break-out sessions, the Gold Group exchanged many ideas. While it was unable to reach consensus on all issues, there was widespread agreement on many issues.

Barriers

The group began by identifying barriers that prevent individuals and employers from saving for retirement. One of the first barriers it identified is that for many Americans, earnings and benefits are just too low. Many individuals are struggling to make ends meet, and are unable to really focus on retirement savings. The high level of taxes only exacerbates their low level of earning.

Still, the group said that individuals must take more responsibility to save for their own retirement. People could increase retirement savings by making simple choices. They can choose to pay off their credit card balances, which carry high finance charges. And they can choose to take advantage of savings vehicles such as 401(k)s, or to invest more in these accounts.

There is a strong need for education among Americans. Many people do not enter the workforce with good savings habits; they tend to focus too much on their immediate needs. Americans live in a consumption-oriented society. We are taught to gratify current needs rather than to save for the future. Credit cards are easy to obtain, and the number of individuals declaring bankruptcy is at an all time high. Saving money for the future is rarely discussed in newspaper articles, in sitcoms, or other prime-time television shows. In addition, not enough government programs encourage savings.

Because saving for their retirement is not a high priority for individuals, companies have been discouraged from expanding retirement savings programs. Individuals would prefer higher salaries to other employee benefits.

Another barrier to employers is that retirement plan options are often complex, administratively burdensome and often expensive to adopt. High start-up costs make it especially difficult for small businesses to set up retirement plans. Even when employers would like to offer plans, many do not feel confident that they have enough information. This lack of information occurs both because the private sector does not adequately promote employer plans and because it is considered a social taboo for employers to discuss retirement and financial status.

Opportunities

Many policies could encourage savings. We need to educate both employers and employees. The government, employers *and* the private sector should be encouraged to work together to provide education.

One way to reach a large number of individuals is through the mass media. People would be interested in receiving this information if it were available to them, but few newspaper and magazine articles—and even fewer television shows—discuss retirement savings. We need prime-time informational television shows on retirement issues. Even sitcoms could use retirement themes to raise public awareness. More newspapers and magazines could run features on the importance of saving and on how to go about doing so.

Government policies also should be changed to encourage people to save. High taxes prevent many individuals from saving; tax cuts would allow more people to save. IRAs could be expanded to allow people to invest more money, and tax breaks could be given to help businesses—especially small businesses—meet start-up and administrative costs.

Once people have begun to save money for their retirement, they should be encouraged to leave that money set aside. There should be stronger penalties for people who withdraw their money early from retirement accounts, and the government should pass pending legislation that allows more portability between retirement plans.

Employers can do more to educate the workforce and encourage employees to save. Companies should begin or expand retirement programs, encourage payroll deductions and offer matching contributions. In addition, earlier vesting would help many individuals—in particular, women and minorities. Automatic enrollment in 401(k)s also would help; employers who have tried this have seen the number of people enrolled in their 401(k) increase dramatically. [During the Summit, President Clinton sought to clarify that employers currently have the authority to enroll employees automatically. Under this approach, employees would automatically become participants in a company-sponsored retirement plan unless they opt out.]

When companies give their employees pay increases, they should encourage them to invest that money.

While many barriers prevent people from saving, the Gold Group felt these barriers can be overcome once people realize the importance of savings and once savings opportunities become more readily available. Retirement savings, in short, can increase with the help of the government, employers, the private sector and individuals. But the chances for success will be greatest if all of these groups do their part to encourage increased saving.

C. "Green" Group

The green group's discussions were positive, productive and focused. Numerous ideas were articulated. While the perspectives of the delegates differed, there was general agreement from the delegates on most, if not all, of the issues reported here. However, the group arrived at opposing opinions on a very small number of issues.

Individual Barriers

The group identified a number of barriers that prevent individuals from saving for retirement.

The group said that personal beliefs, motivation, attitudes and fears play an important role as barriers. In addition, the group suggested that many Americans don't recognize that retirement savings is a problem, and do not consider it a priority. Also people do not have a savings ethic, and do not believe they will live long enough to enjoy the benefits of retirement.

In addition, the group noted that many individuals believe that setting aside small amounts won't make a difference, so they see little reason to save. And, if individuals are motivated to save, it is often for shorter term goals, such as cars.

According to the group, Americans are influenced by a consumer economy that promotes buying rather than saving, an attitude the media does nothing to discourage. This is demonstrated by the free spending patterns of many individuals using widely distributed, easily accessible credit cards. The spend-now attitude causes individuals who change jobs to withdraw funds from their retirement savings and spend it, rather than roll it over to other savings vehicles. Moreover, individuals have many fears about saving, including having math phobia when it comes to money and financial calculations.

Efforts by investment companies to scare people into action by telling them how much they need to save actually can scare individuals into inaction by giving them a sense of helplessness according to the group.

Lack of knowledge on savings hinders many people from saving. They do not have a clear understanding of how to invest or how much to invest; who to turn to when making investment decisions; what investment vehicles are best, safe and correct for their individual situation; where to begin saving and how to set priorities; and why saving for retirement is important, the green group noted.

Generally, primary and secondary schools haven't adopted financial management curricula that include these types of topics. Typically, teachers are not trained to instruct students in managing money and in financial issues, and parents in many cases are not able to teach their children about these topics. Furthermore, financial institutions do not educate the public in money management and savings. As a result, people do not understand the value of savings or such issues as the power of compound interest.

For those who do understand the basics of saving and its importance, the investment process is still complex. There are too many investment tools, forms and decisions to make. Individuals do not know where to begin. The complexity of the investment process makes people fearful to invest, since they see investing as a large risk.

Members of the green group discussed whether insufficient income is truly a barrier to saving. While there was some debate, they agreed that low income is a particular concern for women, minorities and younger Americans. Some delegates suggested that income taxes and Social Security taxes are too high, but others disagreed. In addition, some members said tax breaks for investment are too limited, some noted that many people are having difficulty living “day to day,” and some said college graduates often are too burdened with school loans to start saving.

Rules governing many savings vehicles are not “saver friendly.” Some rules are too complex to understand, while others limit what individuals can contribute. Savings vehicles such as IRAs do not allow individuals to make catch-up contributions to compensate for periods when they could not save because they were sick or out of the labor force. Also, many banks require a fairly substantial minimum balance before interest accrues. And it is too easy to withdraw retirement funds early, defeating the purpose of saving for retirement, according to the green group.

Employer Barriers

The group suggested that rules and regulations on establishing and maintaining pension plans prevent many employers from sponsoring retirement plans. In particular, complex rules and cumbersome reporting requirements “scare off” small companies. The penalties for making mistakes are very large, and all companies fear the potential liability from lawsuits for plans that do not perform as well as participants hope.

The rules for defined benefit plans are considered especially onerous, the group said. Further complicating the situation is the fact that different rules apply to different types of employees and types of employers. Because of the difficulty of combining different types of plans, mergers can lead companies to terminate plans instead of continuing them. Contradictory rules also limit portability of retirement savings when employees changes jobs.

Complexity of rules makes the cost of complying high. Large employers can overcome this problem because they have many resources, but smaller employers typically have much more limited resources.

Employers typically find that employees value health benefits over pension benefits, so employers respond accordingly. The high cost of health care has forced some companies to choose between offering health care and providing retirement plans. Retirement often goes by the wayside. Furthermore, continual changes in pension and tax rules make it costly and time-consuming for companies to keep their pension plans qualified. In addition, many employers lack knowledge about setting up plans, administering plans and promoting employee education on retirement savings. These activities typically are perceived as costly and difficult.

Opportunities

The group had many suggestions for opportunities to encourage savings. They fall into several general themes: simplify, clarify, measure, communicate, collaborate, educate and induce.

In order to simplify and clarify rules on savings, the group suggested that the President and the Congress should create a national policy on retirement savings. The policy goals would be to: 1) simplify laws and regulations while retaining protections intended by the laws and regulations; 2) look at laws and rules that adversely affect all Americans, particularly low-income groups, and eliminate or revise them; 3) if necessary, develop new laws and rules that help Americans, particularly low-income groups, save more, and 4) identify conflicts in the laws and regulations between agencies such as the Pension Benefit Guaranty Corporation, the Internal Revenue Service, the Department of Labor and the Securities and Exchange Commission, and revise them to make them more compatible.

The group suggested using data from materials prepared for the Summit on patterns and trends for the overall state of retirement saving, and for various groups, as a baseline against which future progress could be measured. By the 2001 Summit, these data could be compared with actual outcomes.

A national marketing campaign would help promote retirement saving. It should use different strategies to reach different demographic groups. It should develop a recognizable symbol to promote public awareness of the importance of retirement savings. The campaign should include a strong partnership with the media, which should provide time and space to the effort as well as report positively on the retirement savings issue. Creation of a network among those concerned with public education and retirement savings issues also would help. The American Savings Education Council (ASEC) can and is serving as a clearinghouse for materials on retirement saving and parties involved in the issue. ASEC can and will expand its role to keep Summit participants informed about employer and community service “best practices” in savings education.

A comprehensive education strategy on the importance of personal finances, money management and saving for retirement is needed. This strategy would cover elementary and middle schools, and provide a curriculum on managing money and personal finance, with training to help teachers learn this curriculum. High school students should be required to take and pass a course in financial management in order to graduate.

Since education is a lifetime process, universities should develop courses on savings for college students and the community in general. Employers also could develop programs to educate employees on saving and financial planning, and larger employers could mentor small employers by providing expertise and by sharing savings educational information materials.

Governors should be enlisted to promote statewide retirement education strategies. Perhaps there should be a competition between the states to see which can achieve the highest percentage of its population that saves for retirement. In addition, social service agencies could create savings education programs to go along with counseling programs and job training, and they could target low-savings groups such as women and low-income individuals in this effort.

Tax incentives should be created to encourage savings at the individual level and make pension plans more attractive to individuals and employers. The tax structure needs to be reviewed and changes made that would eliminate complexity and make it easier and less costly for employers to offer pension plans. In addition, small companies can form associations to offer larger group pension plans with reduced administrative costs for each individual company. In this effort, pension plans could be made more portable, and therefore, more attractive to individuals.

D. "Light Blue" Group

The light blue group was very diverse, and offered a great diversity of opinions and options for consideration. No attempt was made to reach consensus on barriers or opportunities. Rather, everyone in the group had a chance to share their thoughts and ideas—some of which were similar or related, and some of which were very different. What follows is a summary of the thoughts and ideas expressed.

Individual Barriers

The light blue group recognized that there are serious barriers keeping individuals from saving adequately for retirement. These include, but are not restricted to, a lack of knowledge and skill about managing income, spending money, planning for retirement, saving, taxation and thrift. These are issues in all communities throughout America, but can be especially challenging for women and minorities.

More generally, society tends to be focused on consumption rather than on the virtue of thrift.

It was argued that the current tax structure discourages savings and encourages consumer spending. High taxes also make it difficult for people to save. In addition, many individuals, especially women and minorities, lack disposable income. There is an absence of a societal commitment to high-wage jobs that would make savings more feasible for various segments of our society.

It also was noted that the increasing costs of higher education can impair one's ability to save for retirement. And it was suggested that attacks on affirmative action can reduce educational achievement and ultimately limit economic success and security.

