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PARTICIPANTS:

Presentation of Research:

DAVID C. JOHN
Deputy Director
Retirement Security Project

BRIGITTE C. MADRIAN
Aetna Professor of Public Policy and Corporate Management, Harvard Kennedy School
Research Associate, National Bureau of Economic Research

Panel Discussion:

WILLIAM G. GALE, Moderator
Arjay and Frances Fearing Miller Chair in Federal Economic Policy
Director, Retirement Security Project
The Brookings Institution

DIANE GARNICK
Chief Income Strategist
TIAA

DAVID C. JOHN
Deputy Director
Retirement Security Project

BRIGITTE C. MADRIAN
Aetna Professor of Public Policy and Corporate Management, Harvard Kennedy School
Research Associate, National Bureau of Economic Research

DAVID NEWVILLE
Director, Federal Policy
Prosperity Now

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P R O C E E D I N G S

MR. GALE: All right, good morning, everyone. I'd like to welcome you to The Brookings Institution. My name is Bill Gale. I'm the head of the RSP. At RSP we usually focus on retirement saving or things related to it. Today we're boldly reaching out to cover emergency saving, obviously a related topic with some aspects in common and some aspects that are new relative retirement saving.

I don't like long introductions and I certainly don't want to steal our presenters' thunder, so let me just say that we are honored to have a new paper presented here with the weighty topic of "Building Emergency Savings Through Employer-Sponsored Rainy Day Saving Accounts." Not only a weighty topic, but a weighty list of co-authors that you have in front of you.

Brigitte Madrian and David John will split the presentation duties. One other co-author, Mark Iwry is here, but has opted not to join everybody on the dais. The other co-authors that couldn't make, they're listed here, but it's certainly an all-star team of researchers doing important work on a topic that has received too little attention.

After their presentation we'll hear comments from Diane Garnick from TIAA and David Newville from Prosperity Now. After that we'll have a panel discussion where I might ask a few questions and then I will ask you to ask a few questions.

A couple of housekeeping things. One, we'll be done by noon, maybe a couple minutes before noon. We want to thank Sarah Holmes at NBER, but also formerly of here and will always be part of our family here, for all her work on this. And we want to thank Hilary Gelfond for all of her work here to help make this event possible.

Speakers and audience should know there are people watching on the web. And last but not least, we're on the record, so there are media here and we are on the record.

So with that, let me turn the mic over to the authors and we'll get on with the paper. Thank you.

MS. MADRIAN: Thank you all for coming. And David John and I are going to split the time. I'm going to tee things up and give you the motivation and background for the proposal that we have in our paper, and then David's going to quickly go through how we are thinking about things and laying things out.

This is a first draft of a paper and we're having this event not just to get publicity, but, more importantly, to get comments and feedback that would help improve the thinking and analysis and help this proposal to actually have an impact on outcomes and also on the policy debate about how to improve savings outcomes for individuals.

So background and motivation. So if we look at -- although Bill in his introduction said this presentation is about emergency savings, it's actually about both retirement and emergency savings. And one thing that we know when it comes to retirement savings is that employer-sponsorship of a retirement account is key in helping to ensure financial adequacy in retirement.

So this chart here shows data from the EBRI Retirement Confidence Survey. And the question they asked is, "Overall, how confident are you that you and your spouse will have enough money to live comfortably throughout your retirement years?" So for employees that are working at companies that don't have a retirement plan, 28 percent say that they're very confident in their prospects for retirement and 69 percent say they're not very confident at all. Whereas, if we look at employees who are in jobs that have a retirement plan these numbers are practically reversed: 72 percent say that they are very or somewhat confident and now 28 percent are not very confident. So having a retirement plan is key.

Another key feature is automatic enrollment. And we've seen over the last decade a steady increase in the fraction of plans that are using automatic enrollment. This is data from Vanguard on their clients, but these trends are mirrored broadly in other administrative databases and in survey data. And this has led to steady increases in the fraction of plans with participation rates of over 80 percent and in the participation rate for newly

hired employees, who are those most likely to be impacted by features like automatic enrollment.