Employer Barriers

Several barriers reduce the ability of employers, especially small businesses, to offer retirement plans. Complex regulations and compliance standards, as well as the existence of potential penalties, often deter businesses from offering certain retirement programs. Employers who offer retirement plans sometimes worry about confusion that may arise when they attempt to educate employees, and they fear their educational efforts could be perceived as giving advice, in which case they might be judged to have assumed fiduciary responsibility.

The group also cited high labor force turnover and the resulting lack of mutual commitment between employers and employees as barriers to retirement saving. It said there is an apparent lack of employee interest in retirement benefits. While some members suggested that greater demand for such benefits from employees would motivate employers to offer plans, others noted that turnover sometimes contributes to that lack of employee demand.

Lack of employee demand often combines with lack of resources to prevent small employers from offering retirement plans.

The group also suggested that lack of mutual trust between employees and employers sometimes leads workers to question whether promised benefits will be there when they retire. But some also suggested that employers are shifting the burden of retirement savings and the risks associated with investing retirement funds to employees by offering defined contribution plans instead of defined benefit plans.

Members also mentioned a lack of education among employers, saying employers need more information so that they can choose the type of plan that is most appropriate for them.

Barriers to Increasing Public Awareness

The No. 1 barrier to increasing public awareness seems to be the need to compete with a consumer-oriented society. An ethic of thrift and saving is missing in many segments of our society. Advertising campaigns are needed, including ones directed at lower earners, to create this ethic along with a sense of urgency about saving. The public also needs help figuring out how—and how much—to save for retirement. We should do a better job of teaching thrift and saving to children.

It also was noted that there is a lack of a moral outrage at a public policy that sponsors lotteries that appeal to the most vulnerable members of our society. Some argued that financial institutions should do more to increase public awareness, especially among minorities and women, who represent an untapped market for such companies. But, group members said, there seems to be a lack of market incentives to get financial institutions to go after this market. At the same time, some segments of society lack trust in financial institutions.

The view also was expressed that, with an increasingly diverse workforce, we may be expecting too much from employers.

Opportunities

We should undertake a national campaign (including, but not restricted to, public service announcements) to make savings a high priority for individuals and give them the knowledge and tools to act. Individuals should be encouraged to assume responsibility, and they should be educated on strategies for managing their financial resources. Better government communications are needed, especially for non-English speaking people.

Both government and business should be models of thrift and concern to the public; and they should encourage an attitude of thrift and savings among their employees and the general public. Government should lead by example in its treatment of public-sector employees. Employers should raise the profile of the plans that are already available to employees, and provide ongoing education. Among other things, they can try to encourage participation in retirement plans by workers when they receive raises.

We should continue to simplify pension plans, and continue to generate new types of plans. The public needs to examine the implications of the growth in defined contribution plans and consider policies to promote defined benefit plans (including simplified defined benefit plans for small businesses). We should consider expanding the availability of multiemployer pension plans.

More focus should be given to lower-income groups. The financial community should become more involved with and focused on lower-income areas. Part-time workers should be given access to pension and other retirement programs. We should identify and provide incentives to encourage saving among low-income wage earners. Another possibility is to raise the minimum wage to allow more opportunity for saving.

Congress should debate changes to the tax code designed to promote savings, including whether to fundamentally restructure the tax code. It should allow catch-up provisions that allow individuals to save more at later ages, when they are better able to save.

But we should not put all the burden on either the public or private sectors. Individuals and communities must get involved, and government and employers should work together.

E. "Orange" Group

The orange group generated about 200 thoughts and comments. It had, for a moment, the idea we might come to consensus on some of those but decided, instead, to try to cluster them in three major areas:

- First, that as a result of this Summit, Americans should make adequate retirement income a clear national priority.
- Second, that simplification of government policies and provision for increased incentives to save must also be a nationwide priority.
- Third, that education is likely to be the key and that it must occur throughout the life span and in all types of environments.

Making Adequate Retirement Income a National Priority

Unequal access to savings opportunities is one of the biggest barriers to making adequate retirement income a national priority. Tremendous, conflicting demands are placed on the part of families these days. It becomes very difficult to make savings the No. 1 priority if that means forsaking putting food on the table.

There is a great deal of misinformation in the country about the necessity and availability of retirement systems for a large percentage of our population. The advertising marketplace emphasizes consumerism to the extent that savings is not a high priority.

The group suggested five or six specific opportunities to make adequate retirement income a national priority.

Members said it is critical to create standards and mechanisms that make it possible to provide adequate retirement income for every single American. We should allow for direct deposit and payroll deductions into retirement accounts. People should be able to save in a variety of locations and ways, whether in grocery stories or perhaps through a surcharge on Lotto tickets. There should be catch-up provisions for individuals who need to make up for missed savings opportunities earlier in life. And we absolutely must maintain some minimal level of support for all of our citizens.

Simplifying Government Policies and Creating Savings Incentives

Concerning the simplification of government policies and the provision for increased incentives to save, there are four or five types of barriers.

Confusion over the security of savings tends to be a large fear factor for many Americans. We need much more information about how that system operates and the degree to which people can have confidence that it will continue to operate.

Lack of portability is another barrier, as are restrictive regulations placed on businesses and individuals. Orange group members suggested that it is critical to reduce the number of government mandates and give employers and employees more freedom to choose programs that cover all levels of earners.

Vesting periods should be shortened, and taxes and regulatory burdens on small businesses should be examined.

Business and government must continue to maintain effective partnerships. We must find more ways to encourage multiemployer types of retirement plans. We must encourage more private-sector contributions to the education of individuals.

We should explore the idea of taxing consumption and not savings. We should advance legislation to increase portability of retirement savings. And we should support opportunities to roll over retirement investments.

Lifetime Education

Barriers to education certainly include the lack of quality and accurate information available to a variety of individuals. There are many misperceptions and misunderstandings about the nomenclature used by retirement professionals.

There is a lack of educational opportunities and content. We need to start educating people about retirement issues and finance earlier. We must find ways to teach and understand the complexities of savings and such issues as compound interest.

We must find ways to capitalize on the advent of new media and communications skills. Members talked about placing kiosks in malls where the kids are walking around, finding ways to use e-mail, and capitalizing on the entertainment world: maybe we need Oprah to help us, or perhaps we need to think about enlisting sports stars to speak out about retirement issues.

School partnerships, earlier education and education throughout the life span will be critical as we help individuals understand the risks they must consider—risks that include changes in life expectancy, unanticipated changes in personal lives, or the possibility that one will be come disabled or suffer health problems later in life.

F. “Purple” Group

The group met twice to discuss a series of questions concerning barriers and opportunities for individuals and employers. It held a third meeting to summarize the prior meetings and decide what would be presented to the delegates of the Summit.

The first session focused on barriers, and addressed three questions: 1) What are the barriers individuals face in saving for retirement?, 2) What are the barriers employers face in providing opportunities to help their employees prepare for retirement?, and 3) What are the barriers to increasing public awareness of the value of saving for retirement?

The second session dealt with opportunities for both individuals and employers. It specifically focused on two questions: 1) What can the private sector and other non-governmental organizations do to address the barriers identified in the first session?, and 2) What can the public sector do to address these barriers?

There were several ground rules designed to facilitate the sessions. One was that the goal was to find contributions, but not necessarily consensus. If consensus emerged naturally, that was important, but the group was not driven to find a consensus or forced to vote on issues. A second important ground rule was that Social Security was off limits.

Barriers

Individual Barriers

The purple group agreed that there is too much complexity and rigidity in the current retirement-savings system. For example, IRA rules have become disincentives to savings. Participants also expressed concern about the lack of portability between retirement plans and the inability of workers to enter into plans earlier. Also, tax burdens take away from retirement savings.

Another theme is that there is a cultural bias in the U.S. toward consumption. Saving is not a national priority. Minorities, women, and low-income individuals have little or no money to save. This, combined with a lack of education for individuals and low levels of trust in savings and financial instruments does not encourage saving. Additionally, there are many misconceptions about retirement plans and saving among both individuals and employers. The fact that there is little or no education in basic math and financial literacy in family and schools has not helped.

Employer Barriers

When examining barriers for employers, the group sounded a similar theme. Again, there is too much complexity, and employers perceive the costs of sponsoring retirement plans to be high. Employers also have priorities other than setting up a retirement plan—including ensuring success of their companies. When combined with a lack of interest or demand by employees for retirement benefits, this leads employers to conclude that retirement benefits are not a top priority. In addition, there has been a lack of education among employers about available retirement programs and costs associated with them.

Some see a lack of a business nexus that would prompt employers to become more active in achieving the goals of the Summit. For example, what is the business connection in trying to help low-wage earners save?

Public Awareness Barriers

With respect to barriers to public awareness, the discussion revolved around two issues. The first involved language barriers, which delegates said affect individuals for whom English is a second language and individuals for whom it is the first language. The second area was that there is no objective advocate for individuals on retirement-savings issues: from the standpoint of the consumer, delegates said, who can you trust?

Opportunities

The group found two overarching themes when it comes to opportunities for improving the current situation: 1) it said we need to find customer-centered solutions, and 2) we need a greater partnership between public, private and non-profit organizations.

The group also saw a need for greater simplicity, clarity, constancy, and flexibility. For example, it suggested developing simple, universal IRAs for all savings, allowing portability between different retirement savings vehicles, and allowing phased retirement. We also need to educate employers on how to set up low-cost plans.

Another opportunity for change involves cultural attitudes toward saving. Some delegates suggested establishing a national savings priority policy similar to the national savings-bond drive. Members of the group also said we need to prevent leakage of money from retirement savings accounts, and we should encourage credit card companies to teach credit card responsibilities.

We also should reduce tax burdens and disincentives. For instance, we could offer a tax credit for 401(k)s, change the tax code to promote savings rather than consumption, provide stronger incentives for small employers to establish plans, reduce the federal tax burden, or provide a saved-income credit for low-income groups.

Finally, the group said aggressive education programs could lead to change. We need to begin to educate within families and in the early school years, paying special attention to language barriers. We need to provide for initial and continual education for workers and retirees. And both public and private sectors need to support educational efforts by grass roots organizations.

G. "Red" Group

The Red Group's summary below is laid out in essentially the same order the discussions took place during the break-out sessions. Items that are marked with an asterisk were reported in the plenary session (the group decided at the end of its last session that its report should focus on opportunities and action steps, rather than barriers).

There was remarkably little controversy. When it occurred, it is noted in parentheses.

What are the barriers individuals face in saving for retirement?

1. Lack of knowledge
    - Elementary/secondary schools don't teach about financial planning.
    - People lack general knowledge about retirement programs/options/and the power of compounding.
2. Faulty assumptions
    - Many assume Social Security will pay what they need.
    - Some expect defined benefit plans, even though the number is declining
    - People assume their employers will "take care" of them.
    - People do not recognize the likelihood of needing to pay for long-term care costs
3. Lack of incentives
    - Social values don't support planning for the future.
    - Americans today have no disciplined habit of saving.
    - Some in group felt that defined benefit plans encourage passivity. Several participants disputed this view, however.
    - Not all employee benefits statements reflect savings gains
4. Many people lack access to retirement plans (whether employer-provided or not).
5. Lack of dollars to invest
    - People need money for other purposes (to pay off consumer debt or student loans, meet long-term care costs, pay expenses following loss of job etc.). Some group participants disputed this, asserting that anyone can save at least a little.
    - The tax burden on individuals makes it hard to save.
    - Part-time employees and independent contractors need to be able to vest faster and have portability
6. Employees have to fill out too much paperwork to make changes in their savings decisions

What are the barriers employers face in providing opportunities to help their employees prepare for retirement?

1. Government regulations (IRS, DOL, SEC)
   - Government focuses on preventing abuses vs. giving incentives (the stick is bigger than the carrot).
   - Rules are too complex, especially for small employers. The cost per employee of compliance is excessive.
   - Defined benefit plans are regulated too heavily.
   - Defined benefit plan contribution limits and testing rules discourage sponsorship by some employers.
   - Rules aren't stable, creating a problem for employers and employees, who are expected to plan for 40 years.
   - Back-loading or catch-up provisions are prohibited. This represents a barrier to those who leave the workforce for periods of time.
   - Defined benefit plans prohibit accelerating payments later in life. Allow employers to make additional contributions for newly hired older workers who do not have time to accrue a meaningful benefit.
2. Multiemployer plans
   - Lack of industry-based multiemployer plans for small employers
   - Serious funding liability issue when an employer drops out.
3. Other small employer issues
   - Employees are interested in more immediate benefits.
   - Employer contributions and administration costs too much.
4. Funding/revenue issues
   - Government treats pension plans as revenue generators.
   - The federal budget scores benefits as expenditures
   - Some measures (Roth IRAs, for instance) cause revenue losses that only come years after they are enacted.
5. Employers fear lawsuits arising from statements they make to employees in plans and literature.
6. Clash of goals: government favors shorter-term vesting, but employers want to reward longevity.

What are the barriers to increasing public awareness of the value of saving for retirement?

1. The message is not reaching young people.
   - Schools don't teach about saving and investing.
   - Commercials never suggest that the young will be old some day.
   - Financial help cannot be found in the media young people tend to see.
2. Complexity of the information.
   - Almost requires one-on-one counseling
3. Liability issues
   - Employers who give employees advice can be sued as fiduciaries. This forces employers to focus on broad education or to use third parties.
4. Cultural differences
   - There is a lack of outreach information for people of other cultures or languages.
   - Some people from other cultures do not trust their employers.
5. Lack of research on other nations: We have not learned any lessons from nations with higher savings rates

6. The consumer culture creates too much pressure to spend.
7. Lack of personal responsibility

What can the private sector and other non-governmental organizations do to address the barriers?

1. Better educational efforts
    - People need materials that are easier to understand.
    - Educational materials should be targeted to specific audiences, such as savers, non-savers, specific ethnic groups, people with higher or lower educational levels.
    - Minorities and low-income groups should be approached by groups they trust.
2. More access to educational materials
    - We should build a central clearinghouse/repository for information on retirement savings (at the Department of Labor or in business groups, for instance).
    - More materials should be made available to small employers.
3. More educational materials should be developed
    - Public-private partnerships are needed.
    - Groups such as Junior Achievement, the Chambers of Commerce, Jump$tart Coalition, schools should be involved. The range of partners should be broadened to include more than business-oriented groups.
    - We need to develop standard forms and materials. This would result in substantial cost savings for small employers.
    - Better ad campaigns would increase demand by employees, and thereby put pressure on employers to do more.
    - Ad campaigns should have major public and private funding, be aired in prime time, and be as strong as anti-smoking and seat belt efforts.
4. Make it easier to save: multiemployer plans
    - Multiemployer plans for small employers should be encouraged.
    - The issue of funding liability when an employer drops out should be addressed.
5. Make it easier to save: other steps
    - We should give kids opportunities to save starting in elementary school.
    - We should permit payroll deductions for “retirement” or “life savings” bonds that would earn more than savings bonds.
    - We should give tax credits to employees in lower income brackets.
    - We should give tax credits to employers to set up retirement savings vehicles.
    - We should allow tax-deferred dollars, such as in 401(k)s (up to a certain amount) to be used for financial planning help, give financial planning the same status in cafeteria plans as group legal services, stop imputing income for employer-provided financial services and repeal the limit on itemized deductions for financial planning services.
    - We should provide government matching funds up to a certain amount if employees put part of their tax payments into a federally managed retirement savings account.
    - We should provide more incentives for financial institutions to gear programs to the very small investor.
6. We should recommit ourselves, as matter of public-private policy, to employer-based plans, reinforce the social contract and alleviate individual risk

What can the public sector do to address the barriers?

1. Incentives

- Small employers should qualify for tax credits to help offset costs.
- Employees should be allowed to make voluntary, tax deductible contributions to defined benefit plans (this would mean allowing individual accounts within defined benefit plans). These funds would be managed by the defined benefit plan managers.
- Employers should be encouraged to establish automatic enrollment in 401(k) plans and require employees to make written requests to opt out.
- Catch-up provisions should be allowed in retirement plans, enabling late-starting savers and people who had to withdraw funds prematurely to build or rebuild their retirement-fund balances. Employees should be held responsible to report such transactions on their tax returns, rather than requiring employers to certify their tax eligibility.
- Eliminate highly compensated employee caps so employees can catch up without higher paid employees having to reduce their contributions
- All limits should be taken off of savings vehicles
- We should create incentives for savings and discourage consumption, perhaps by prohibiting lump-sum payouts of employer-provided money.

2. Reduce complexity, risk and cost.
   - We should create special small employer plans.
   - We should use plain English in laws.
   - We should reduce penalties and add incentives
3. Research
   - We should find out what nations with higher savings rates do (e.g. Japan's Post Office Savings Plan), and study whether the same strategies could be used in this country.
4. Change our language
   - We should talk about "lifetime savings" rather than "retirement." The former would register with the young, while the latter does not.
5. Voluntary efforts
   - Members of the investment, pension and savings community should volunteer to talk to students and others

H. "Silver" Group

It is an understatement to say that there was a tremendous amount of diversity of opinions in this group. Members of the group represented a continuum of opinions about what should be done, ranging from those who want fundamental tax and entitlement reform to those who believe the existing system is sound, but needs simplification and improvement. There also appeared to be a third group who did not completely espouse either of the more divergent positions.

Barriers

Members of the group mentioned many barriers that affect retirement savings at the individual, employer and public awareness level.

Income inadequacy was mentioned as a general barrier to increased retirement savings among individuals; some attributed this barrier to the type of jobs some people hold (part-time, contingent, or in certain industries where employer-sponsored pensions are rare). Others argued that income is inadequate because of overtaxation and inefficiencies in the tax code.

Delegates also said ineligibility for employment-based pension plans (due to age restrictions and lack of sponsorship), lack of pension asset portability, IRA eligibility rules, and current consumption needs all represent barriers to individual saving for retirement.

Employers face a number of barriers in the retirement-savings arena. Members of the silver group mentioned over-regulation numerous times, especially involving small employers. Delegates also suggested that employees prefer cash wages over tax-deferred savings, that vesting schedules are too short to induce employers to offer plans, and that employer margins aren't high enough.

Inadequate education was mentioned as one of the greatest barriers to increased public awareness. Group members said education is needed at both the individual and employer level. Individuals need to be educated on the basic principles of investing, for instance, and employers need to be educated on the benefits of offering defined benefit plans.

The group agreed that employers should provide basic education to employees, but they did not agree on the role of the government. Some in the group thought the government has not done enough to educate the public on the retirement issue, while others thought it already has done too much.

The group also discussed what message should be conveyed. While there was not widespread agreement on this question, some members of the group thought the message should be simplified, and targeted to reach low-income people. Delegates also said the message should be emphasized by the media.

Opportunities

Perhaps the only thing the group agreed on was the need for additional private-sector education. Some examples of what was agreed on include:

- There should be more media outreach efforts.
- Pension counseling should be expanded.
- Everybody should be educated about the benefits of starting early. For instance, financial institutions should be encouraged to have products for school-age children.
- More effort should be made to make people aware that life expectancy is increasing, and that people should save accordingly.
- People should be informed about the full range of options available to them
- We should coordinate policy-making with those we hope will sell the product.

Beyond these areas of agreement there were a wide range of views. Although the group knew what is meant by portable pensions, for instance, its members could not agree on language to include a bullet point on that issue in its report.

I. "Yellow" Group

The Yellow Group engaged in a lively discussion on individual and employer barriers to retirement savings and on opportunities for overcoming these barriers. Participants agreed that overcoming barriers will require different strategies for different segments of society.

The group agreed that lack of income is a significant barrier to savings for some people. It said that society must maintain a safety net for those who cannot provide for themselves. The group concentrated on addressing barriers faced by people who do have adequate income (along with the barriers faced by employers).

The delegates also noted that the retirement-saving issue overlaps with other related policy issues, such as the overall need to increase the U.S. savings rate. Rather than expand their conversation to include this broader topic, however, members remained focused on barriers to saving *for retirement*. They then focused on opportunities to overcome savings barriers within both the private and public sectors.

Individual Barriers

Lack of income was one of the first barriers to individual retirement savings that was mentioned by this group. For single heads of households, incomes can be stretched just to meet the bare necessities, and any savings may be designated for other purposes besides retirement—especially saving for college.

Lack of education is another significant barrier to individual retirement savings. Many individuals don't feel that they need to save for retirement because they believe that Social Security will provide adequate retirement income. They see older generations living comfortably in retirement today, and think that things will all 'work out' somehow for the current generation of workers as well.

Basic financial terminology and concepts such as the power of compounding are not a part of the curriculum at most public schools. As a result, high school graduates and even college graduates are not aware of the tools that are available for retirement savings. Nor are they aware of the benefits of using retirement savings vehicles such as employer-sponsored 401(k) plans and individual retirement accounts.

The yellow group focused on the complexity of the retirement savings task as a significant barrier for individuals to overcome. Even for people who are well educated about financial matters, the process of coming up with a retirement saving goal (including determining one's own retirement age and subsequent life expectancy), developing a strategy, and carrying it out is a daunting task. For people less well educated in financial matters, the task can be overwhelming.

Our consumer culture is another barrier to savings. The media encourage people to spend and consume more all the time. Along with the easy availability of credit, this leads people to spend more than they earn; many people live from paycheck to paycheck because of their out-of-control spending habits. In addition, many individuals have a "lottery mentality." They purchase lottery tickets in the hopes of hitting it big someday, but don't realize how much more productive it would be to put their money into retirement savings accounts.

For people who have gotten the savings message and are saving for retirement, tax laws create barriers by limiting the amount that can be placed in 401(k) and IRA accounts. Many people do not put money into these accounts because tax laws are so complex that they don't understand how the accounts work.

Employer Barriers

Employers face many barriers to helping their employees save for retirement. Some employers don't feel responsible for the retirement security of their employees. Employees usually put a higher priority on better wages and access to health care, so retirement plans can be a low priority for employees and employers alike. Employers do not understand the competitive advantage that can be gained from educating employees about retirement savings.

For employers, particularly small business owners, there is little business case for setting up a retirement plan unless employees demand it. Employers also lack education in how to set up retirement plans and how much they cost. The cost of administering a traditional defined benefit plan can be high, and employers are not aware of the low-cost alternatives. Tax laws surrounding pension plans and 401(k)s are too complex, and employers' risk of liability is too high. Employers hesitate to make the long-term commitment that is required in setting up retirement plans. Constant change in the tax code also can be a barrier to employers' willingness to administer retirement plans.

Opportunities

The Yellow Group generated a multitude of ideas that would help to overcome retirement savings barriers. In order to increase saving, we need to increase education about retirement savings and the savings vehicles that are available. We need to make the system less complex. We also need to decrease 'leakage' of savings that is designated for retirement and increase the portability of dollars from one savings vehicle to another.