So the U.S. has been encouraging companies to use automatic enrollment. The U.K. has unrolled a pension reform in 2012, where they are requiring employers to use automatic enrollment. And you can see in this chart here a steady decline in fraction of employees who are belonging to a workplace pension plan leading up to 2012 and then after their pension reform took effect and has been rolled out over the last five years, we've seen a 31 percentage point increase in the fraction of U.K. employees that have a workplace pension. So this is a powerful tool that's being used in the U.S., U.K., other countries, as well.

Now, one interesting difference between the U.S. and the U.K. that I've kind of teed up here has to do with how accessible retirement savings are before individuals actually reach retirement. So on one end of the spectrum we have -- what I see here is not the same thing as what you see there. We have the U.K., which makes it very, very costly to access your retirement funds before retirement. And by "very, very costly" I mean they have a penalty rate of more than 50 percent.

On the other extreme we have the U.S., where it's very, very easy to tap into your money. There are a number of conditions in which you can get it penalty-free. And in the conditions where you can't get it penalty-free, the penalty is 10 percent.

So one question is, how often do people avail themselves of this opportunity? Are we dealing with a little bit of a leak out of a drippy faucet or are we dealing with a dam that's about ready to burst? Now, I realize that your characterization of the data may be different than mine, but when I look at the data, the data suggests -- and this is from research done not by us, but coming out of the Federal Reserve board -- that for every $2 that flows into the U.S. retirement savings system almost $1 leaks out. And I would characterize that as more like the dam getting ready to burst because if we don't think people are saving enough for the first place and the money that they're saving is not even staying in the system, then they're really not

going to be prepared for retirement.

So the important question is, well, why are people tapping into their retirement account balances before retirement in the U.S.? Well, the answer is actually pretty easy. The answer is that life happens. People get into car accidents, they have medical issues, they're the subject of natural disasters, they lose their jobs -- life happens. And when life happens, sometimes you need to tap into some financial resources.

Well, why are they tapping into their 401(k) account balances? Well, the reason is because for many people it's all they have. So if you ask individuals how confident are you that you could come up with $2,000 if an unexpected need arose within the next month, and this is a question that was asked in the National Financial Capability Study, roughly a third of people say that they're certain they can come up with the money, another fifth say that they could probably come up with the money, but a full 40 percent say that they probably couldn't come up or they are certain that with a whole month they could not come up with $2,000. And $2,000 is the cost of a lot of things that happen with some regularity to people across the income distribution.

Another measure, also from the National Financial Capability Study, comes from a question, how do you set aside emergency or rainy day funds that would cover your expenses for three months? And a typical unemployment spell would be three months. And 40 percent say yes and 56 percent say no. Okay?

So why are people tapping into the retirement accounts? It's because they have little or nothing in the way of nonretirement account assets to tap into.

So what we do in this paper is we spell out a proposal for a behaviorally informed set of linked accounts that would promote both retirement savings and nonretirement savings, but do it in a way that would try and leave the retirement savings off limits for reasons other than retirement. So I'm going to briefly describe the proposal and then David John is going to talk through all of the legal and implementation issues that come up in terms of thinking about how

could you actually set this up in practice.

So the proposal is for a system of parallel accounts where we have a retirement account that is operating side-by-side next to a rainy day account. And we're trying to exploit three behaviorally informed ideas in the way these accounts are structured.

So the first is automatic enrollment. We know that defaults matter, especially when it comes to savings. They work for retirement savings and this gives us a strong prior that they could probably also work for nonretirement or emergency savings. So auto-enroll employees into both a retirement account and a nonretirement savings account.

The second behaviorally informed feature that's relevant here is the idea of mental accounting. So mental accounting, we'll give a nod here to Nobel Prize winner Richard Thaler. He's the one who first promulgated the idea of mental accounting, although the practice of this predates Thaler by millennia, I'm sure.

So there are two aspects of mental accounting that we're trying to create here. So the idea behind mental accounting is people think about their finances in different buckets. And the way you structure those buckets can impact the way that people actually use the money. So we're trying to do two things here.