Improvements in education can take place through both the public sector and the private sector, or the two in cooperation with each other. Educational efforts need to be carefully and appropriately targeted to particular audiences. Public school curricula should include basic financial concepts about budgeting, saving, and investing, so that individuals start thinking about savings before they are out in the work world.

Private companies can assist in this effort by creating partnerships with schools to teach financial literacy to kids. Financial institutions can help by creating savings vehicles that kids or classrooms can use to invest small amounts of money. Interactive materials on the Internet and interactive software (perhaps a "Sim-401(k)") should also be developed and targeted to kids.

Employers and a wide variety of community groups should provide educational services aimed at adults in cooperation with financial institutions. "Life planning" seminars could teach employees the basics of budgeting or the basics of investing. Educational tools such as the Securities and Exchange Commission's "Financial Facts Toolkit" should be disseminated more broadly to the public. Employer statements should include estimated lifetime income streams, which would show how accumulated savings could translate into monthly payments at retirement. This would give employees a good idea of where they stand in their efforts to save for retirement. The Social Security Administration should mail similar statements to workers on a regular basis, perhaps annually. The Internal Revenue Service should send employers information on retirement plan options, and how to set up retirement plans.

The pension system should be simplified and made more flexible for both employers and employees. We need to give employers more flexibility to give financial and investment advice without incurring liability, and we should give employers more incentives to contribute to employee retirement saving. Rules for setting up and administering both defined benefit and defined contribution plans should be simplified. Small employers should get tax credits for setting up retirement plans. *All*—even part-time workers and contractors–should have the option of having money automatically deducted from their paychecks for retirement savings. This is especially important for those whose earnings are low and who would otherwise have a hard time setting aside retirement savings from their paychecks.

There was some discussion and definite *disagreement* in the yellow group over so-called "top-heavy rules." Some felt that they should be eliminated, while others felt that top-heavy rules are absolutely necessary.

There was also some disagreement about whether vesting periods should be reduced from five years to three years or whether they should be left as is.

The multiemployer pension model was discussed as a way for small employers to group together into ‘affinity groups’ that could sponsor pension plans. The TIAA-CREF is a good model. Legislation would be necessary to make this happen on a large scale.

Congress and the administration should enact legislation to allow people who have been out of the workforce to make catch-up savings in 401(k) accounts, and to make it easier for employees to move between plans when they change jobs or leave the workforce.

A large-scale media campaign to increase awareness of retirement savings would help to counteract the impact of advertisers and their ‘spending’ message. By spreading the word on television and in newspapers, multitudes of people would begin to get the retirement-savings message.

Appendix 1: The Summit Agenda.

Agenda

National Summit on Retirement Savings

June 4–5, 1998

PRE-SUMMIT – Wednesday, June 3

5:00 pm – 7:00 pm	Summit Registration
5:00 pm – 7:00 pm	Arrival Reception

DAY 1 – Thursday, June 4

7:00 am – 3:45 pm	Summit Registration
8:00 am - 9:00 am	Networking Buffet Breakfast
9:00 am - 9:15 am	Welcome and Procedural Remarks Hosts: Alexis Herman, Secretary of Labor George Allen, Former Governor of Virginia
9:15 am - 10:30 am	Panel Discussion: *Current State—Saving and Education Today* Panelists: Dallas L. Salisbury, Employee Benefit Research Institute (Moderator) Mathew Greenwald, Mathew Greenwald & Associates, Inc. Josie Tsao, IBM Corporation James S. Ray, Connerton & Ray Craig Hoffman, Corbel/Sungard Ann Combs, William M. Mercer, Inc.
10:30 am - 11:00 am	Beverage Break
11:00 am - 12:15 pm	Keynote Presentations Speakers: Richard Gephardt, House Minority Leader Trent Lott, Senate Majority Leader Newt Gingrich, Speaker of the House Al Gore, Vice President of the United States Bill Clinton, President of the United States
12:15 pm - 12:45 pm	Break
12:45 pm - 1:45 pm	Networking Lunch
1:45 pm - 2:00 pm	Break
2:00 pm - 3:00 pm	9 Concurrent Breakout Sessions—*Employee and Employer Barriers*
3:00 pm - 3:10 pm	Break
3:10 pm - 4:10 pm	9 Concurrent Breakout Sessions—*Employee and Employer Opportunities*
5:15 pm - 6:45 pm	White House Reception
7:30 pm - 9:30 pm	Congressional Dinner at Union Station Speakers: Rob Portman, U.S. House of Representatives Harris Fawell, U.S. House of Representatives Earl Pomeroy, U.S. House of Representatives Max Baucus, U.S. Senate Donald Payne, U.S. House of Representatives

DAY 2 – Friday, June 5

8:00 am - 8:50 am	9 Concurrent Breakout Sessions
8:50 am - 9:00 am	Break

9:05 am - 10:45 am	Panel Discussion: *Public- and Private-Sector Outreach Activities/Best Practices* Speakers: David Walker, Arthur Anderson (Moderator) Olena Berg, Assistant Secretary of Labor Jim Hill, Oregon State Treasurer Horace Holmes, WJLA-TV Robert Reynolds, Fidelity Investments Anthony Amato, Hard Rock Café International
10:45 am - 11:00 am	Break
11:00 am - 12:15 pm	Final Plenary Session: *Summary of Breakout Group Discussions* Speakers: Jennifer Dunn, U.S. House of Representatives (Host) Pamela Gwin, Federal Executive Institute (Dark Blue group facilitator Dennis Center, Federal Executive Institute (Gold group facilitator) Barbara Smith, Federal Executive Institute (Green group facilitator) Sylvester Houston, Federal Executive Institute (Light Blue group facilitator) Linda Bunker, Federal Executive Institute (Orange group facilitator) Robert Franco, Federal Executive Institute (Purple group facilitator) Terry Newell, Federal Executive Institute (Red group facilitator) Robert Gest, Federal Executive Institute (Silver group facilitator) Pamela Wilhelms, Federal Executive Institute (Yellow group facilitator)
12:15 pm - 1:00 pm	Closing Session: *Thank You and Challenge* Speakers: Jennifer Dunn, U.S. House of Representatives (Host) Alexis Herman, Secretary of Labor (Host) Robert Rubin, Secretary of the Treasury Bob Graham, U.S. Senate Jim Kolbe, U.S. House of Representatives Harris Fawell, U.S. House of Representatives

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12. David Obey, Ranking Member, House Appropriations Subcommittee on Labor, Health and Human Services
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17. Olena Berg, Assistant Secretary of Labor, Pension & Welfare Benefits Administration
18. Robert Rubin, Secretary of Treasury
19. Lawrence Summers, Deputy Secretary of Treasury
20. Charles Rossotti, Commissioner, Internal Revenue Service
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29. Roger W. Mehle, Executive Director, Federal Retirement Thrift Investment Board
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Appendix 3: Break-Out Group Full Listing of Barriers and Opportunities

These ideas were suggested by individual Summit participants. They do not represent a consensus. They were not prioritized.

A. Dark Blue Group

Barriers

The group cited a number of economic “realities” that it says militate against retirement saving:

- It is hard for working people to save.
- Individuals and employers often take a short-term view, focusing on more immediate concerns than on retirement.
- Part-time and older workers, as well as cyclical workers, often lack access to retirement plans.
- Women face special complications arising from periodic interruptions in the careers to raise children and from divorce.
- Post-retirement health issues often are not addressed in retirement planning.

The group identified specific types of education needs:

- How much saving is needed for retirement.
- We need a broader definition of “security.”
- Employers need a better understanding of existing retirement programs, such as SIMPLE and SEP plans.
- Employees need to be more aware of the bargaining power they have during times of high employment. They can demand more coverage with respect to employer-sponsored retirement plans.
- People need help in understanding the impact of inflation. Reporting accumulated balances in nominal terms may mislead some employees.
- The media need to be educated on how to report financial issues.

Opportunities

Private-sector opportunities include:

- Education projects.
- Payroll deductions and direct deposit for IRA investments.
- Invite workers’ spouses to attend retirement-planning seminars for employees.
- Educate people on the costs of retirement.
- Use regular statements for investors as a tool to educate.
- Consultants and service providers may need to push employers to cover the rank and file.
- Offer stock options.
- Remove barriers to portability.

Possible public-sector initiatives include:

- Education projects that start at a young age.
- Create stronger public demand.
- A national campaign tailored after the “Buy War Bonds” effort.
- Try to decrease consumerism.
- Create tax incentives, or perhaps eliminate taxes on savings.
- The government should conduct a survey or analysis of existing trends in defined benefit (DB) and defined contribution (DC) plans.
- Stimulate new saving rather than the transfer of existing assets.

The group agreed that collaborative efforts would be useful. Some examples of these include:

- Link employers with someone else to increase trust among employees.

- Develop curriculum, public service announcements and media advertisements.
- Develop financial-planning curriculum for high schools and colleges.
- Groups like the Chamber of Commerce and various labor unions should promote pension concepts to their members.
- Encourage voluntary but automatic enrollment and contributions in retirement plans.

B. Gold Group

Barriers to Individuals

- Income
  1. For many Americans, earnings and benefits are just too low
  2. Many Americans are in minimum wage jobs and part-time work
  3. Median household earnings is just $35,000
  4. Half of all working Americans earn less than $28,000
  5. Women often have episodic work experiences with time off from the labor force and lower job tenure
  6. Stagnate earnings for many
- Individuals must be responsible
  1. There is a lot of financial illiteracy among the population
  2. The system incorrectly assumes that people have the necessary information and choose to use it
  3. We often lack tools to choose
  4. Complexity is mind boggling to some
  5. On the other hand, we tend to overregulate rather than rely on individual responsibility
  6. Many individuals do not enter workforce with a savings habit
- Half of Americans do not have access to retirement savings plans through their employers, often due to disincentives imposed by the government on employers.
- Americans live in a culture where debt and consumption is encouraged. People need to pay off their debt.
- Strong need for education
  1. Save for what? Retirement vs. other savings options
  2. Cultural and language barriers to information
  3. Not enough government programs encourage savings
  4. You must save before investing, and people must be educated to save. Investing can be assisted by professionals
  5. There is no long-term track record for 401(k) plans which demonstrates the consequences of inadequate management and/or inadequate asset allocation to the general public.
- Taxes
  1. Too high! Not enough money left to invest
  2. Current tax structure penalized savings, especially the homeowners' tax benefit
  3. There are no tax credits for employers spending money on educating individual workers
- IRA deduction rules are difficult
  1. Taxes can be disincentives to individuals from having multiple savings vehicles
- There are no national savings goals for individuals
- We can't invest our own FICA funds
- Television and popular cultural outlets do not cover retirement issues
- There need to be rewards for the savings vs. consumption tradeoff
- Remember: legislation calls for savings for all Americans, not just workers

Barriers to Employers

- Litigation/fiduciary risk both in general and in regards to giving investment advice
- Regulation, although recent history of pension fund mismanagement underscores *some* need for regulatory oversight
- Company financial constraints—no competitive advantage to sponsorship
- Complex administrative burdens to companies
- There are two issues: savings through pensions and encouraging personal savings
- Costs are direct, indirect, and psychological
- Education
  1. Employers need to know what benefits they can gain through sponsorship
  2. Employers need to appreciate the value in human capital resources
  3. Employees would request retirement savings plans if they were better informed
  4. Educate in savings vs. investment options
  5. There are social taboos to talking about your financial/retirement statues
  6. Teach kids the value of compounding—they will teach parents
  7. Not enough highly visible examples of what happens to people who don't save for retirement
  8. Social Security is relatively generous now compared to what will happen in the future
- Marketing
  1. Private sector does not market employer plans
  2. They need multiemployer features for non/union; non/religious plans to make the market competitive
  3. There would be economies of scale if the tax laws or regulations eliminated any barriers to more broad-based participant-directed multiple employer plans.
- Standardize plan design options
- Estate tax laws cause small businesses to use resources to protect their overall business
- Portability constraints: we should be able to roll over from 401(k) to 403(b) to 457 plans without a penalty
- Current law does not allow employees to put in enough money for themselves.
- No tax credit for employers to establish and contribute to plans
- Regulations are inflexible

Barriers to increasing public awareness

- No sufficient media coverage for these issues
- No meaningful education in this area
  1. Lower-income individuals need to know you can start with small amounts
  2. Education that does exist focuses on those who have money to save/invest
  3. Should focus on schools/colleges
- Rich people are doing the decision making on this topic for problems they don't have
- We are not consulting with the people who actually have these problems

What can the private sector do?

- Serious education effort
  1. Sitcoms, mass media, prime time exposure
  2. Educate employers on significance of human capital investment
  3. Create savings habit among Americans
  4. Modify the "I want money now" habit of employees

- Payroll deductions increase participation
- Provide tax credit for immediate gratification to employers who participate
- Augment power of employer fund matching
- Employers should mandate participation
- Private sector should study—then provide data on what works best
- Resolve portability problems with defined benefit plans and readdress them—they work. Particularly when simple. And they work for lower-income employees. Add defined contribution as "3rd leg of stool"
- Offer pay raises, then encourage employees to invest them
- Reverse match
- Automatic enrollment-negative consent
- For small employers: simple, easy, portable, safe incentives, with safe harbors and adequate protection
- Need "catch up capability"
- Need higher dollar limits
- How about a universal 401(k)?
- Raise cashout penalties to encourage preservation of funds
- Have credit card companies provide 1% savings incentives to users
- In 457 plan, offer match ($300) to increase participation rates

What can the public sector do?

- Increase monetary limits on all plans
- Find out if tax expenditures tradeoffs help all Americans or just the wealthy
- Social Security is mandatory; make private pensions mandatory
- The federal thrift savings plan mandates education for all federal workers- some type of incentives need to be developed to encourage other employers to do likewise
- Lower taxes
- Fix Social Security without raising taxes
- Streamline regulations
- Provide incentives—people will respond
- Change vesting from five to three years to help women and minorities
- Lower litigation risk so people can get not only education, but advice
- Tax all income only once
- Adjust original 1944 personal exemption for inflation (would be about $9,000 per person) to make more money available for individuals to invest
- Allow FICA contributions to be deducted
- For lower-income workers, give a government match or tax credit
- Income payroll deduction incentives

C. Green Group

The order is strictly by occurrence and does not imply importance.

Barriers to Save for Retirement: Individuals

- No motivation to save for retirement
- Barely make ends meet
- High tax rates
- Pension plan restrictions and lack of availability
- IRA restrictions
- No other tax breaks for savings other IRAs that individuals can do by themselves

- Self-induced desire for more and better items
- Affordability when already live month to month
- Limitations for higher income individuals and no catch up provisions in either IRAs or pensions
- Setting priorities in order to make retirement savings achievable
- Lack confidence that small amounts can make a difference
- A lack of education—do not know how much to save or how to save.
- A theme emerging of a lack of motivation, restrictions on savings, and a lack of education on how, when, what, where, and why to save
- Some individuals live on cash, no checking accounts because they are afraid of banks and schools do not teach simple checkbook use
- Disagree with motivation to save, people will save for a car, house, etc., not for retirement
- Saving is even good for low-income people
- Need to teach responsibility for oneself for retirement and health needs
- Credit card education—individuals consume and spend, buying into messages of having to have everything but not learning until after the fact the difficulty of paying back the credit card loan
- Baby Boomers and Generation X need different types of education
- Learn the 8^{th} Wonder of the World—Compound Interest
- Need Savings Clubs and stamp books to bring back thinking about savings
- In Massachusetts, 11 banks match with schools to have children open bank accounts and learn the basics of economics and embrace math through the use of money
- People say the schools should do it, but that is not enough; everybody needs to help educate and banks, etc. should be going to schools to teach basics of savings
- Too complicated to save; need simplification and the challenge to do so is difficult with the many complications
- Process is complicated, how to do it , the forms to fill out the choices to make
- Understand the need but they do not have the desire and have fear of doing it wrong
- Students graduate with large debt which forces them into the credit card cycle
- Parents do not teach the importance of saving
- There is not a savings ethic in this country, and beyond that people do not have strategies to accomplish savings
- Do not know where to put the money
- Companies or individuals are concerned when teaching becomes advising
- Even though there is regulation, investments scams still occur
- There are curriculums to savings education, but teachers are not comfortable teaching them
- In many, cases teachers are pressed just to accomplish teaching the three R's; difficult to add in savings education
- Plenty of informal education on violence, drugs, etc. but nothing on savings no positive media portrayal of saving
- People do not have time to learn or do not take the time to learn about saving
- Education needs to be simple; otherwise people will be embarrassed to ask questions or pursue further education
- People do know why to save or what is needed
- Figures that are thrown out by investment companies about what baby boomers need to save ares large and sound like potentially unrealistic and unattainable numbers
- These numbers are supposed to scare people into action, but in many cases scare people into inaction
- Fear of retirement needs leads to futility and hopelessness

- Need to counter self-gratification culture and delay purchases to be better off in the future
- It is too easy to spend retirement savings when changing jobs.
- Rules are too complex to start saving and too liberal to take out of savings accounts. IRAs should be for retirement—thus their name.
- Individuals who do spend their retirement money instead of rolling it over do not realize the full taxes on withdrawals until it is too late.
- Hard to put the abstract need to save for retirement into concrete need
- People do not think they are going to live long enough to need the money
- Do not set goals, therefor no action
- Who should be educated to save? Baby boomers could be a model for everyone to learn from
- People avoid savings because they have a math phobia
- Do not want to think about being old

Barriers to Offer Pensions: Employers
- People do not have the ability to participate because of what the employer does
- Educate employers on the need to offer pension plans—it makes good business sense
- Mergers of companies lead to payouts, since the rules to integrate the pensions are very complex.
- Is the money really there when the employer changes providers?
- Lack trust in employer's use of the employee's money
- Media helps create uneasiness by focusing on the 0.01 percent of bad 401(k) plans when 99.99 percent are run correctly
- Small companies scared off by all the rules to offer a plan
- Income discrimination rules scare off employers
- The reporting requirements do so also
- Large employers have the resources to overcome the complicated rules so they are able to offer pensions whereas small companies do not have the resources
- Difficult to merge plans
- If the plan does something wrong the penalties are too large
- The rules are more complex for defined benefit plans, thus their use is discouraged
- Employers need to work with government to address the pension system instead of being at odds with it
- Employers have fear of unknown rulings that can lead them to liability for actions that seem correct
- The owner of the company must care about retirement savings and recognize that to retain and recruit employees pensions are necessary
- Small employers are particularly concerned about liability for a loss to the retiree and not enough of a return
- Employees prefer medical and cash benefits
- This tends to vary by occupation
- First benefit desired is health, but it is not either/or
- However, the cost of health care drives out pensions
- Many of the changes to the pension rules makes it more difficult to stay qualified and are costly to comply with
- Four sets of rules for different types of employers limit portability

Opportunities
- Combine small employers to cut down on administrative costs
- Savings Co-ops

- Tap expertise of private sector large firms to mentor small firms
- Allow the free enterprise of all retirement products
- Make rules easier to offer pension plans
- Immigrant aid groups create pools of individuals that lead to the creations of credit unions
- Work with social services to create saving programs along with other activities for needy groups
- Employer education
- What are the problems? Many rules on pensions were revenue driven. Loss of tax deductions lead to the discouragement of savings.
- Mechanisms to address these issues. Summit respresents first discussion. Blue Ribbon bipartisan commission to examine all regulations to simplify but retain protections—no more piece-by-piece legislation
- Governments use taxes and lotteries that discourage savings
- Savings campaigns have been pieces here and there no focus on top, no leadership to coordinate efforts to develop key messages and programs
- Several government agencies with conflicting rules regulate pensions. One pension agency would be of great use. Presently, the agencies compete instead of cooperating
- Caution on Blue Ribbon commission, since a 1980s task force had 200 recommendations but none were implemented. Not lack of ideas; a lack of action
- Need large groups of people to look at these issues, so everybody has a part in the process, not a small group of experts
- Create tax incentives to save other than through pensions, that go straight to the individual to avoid pension complexities
- Complete tax structure changes to encourage savings, not discourage it
- Social service programs can teach workshops for low-income workers; have had some success with women in increasing their savings from these workshops that have made savings understandable
- Section 8 housing programs could include teaching money management classes and the importance of savings
- Create TIAA-CREF model pensions for portability for small employers
- Self-sufficiency education for welfare families should include savings education
- American Savings Education Council (ASEC) has a clearinghouse of education materials on savings
- Jump$tart Coalition teaches children grades K-12 basic principles of savings; it is a bipartisan partnership of public and private entities and is expanding its reach
- Summit Report should contain an action agenda and measurable goals to see results for 2001
- Goals need to be set
- Establishing benchmarks to compare results of various groups and subsets on progress in saving, such as increasing the private savings rate from 5.5 percent to 8 percent. Increase small employer pension plan participation from 20 percent to 25 percent
- Middle income tend to the better savers, so education really needs to address all income categories
- Focus on particular areas
- Incentives such as large employer matches get individuals to participate
- Labor unions will continue to work for the expansion of defined benefit pension plans and higher wages as well as all pensions in general
- A call for all Summit participants in various sectors and organizations to do the same
- Pension rules need to be simplified, clarified and measured
- Create trust between employers and employees
- Communicate a message on the importance of savings
- Establish a marketing campaign that includes different messages for different groups

- Get the mass media to buy into the importance of savings and a savings campaign
- Media has already started to give public service announcement time
- Every form of media needs to be involved some form of partnership between the groups
- Universities should create savings education programs not only for the students but for the community also
- It is a big job to reach out to all people, so all individuals need to go face to face with people to convince them of the importance of savings
- Recognizable symbol to reinforce the importance of savings, a “gold ribbon” and bumper stickers, etc
- Simple statement of IRA and pension rules with tax forms
- Create coalitions such as those through Good Housekeeping Magazine
- Keep all participants connected to continue to work on the goals of the Summit, the Summit report should contain a clearinghouse so this can be done
- Communicate the idea to keep it out there
- Establish a network that can work to achieve savings goals
- Let people know now where to go; don’t make them go look for it
- Get state governments involved to create competition among states
- State regulators work to promote every high school student understand financial basics
- A simple test of regulation changes: does it help low, moderate, or limited income increase savings
- Regulation changes should include all income groups to increase savings
- Education should just be on savings but also on the much neglected need for pay-out phase education

D. Light Blue Group

Barriers Faced by Individuals

- High taxes make it hard to save (need to cut wasteful government spending)
- Lack of knowledge/skill base at the individual level
- Falling real incomes since the 1970s
- Better individual savings vehicles needed; plus people need education to help them manage these
- Absence of commitment to a high-wage economy
- Lack of focus by individuals on retirement savings
- Lack of disposable income, especially for women and minorities
- Society is focused on consumption, not thrift; there is a lack of teaching on thrift
- Need to raise expectations at the community level, especially minority communities
- People do not have the dollars to save; some live beyond their means; misuse of credit; lack of access to “discount” stores for many
- Education that helps people understand how much is needed
- Mandatory saving needed for those who lack means
- Lack of opportunity in the workplace
- Mindset stuck in parents’ defined benefit world where workers were taken care of; people do not understand that they are largely on their own now
- Lack of appreciation for shift in risk with growth of defined contribution plans; need continued role for defined benefit plans
- Tax structure encourages binge buying at refund time
- Lack of group structure to help part-time workers
- Need portability and need to discourage spending of premature distributions from plans
- Women and minorities face special economic challenges (such as lack of insurance and access to credit)
- Lack of family and societal commitment to the idea that everyone can save

- Increasing cost of higher education
- Attacks on affirmative action hurting educational opportunities
- Use to learn to save at early ages at home and school
- Lack of employer participation as evidenced by shift from defined benefit to less generous defined contribution plans

Barriers Faced by Employers

- Very small businesses (under 25 workers) need a tax benefit
- Regulations and the accompanying penalties are a deterrent
- Need incentives and fewer regulations
- Need reasonable compliance standards
- Complex laws and regulations, and the accompanying costs
- Employers need education so they can choose the plan that is the best fit
- High employee turnover is a deterrent to offering a plan
- Cost of determining taxes; high taxes; high liability insurance rates; high cost of doing business
- Shift to equities in retirement accounts and the increased cost of equity
- Lack of employee interest; employee demand will motivate employers
- Employer contributions will motivate workers
- Need education of employers as well as employees
- Employee mobility leads to lack of demand
- When companies offer plans, they need to establish trust that the benefits will be there
- Worry about education crossing line into advice and the legal liability that then follows
- Lack of employer/employee loyalty due to frequent job change
- Employers are shifting burden to employees; employer contributions have gone down; often contribute only via a match if worker first contributes
- Lack of resources among small employers and employees prefer training if forced to choose
- Complexity of pension laws and regulations; cost of compliance is a problem if a plan is offered

Barriers to Increasing Public Awareness of the Value of Saving for Retirement

- People know they should save, but they lack the ability to save; they need plans and education
- With diversity in the workplace, employers cannot do it all
- Need to compete with a consumption-oriented society
- Need to reach public with advertisements, especially directed at lower income earners
- Lack of knowledge among public about how much is needed to retire
- People need to know how much to save
- Lack of moral outrage at things such as lotteries that prey on the most vulnerable
- Institutions that could make it happen with dollars need to step up to the plate (banks, mutual funds, insurance companies, etc.)
- Financial institutions need to develop trust
- Market failure, i.e., lack of incentives to market to low income workers
- IRC section 415 can penalize low-income workers at the time of retirement
- People expect the government to take care of them if they don't do it themselves; this results in a lack of urgency
- Don't teach thrift to kids
- Sec. 415 can limit what people can legally save in a plan at work
- Need it to become a true national priority

- Need catch-up provisions in retirement plans; allow people to save more at later ages when they are better able to save

What Can the Private Sector and other Non-Governmental Organizations Do?

- Educate the public as to what is available and what they can do for them
- Sponsor more plans and generate new types of plans
- Expand model of multiemployer plans
- Give part-time workers access to pensions
- Target worker participation when workers receive raises
- Get the financial industry more focused on lower-income workers
- Better disclosure to participants of how plans work
- Need increased education for workers on an ongoing basis
- Employer has a moral obligation to offer some retirement benefit, government needs to make this easy
- Establish attitude of thrift for the company that then impacts workers' attitudes and behavior
- Create culture of savings and thrift
- Cannot separate government from the employer side
- Financial institutions need to go after untapped markets (e.g., minorities); it is good business; it may require new strategies
- Company needs to raise the profile of an offered plan

What Can the Public Sector Do?

- Educate the public on how to manage money
- Admit that current and past efforts have not raised savings; and therefore, alter the way we tax savings
- Tax incentives drive behavior
- Make this a real national priority over time
- Extend incentives to low-income people
- Take a look at the complexity of pension laws
- Lower the tax rate on money removed in retirement from savings plans
- Cut complexity for small businesses
- Eliminate the double-taxation of savings
- Reduce the tax burden to increase disposable income
- Lead by example in terms of how public sector workers are treated with retirement plans
- Employer-paid pension program
- Income tax exclusion on pension benefits for lower income individuals
- Change the estate tax treatment of pension benefits
- Encourage individual responsibility
- Don't expect employers to carry the whole load
- Better government communications, especially in non-English
- Policy change to decrease vesting time from five years to three years
- Simplify reporting requirements for plan sponsors
- Understand the implications of the types of plans offered
- Make defined benefit plans attractive again
- Eliminate/relax 415 constraints for multiemployer plans
- Mandatory universal pension
- Universal individual accounts
- Abolish inheritance tax

- Set example by controlling government spending
- Drop the view that small plans are skewed to the wealthy few
- Consumer culture is driven by TV today; public service announcements (PSAs) needed to encourage saving and counter the consumer culture
- Create tax incentives for phantom stocks given to employees
- Need structure to help people move in workplace as they work their way up
- Decrease PBGC premiums and requirements on small plans
- PBGC needs to reward well-funded defined benefit plans
- Extend PBGC lost participant program to defined contribution participants
- Create simplified "defined benefit" plan for small businesses
- Provide everyone with the opportunity to save by diverting money from somewhere, such as Social Security
- Increase the minimum wage
- Accept more regional prototypes
- Drop user fees for submitting plan to government

E. Orange Group

Barriers to Retirement Savings

A. What are the barriers <u>individuals</u> face in saving for retirement?

- Retirement savings vs. other commitments
- 10% penalty in 401(k) plans early withdrawal discourages participation
- Income or lack thereof
- Wage growth rate
- Perception of the size or amount needed to be saved
- Integration with other benefits
- Taxes taking too much
- Attitude: Is saving a habit?
- Understanding the need to save
- Unique to U.S. history—first generation being asked to support their own retirement with personal savings
- Lack of portability
- Cultural barrier
- Statutory requirements
- Clear focus of requirement
- Lack of individual personal advice from a young age
- Fail to understand benefit of compounding interest
- Taxes too high
- Fear of lost principle
- Fear that someone else will get my money
- Fear of making a mistake
- Fear government will change the rules
- Social Security creates false sense of security
- Consumer gratification
- Understanding current benefits offered
- Education on impact of inflation
- Women leaving workforce

- Choices made with existing funds
- Health care costs
- Employer cost sharing increasing for health care
- Comparison with earlier generations—earlier not as good savers
- Lack of understanding of life expectancy
- Education about Social Security—lulled into complacency
- Tax disincentive take too much of earnings
- Marketing to spend—too materialistic (consumption vs. savings)
- Competing priorities
- Government micromanaging retirement policy (used to rely on qualified professionals; now trying to codify everything)
- Message not entertaining or positive
- Lack of government incentive to save
- Past generations saved differently
- Social Security was a greater resource for past generations
- More mobile society has created less pension savings (i.e., leave investment money behind)
- Vesting schedules discourage portability
- Pension preservation
- Changing family structure

B. What are the barriers employers face in providing opportunities to help their employees prepare for retirement?

- Complex regulations
- Discrimination testing
- Fear of governments constantly changing the rules
- Putting in place a pension plan—fear of making mistakes
- Individuals want cash over pension benefits
- Make DB and DC plans portable
- Lack of employer income
- Employer taxes too high
- Financial pressures from other sources
- Changing political nature of pension policy
- Difficulty in communicating value of DB plan
- Limited by regulations
- Understanding mortality risks
- Retiree medical coverage costs
- Accounting rules too complex
- Employer incentives
- Erosion of employer sense of obligation
- Employer education
- Inadequate amounts saved
- Plans not adapted to mobile society
- Deregulated, global environment for companies make bottom line essential
- Large employer: value of DB is not understood by employees
- Employers must explain vast amount to employees (Can cause cost concerns for small employers)
- Agency (PBGC) premiums for DB plans—variable income year to year (causes problems)
- Make DB plans portable to help employers

- Quest for fairness is a barrier
- Recession could erode what is now so rosy—change the course Congress takes back to deficit reduction
- Employer lack of understanding of process
- Lack of employee loyalty
- Lack of employer loyalty
- Complex regulatory system
- Concern over downturns in economy; pension rules are whipsawed by revenue/deficit concerns
- Fiduciary barrier backlash
- Potential law suits
- Court rules come after the fact
- More difficult to get fiduciaries in the future
- Fear that you will be out of compliance

C. What are the barriers <u>to increasing public awareness</u> of the value of saving for retirement?

- Time constraints for individuals
- No information on retirement issues prior to first job
- Elevate societal awareness to spur on development of education programs
- Need to learn to speak to people effectively—avoid jargon
- Start education before high school
- Small employers don't have expertise for education
- Financial information is very personal—need one on one
- Uncertain who to trust
- Vocabulary is difficult—make sure individuals understand
- Make retirement savings education start in high school or before
- Consumer spending is over-emphasized
- Education needs to be personal
- Need to overcome the marketing noise that gets turned off
- Education: employer to educate employees

Opportunities for Increased Retirement Savings

A. What can <u>the private sector and other non-governmental</u> organizations do to address the barriers that were identified?

- Fear Social Security will not be there to capitalize on
- Social Security will be there—but don't know what to expect
- Employers providing pension benefits
- More positive education
- Remove regulatory and cost barriers for upstart companies
- Need to partner with private business and government
- Tax incentives to implement benefits programs
- Tax credit that is credited against FICA
- Change government tax policy to support pensions
- Financial incentives to school systems target children
- Break from entitlement penalty; need employee responsibility
- Partnerships with business and schools—start educating children
- Create a regulatory environment to create pension plans
- Multiemployer plans to pool costs

- Examples of success through a culture of savings
- Make it easy to put money away
- Create associations that sponsor plans for groups of employees
- Easy fiduciary rules
- Tax incentives for individuals
- Make saving a habit
- Direct deposit—cannot be touched until retirement
- Libraries and churches can be good modes of communication
- Be careful about deregulating fiduciary responsibilities and rules
- Need more pre-retirement; explain more than just retirement and career planning
- Use other agencies—YMCA
- Use TV programming to increase awareness; Oprah financial fitness club; spots on soap operas, sit-coms, etc.
- Commit to community outreach to disadvantaged groups
- Experiment with different techniques
- Access to non-biased information is needed
- Focus on youth and low-income
- Remove government
- Make education profitable without government mandate
- Tie educational activities to core curriculum or math/science (i.e., study compound interest in math)
- Financial fitness forum; make free financial advice available (from certified financial planners (CFPs))
- Make PSA available at peak viewing times
- Technology (Internet, kiosks)—expand education
- On-line risk assessments; easy reviewing of status
- Agreement on basic principles, reporting techniques, messages on savings
- Advertising techniques to emphasize savings
- Turn consumerism around
- Need risk-free investments
- Build confidence that savings will be there when retired
- Make savings available in a convenient place (i.e., grocery store; shopping mall)
- Take small steps and show positive results

B. What can <u>the public sector</u> do to address the barriers that were identified?

- Positive impact of seeing positive results of savings
- Caution that the market is not always going to go up
- Need to see long-term approach
- Make known individual success stories—vignettes; laundry lady who saves weekly = $125,000
- Shorten vesting period
- Provide better feedback on investments (Social Security list individual investments, but not matches; with projected outcomes)
- Government not mandating plan design
- Government needs to be sure a safety net exists for low income (Social Security)
- Removal of government rules and regs that are government revenue enhancements
- Government tax reform
- Remove restrictive government regulations
- Formation of a national retirement income policy; all government rules & regulations should fit this

- National retirement income policy should endure over time
- Change tax brackets so more individuals fall into lower tax brackets
- Move to consumption vs. income tax
- Establish standardized ways to report and discuss investments (i.e., international standards of reporting)
- Legislation to guarantee portability
- Provide integrated benefits options
- Pursue consumption tax idea vs. income tax
- Pursue serious tax reform

Orange Breakout Brainstorming Second Day
Barriers
- Low-income
- Other commitments
- Separate out government regulations
- Government rules not simplified
- Government rules that make it difficult for small employers to maintain a plan. Top-heavy rule.
- ADP/ACP tests too onerous for small employers
- Concern over Congress changing the rules over time
- Do not chip at pension rules to ease the deficit

Opportunities
- Support catch-up provisions in defined contribution plans
- Make regulatory complexity a top priority
- Encourage financial literacy in the schools
- Need to emphasis support to low-income persons
- Profile individuals who are success stories in saving for retirement
- Government and business in partnership in the schools
- Saver month in the schools
- Relieve onerous and complex rules so employers can offer a plan to all employees
- Modify contribution limits and discrimination rules
- Fewer government mandates on how to operate a plan
- Must make coverage available to all employees
- Expand on other items: someone needs to understand the risks of long-term care, long-term disability, life expectancy
- Adequacy the key issue
- Make national retirement income policy a priority
- Fee disclosure in a partnership of business and government
- Take Social Security off the Budget
- Increase income limits
- Rollovers need to be supported
- Make support for low-income persons
- Portability: Porter Bill should be supported
- Portability amount same from 457 to 401(k) to 403(b) to DB
- Support rollovers from one plan to another
- Raise 415 limits
- Shorten vesting in 401(k)

We concluded that the following three areas should be our top priorities in this order:

1. Education
2. Simplify and incentify
3. National priority of retirement income policy

F. Purple Group

Barriers

Individual Barriers

Too much complexity (for employers and individuals) and rigidity

- IRA rules have become disincentives
- lack of portability
- inability to have earlier entry plans

Cultural bias toward consumption

- consumption over savings
- savings is not a national priority
- does not consider “life cycle propensity” (i.e., different savings needs at different times in life)
- too many other competing priorities
- women, minorities, and low-income workers don’t have the money to save

Tax burdens mitigate against retirement savings

- no tax incentives to provide cascading of wealth in families
- tax system penalizes savings and promotes consumption

Lack of education and trust in savings and financial instruments

- too many misconceptions among employers and employees
- no attachment of money value in retirement to dollars spent today
- little or no early education in family or schools
- basic math/financial illiteracy

Employer Barriers

High costs/other priorities

- set-up costs
- administrative costs
- litigation/liability costs
- other benefits costs
- lack of business nexus
- ensuring success of the company

Lack of education

- employers and employees don’t understand available programs

Other challenges

- employee apathy
- lack of employee demand
- employee preferences for other benefits

Barriers to Public Awareness

Language

No objective advocate: who do individuals believe?

Opportunities

Overarching Themes

- customer-centered solutions
- greater public/private non-profit org. partnership

Actions by Public/Private Sectors & Non-Governmental Organizations

Need for greater simplicity, clarity, flexibility, and universal constancy

- develop simple, universal IRA for all savings
- provide greater portability because of changing avocations
- provide for drawing down while accruing (allow employees to retire and collect benefits while continuing to work)

Need to change cultural savings paradigm

- get to people through businesses by providing more flexibility (i.e., expand SEP)
- establish national savings priority policy (e.g., national savings bond drive)
- provide incentives to encourage savings
- encourage credit card companies to teach credit card responsibility
- need to prevent leakage of money from retirement savings plans

Need to reduce tax burdens, disincentives, and structural flaws

- eliminate tax restrictions for cascading wealth in families
- tax credit for 401(k) contributions
- allow movement of money among different retirement vehicles
- reduce federal tax burden
- provide for saved income credit for low-income groups
- change tax code to promote savings rather than consumption
- provide stronger incentives for small businesses to establish plans

Need more aggressive education programs

- public and private sector need to support grass roots organization efforts
- need to begin education in family and early school years (with attention to language barriers)
- provide for initial and continual education for workers and retirees
- educate employers on how to set up low cost plans

G. Red Group

1. What are the barriers individuals face in saving for retirement?
2. What are the barriers employers face in providing opportunities to help employees prepare for retirement?
3. What are the barriers to increasing public awareness of the value of saving for retirement?

What are the barriers individuals face in saving for retirement?

- Awareness of issue
- Lack of access to plan
- Lack of money
- Motivation
- Place in life–consumer debt, student debt
- Jobs–downsizing
- Need disciplined 'habit'
- Assume Social Security will pay…

- Other priorities—long term care, education
- Values—plan for future not focus
- Better understanding of saving for retirement
- Unfounded confidence
- Other priorities (e.g., long term cares)
- Lack of knowledge—not covered in school
- Assume will have a defined benefit plan—but these are disappearing
- Defined benefit is passive; DC is active
- People have to plan for a much longer life
- Expect a DB plan
- Disappearance of DB
- DC plan can give more money
- Don't understand compounding
- DB/DC—different challenges—need to be active participant
- DB a disincentive to save—or <u>any</u> employer-based plan
- Cultural differences—ethnic, immigrants–lack of <u>outreach</u>, <u>trust</u>
- Decline of any organized labor—major creator of benefits system
- Lack of discretionary income
- Paternalism—company will no longer take care of you–marketplace has changed this— lulled people in the past into not saving
- Lack of knowledge of programs
- Benefit statement gives individuals incentive

What are the barriers employers face in providing opportunities to help employees prepare for retirement?

- Rules focus on preventing abuses
- Small employers—no strong reason they see to have a plan
- Other benefits more desired by small employers' employees
- Reduced vesting period employers feel they're rewarding employees too soon—direct opposite view by employees
- Mandated—not mandated
- Need to communicate in a variety of different languages
- Cost: of company contributions—of administering plan
- Regulation (IRS, DOL, SEC)—complexity
- Discrimination testing; micromanagement of 401(k)s
- DB too heavily regulated
- Restrictions on top people discourage employers from offering plans
- Focus on <u>abuses</u> discourages plans from being offered—stick is bigger than carrot
- Retirement plans not a priority—employees do not demand it—want <u>immediate</u> benefits
- Incentives not strong enough
- Employer/policy objectives clash. Reward longevity v. prepare for retirement
- Communication barriers–multi-ethnic workforce
- Multiemployer plans—liability of employers drops out
- Congress driven by <u>revenue needs</u>, not promoting plans
- Federal budget scores benefits as an <u>expenditure</u>
- Employers try to make 40-year plans–but rules <u>change</u> year to year for employers and employees
- ERISA has been amended <u>too much</u> re: funding requirements

- Funding of DB plans—employer should be able to fund-up plans. Limits discourage sponsorship—pre vs. post fund
- Audits regulation has gone after DB plans
- PBGC involvement in merger and acquisition activity
- Actuarial assumptions—lack of consistency—underfunded/overfunded discourages sponsorship
- 'Same desk' rule in plan mergers. Grandfather different plan provisions
- Lack of industry-based multiemployer plans available for small employers—and unresolved inherent conflicts when you try this (e.g. liability left when one fails)
- Pension plans should not be seen as revenue generators
- Maximums for DB plans serve as barrier—can't put more that "x" into it
- Fear of lawsuits by employees (on assumptions, statements)
- Need better balance between mandates/incentives

What are the barriers to increasing public awareness of the value of saving for retirement?
- Hard for people to understand various investment vehicles
- Schools don't teach this
- Complexity almost requires 1:1 counseling
- Commercials for young people never suggest they'll be old
- We regulate employer plans as a social product (like Social Security)
- DB plan can discourage thinking about your role
- Lack of outreach information for other employees whose cultures are different
- Lack of trust by some of employer
- How do we deal with the decline of "forced savings?"
- Global marketplace—in past people thought they did not have to save
- We pressure people in our society to spend
- Also lack of personal responsibility
- Too much paper work for people to change their savings
- We don't look at other nations (Japan has a high savings rate— we need to learn from them)
- Help is not appearing in publications/media many people read or watch on TV (e.g., Sienfeld)
- 'Backfunding'/catch up provisions prohibited
- Investing is a difficult topic—educational system ignores it— maybe requires individual approach
- Little marketing aimed at youth
- Investment advice vs. education. Employers can't give advice w/o liability
- Fiduciary liability—deters employers from actively educating employees
- Limits on how far education can go. Even bright people can be overwhelmed by quantity of information
- Personal responsibility
- Fear—don't want to know what I need to do
- Look at other countries—Germany, Japan

<u>Session #2 Questions</u>

Questions
1. What can the private sector and other non-governing organizations do to address the barriers?
2. What can the public sector do to address the barriers?

What can the private sector and other non-governing organizations do to address the barriers?
- Use Junior Achievement to teach more about investments

- Seminars, printed material, software (Chamber of Commerce could take this on)—needs to be provided by small employers as well as large ones
- Employers need to make material easy to understand and targeted (savers, non-savers, languages, etc.)
- Build up a central repository of materials (Department of Labor or Business organizations)
- People not with large employers don't have a way to act: need private-public partnerships on awareness (like crash dummies)
- Public-private collaborate on education campaign aimed at young people—aging, planning, etc.
- Employer-provided education
- Small employers can't do as much as large employers. Seminars, print, internet
- Small employers could give access to financial planning through association, membership group–like Chamber
- Need more plain-English materials—Target communications to savers, non-savers, ethnic groups, high-low education levels
- Need clearinghouses via Chambers, business organizations. ASEC
- Public/private partnership develop standard forms, materials, samples—would be cost savings for business
- There are too few vehicles for the very small investor—perhaps payroll deductions plans—most have decent returns (not savings bonds)—make the low threshold saver think they've done something valuable
- Teachers/schools need to teach this/allow kids to save
- Set up a new program so if you leave "X dollars" of your tax refund with the government, it will add in "Y dollars" for savings
- Personal contact motives—seminars for 20-30 year olds, one on one contact, tax-deferred accounts to pay for financial planning–or penalty-free withdrawal from 401(k)s, telephone help lines, internet sites
- Need an ongoing, funded, public awareness program, like smoking, seat belts—target the people at risk
- Need to bring together government, private, non-profit sector in the unified approach
- Comprehensive educational campaign
- Standard forms—disclosure, educational materials
- Need something to get over low dollar threshold—$20 month—financial institutions/programs not geared to low dollar amounts
- System encourages debt—credit cards aimed at low wage earners. Kids get credit cards
- Need a program in elementary school—teach kids how to save
- Tax refund—government could pay interest
- Tax credits to: employees—low tax brackets, employers—set up vehicle
- Recommit to employer–based plans—alleviate individual risk
- Reinforce the 'social contract'— need regulatory fixes to encourage establishment of plans
- Need to generate demand for plans—information to employee, employer, and spouses
- Better education campaign would force some employers to do more as employees demand it
- Talk about a "lifetime savings" Summit campaign vs. "retirement"—which for young people does not register
- Voluntary employee contributions (tax deductible) to DB plans (an individual account within the DB plan)—need to make sure law allows them access to funds–would ensure professional management of accounts
- Give individual tax incentives to pay for "financial planning", (for employees/employers) one on one advice is needed—give financial planning same status as group legal services

What can the public sector do to address the barriers?

- Reduce: complexity, risk, cost to small employers
- Simplify legislation
- Write in plain English
- Reduce penalties
- Encourage incentives, not just prevent abuses
- "Safe-harbor" provisions for employers who fund more of 401(k)s can expand this vehicle
- Permit higher contribution limits
- Tax credits for small employers to help offset costs
- Create more barriers to prevent "leakage" from retirement accounts—be careful, might not save at all
- Government's role—reduce: risk, cost, complexity—employers will sponsor plans
- Reduce law, write in plain English
- Incentive v. regulation
- Offset costs–tax credit
- "Leakage"—non-rollover. Need to eliminate lump sum distributions, loans—but loans are an incentive to participate
- Bifurcated plan—wall off dollars to loans
- But some lump sum distributions may fulfill unmet savings goals, or meet more immediate needs
- Need catch-up provisions—late life savers
- Catch-up provisions in plans where you can add more than the limit if you're had to pull some out (many take money out to live, between jobs)—should be responsibility of employee in filing taxes, employer should not have to certify it
- Eliminate caps—so can catch up as fast as you want: need to take off limits on higher paid who would have to pay for this by reducing their contributions
- Catch-ups should be the responsibility of the individual, not the employer
- HCE rules and money limits discourage catch-up
- Limits are disincentive to employers
- National education campaign will force employers to pay attention to retirement because employees will demand it. Need multiple approach—print, individual, internet, etc.
- Allow voluntary employee contributions to DB plan—tax deductible—create a 'DC wraparound' in DB invested by DB plan
- Open up IRAs
- Help individuals pay for financial planning via tax break or penalty-free distribution—financial planning=group legal services
- Employer cafeteria plan—allow employees to allocate to DB or DC plans
- Japan—Post Office Saving System
- Savings bonds, stamps—need something easy and simple
- Automatic opt-in for 401(k)–require written opt-out
- Create a payroll deduction, high rate retirement saving bond program
- Jump$tart Coalition—Junior Achievement—for everybody, not just business, marketing students
- Require annuitization..ban lump sum distributions...Choice–balance
- Income levels–high income less revenue
- Motivate everyone here to get the message out
- Learn from high saving nations (e.g., post office savings plan in Japan)
- Higher rates on "retirement" or "lifetime" savings bonds—only if by payroll deduction
- Jump$tart Coalition at high school level—has web site—but kids see this as just for those interested in business—need to broaden horizons

- How do you get to low income minorities?—get to groups they trust; use public-private partnerships
- Go out and volunteer—talk to students, others

H. Silver Group

Session One- Barriers

I. What are the barriers individuals face in saving for retirement?

- Taxes (tax code incentives that penalize savings, and favor consumption), total level of taxes, and role of tax code (thought no one agreed on the latter)
- IRA Rules (ineligibility and ineffective use of)
- Pension rules (ineligibility, lack of catch-up contributions, portability, minimum age restrictions, and ineffective use of)
- Financial service group shortcomings (Ineffective marketing effort toward minorities, women, low income, financial services companies ignore specific groups, especially young people, and minimum investment levels too high)
- Employment opportunities (part-time, contingent, temp, industry, etc.)
- Lack of payroll deduction
- Education
- Cultural norms and reliance on government or belief that government will always be there to fall back on
- Fright, boredom and temporary myopia
- Income inadequacy—meaning current consumption needs vs. reasons for savings

II. What are the barriers employers face in providing opportunities to help their employees prepare for retirement?

- Difficulty in managing plans
- Excessive regulation; discrimination provisions
- Short vesting schedules
- Portability trade-off between worker and employer
- Knowledge of options; especially SIMPLE plans
- Question of "what's in it for me"
- Relax contribution levels for employee owners
- Inducement for employer to participate
- Lack of knowledge of (1) prototype and master plans; (2) declining costs to set up
- Employee view of compensation (i.e., Employees prefer wages)
- Need financial institutions to set up SIMPLE plans
- Bias against small plans; need plan administrators
- Inflammatory rhetoric by those against employment-based system
- Inefficient process exists to terminate DB to start DC
- Taxes eat away margins and competition among for-profit employers

III. What are the barriers to increasing public awareness of the value of saving for retirement?

- Education
- Need to educate employers about DB plans
- Public needs education in basic financial principles
- Inadequate education of employees by employer
- Government
- In some minds too much government; in others too little government

- Misperception about what government's role is
- Why bother; good economy
- The message
- Too much information; people are overwhelmed
- Message is wrong for people not saving
- Need for daily press interest
- Lack of attention to getting message to low-income citizens
- Issue is not appealing
- No consensus on the message
- Individual must own the problem

Session Two—Opportunities

I. What can the private sector and other non-governmental organizations do to address the barriers?

- Education and outreach (more media outreach efforts, expand pension counseling programs, encourage private sector to increase education, educate about the full range of options, learn from older generations, awareness of internet sites, educate about benefit of starting early, simplify message and work on message, push life expectancy awareness, encourage/educate about other savings vehicles, eg., checking accounts, encourage long-term investments, outreach to college/young students, through mtv and college newspapers)
- Realistic goals/trade-offs for average person
- Allow for catch up contributions
- Coordinate policymaking with those you hope will sell the product
- Private-sector innovations (i.e., encourage financial institutions to have products for school age children)
- Expansion of private-public partnership for retirement savings
- Enhance use of existing opportunities and provisions of the employment-based model

II. What can the public sector do to address the barriers?

- Education (more media outreach efforts, incentives for private sector to educate, states should encourage schools to have financial education institutions, education for students with loans, target education towards minorities and women and work with members of these communities, caution about using unrealistic rates of return and other market information, percent of lottery profits go into savings education plans, block grants to MTV and college newspapers, information on retirement savings education in SSA, tax form and tax refund mailouts, awareness of internet sites enhanced, i.e., Ballpark Estimate)
- Tax reform (i.e., reduce tax burden; reduce tax bias against saving; allow diversion of current taxes into individual accounts, dollar for dollar tax credit for savings for low income or based on age, allow rollover of inheritance into tax preferred vehicle, allow rollover of capital gains on a limited lifetime basis into a tax preferred vehicle, avoid double taxation of capital when used for savings, KIDSAVE or birth IRA, Index 2K limit to CPI, require self-annuitization or annuity purchase with 401(k) assets, trade-off student loan debt into IRA via tax credits; leverage student loans other ways, universal IRA with no limitations or restrictions, universal IRA with limitation on participation; not on contribution, payroll deduction IRAs excludable from income, abolish regulations, i.e., top-heavy rules, retain top heavy rules and simplify, tax credits for small businesses to set up plans, over time, a total tax incentive to even out contributions, allow for catch-up contributions, law should provide for more freedom of choice and control over retirement funds at individual level)
- Increase participation in employment-based plans (i.e., create simplified DB plan, e.g., SMART, SAFE, encourage portable models, simplify system such as with Graham-Hatch and Portman-Cardin legislation, Maintain freedom to take lump sum distributions to encourage participation)

- Preserve rules that ensure equitable distribution of retirement savings
- Expand access to Thrift Savings Plan for small employers
- Deal with lack of rollover LSDs/mandate rollovers
- Higher minimum wage
- Use of house equity such as with reverse mortgages
- Quantify this “moment in time” opportunity
- Use as a fourth leg, the Budget surplus

I. Yellow Group

Barriers to Individuals

- Complexity—too many choices, difficult to conceptualize and plan for retirement
- Lack of education
  a. Financial illiteracy—don’t know vehicles for saving
  b. Lack of financial curriculum in public schools
  c. Information received is too confusing (‘gobbely-gook’)
  d. Don’t understand the power of compounding
  e. No goals put in front of them about how much they should be saving
- Culture—spending, credit, paycheck to paycheck
  1. Big advertising dollars spent to encourage consumption
  2. Short-term thinking in corporations and younger workers
  3. Instant gratification – other things more pressing
  4. See older generations in retirement today and think it all will work out somehow
- Change in family structure—single heads of households, grandparents in retirement caring for grand-children
- Changes in global marketplace
  1. Part-time workers, contractors, entrepreneurs
  2. Corporate restructuring, downsizing
  3. Corporate retirement plans decreasing in benefits
- Not considering different needs of different segments of the population
- Tax laws too complex and disincentives on savings (limits on amounts of $ that can be saved in retirement savings vehicles)
- ‘Lottery mentality’ discourages savings
- Increased length of retirement and life expectancy
- Lack of income

Barriers to Employers

- Risk of liability is too high (in setting up and administering retirement plans, for acting as a fiduciary).
- Tax laws are too complex.
  1. Cost of setting up and administering too high for small businesses
  2. Constant change in the tax code
  3. Approximate 4-year lag time between passage of new legislation and new IRS guidelines
- Lack of education—how to set up plans and low cost alternatives
- Changes in global marketplace
  1. Driving low job tenure & more entrepreneurial endeavors
  2. Employees/employers can’t make a long-term commitment to each other
  3. Young employees interested in portability

4. Employers who set up DB plans are paying for something they have little return on

- Employee priorities—cash and health care
  1. DB plans too inflexible
  2. DC plans tend to get cashed in
  3. (Unions work in DB plans because they've solved the portability problem)
- Merger climate
- No business case for setting up retirement plans
  1. Fear threat of ownership change
  2. Failure to understand competitive advantage of setting up a retirement plan—retention and employee attitude
  3. No incentive to educate employees, less incentive to educate low-income employees
- Management of companies doesn't see retirement savings as its responsibility
- Employees are distrustful of employers and financial planners who deliver the retirement savings message

Opportunities

Private Sector:

- Provide investment/life planning seminars sponsored by employers
- Reconceptualize concept of retirement—risk management, not just savings and accumulation
- Payroll deductions for low/moderate income
- Educate the public on the importance of saving through TV and print media
- Provide specific investment advice to employees
- Provide simple, user friendly, easy to understand information on retirement savings
- Broadly disseminate information such as the SEC's financial facts toolkit
- Teach financial literacy in the schools through public/private partnerships ('adopt a school' programs)
- Segment educational efforts
  1. Basic budgeting for lower incomes
  2. Investing for higher incomes
- Provide savings information on the internet, and develop interactive software and games

Public Sector:

- Develop an expanded IRA for nonworking, part-timers, and independent contractors
- Legislative and executive branch need to work in closer partnership to get laws & information about them out quickly
- Allow for catch-up provisions in 401(k)s when people are more capable of saving
- Require all lump sums to be left in plan or rolled over to an IRA until age 59½
- Simplify rules for DB/DC plans
- Provide a tax credit for small employers to set up plans
- IRS should send employers information on options—SIMPLE plans, payroll deduction IRAs
- Social Security Administration should send out statements to individuals giving them information on where they stand and how that translates into retirement income
- Employers should also translate retirement benefit statements into estimated monthly income statements at retirement, to make these statements more meaningful to workers.
- Encourage community groups, Chambers of Commerce, community colleges to educate the public about retirement savings.