One is we're trying to label these accounts in a different way. So we're labeling one the retirement account and labeling one the nonretirement account. And research suggests that these labels actually matter; that if you have an emergency account that's designated the emergency account, when an emergency happens that's the account you're going to go to first and you're less likely to try and tap into the retirement account if what your needs are are not retirement. So the labeling helps create a distinction between these two accounts.

And then if you're tapping into the rainy day account, the other thing that we're doing is we're limiting the budget that's available for these rainy day expenditures. So the problem with the current system where people only have one account and it's their 401(k) account, if you don't have a rainy day account you might think, well, for mental accounting, if the

401(k) is called a retirement account, why don't people leave that off limits? And the answer is because it's the only thing they have to turn to. But when you open the retirement account piggybank for your rainy day expenditure, you've got, or you might have, a fair amount of money in there because the goal of the retirement account is to accumulate a boatload of money to finance your retirement. And you might very easily be tempted to spend more than you actually need for your car repair or to fix your roof or to replace the water heater or things like that.

But if we have two separate accounts and the rainy day account has a smaller balance in it, the temptation to overspend when life happens will be greatly reduced and also facilitate greater savings for retirement.

So just to highlight why this works I'm going to briefly go through a research study that, once again, is not my study, but I think one that I think very compellingly illustrates the power of mental accounting. So this is a study on helping employees to save in India. And these are very poor day laborers, manual laborers, who are getting paid cash wages on a weekly basis. So this is a population for whom the challenges of saving are probably greater than 98 percent of the U.S. population.

So, can we help them save? So the study looked at two different ways to help these employees save. Everyone was given a savings target and that savings target was taken out of their weekly paycheck. Some individuals were given a low savings target of 40 rupees a week and some were given a higher savings target of 80 rupees a week. So think of an analog in the retirement system of do we have a default contribution rate under automatic enrollment in your 401(k) plan of 3 percent or 6 percent of pay? And which of those is going to be more effective at promoting savings? So a high or low savings target.

And then the other type of intervention that was studied was conditional on your savings target, are we going to give you that savings target in one account? And the technology that was used with these day laborers was envelopes. They didn't necessarily have bank accounts, and so they were paid cash wages and they were given their savings in an envelope.

So some of them were given their savings in one envelope and some of them were given their savings split up into two envelopes. Okay. So low amount versus high amount, and you get your low amount in one envelope or two envelopes.

So, what's the impact on savings? So if we look at what's the impact of having a low target versus a high target, after 15 weeks those with the low target saved 321 rupees, those with the high target saved 334. Hardly any difference at all; a 4 percent difference, not statistically significant.

On the other hand, if we look at one envelope versus two envelopes, those employees given their savings in one envelope -- and this is an average across those with a low and a high target -- saved 241 rupees, and those who were given their savings in two envelopes saved 414, which is a 72 percent increase and highly statistically significant.

So what's going on? What's generating this really big difference? So the next thing that the study looked at is, well, what's the likelihood of having to open up one of your savings envelopes?

So if you had a low savings target in one envelope, the likelihood that you have to open the envelope is 64 percent. So this is telling you how often life happens for these low-income day laborers in India. Those who have the higher savings target are even more likely to have to tap into their resources. That makes sense. They're saving more, so they've got lower discretionary pay. They're going to feel those financial constraints sooner.

Okay, so what if we compare one envelope versus two envelopes? If we look at the individuals with the low savings target with two envelopes, the likelihood of opening the first envelope is 65 percent; practically the same number as for getting the money in one envelope. Similarly, for a high savings target and two envelopes, the likelihood you open the first envelope is 85 percent; virtually the same as for getting it all in one envelope. So what's different? So far all of this data would suggest we're going to have the same savings outcomes.

And what's different is what's the likelihood that you open the second envelope?

And for the employees that have their savings put into two envelopes, the likelihood that you open the second envelope is much, much smaller across both conditions.

And so the story here is that when you have tap into your savings and it's all in one envelope, how much of it do you spend? All of it. But when it's in two envelopes, you spend everything that's in the first envelope and with some probability you're able to leave the money in the second envelope off limits. So this is the mental accounting concept that we're trying to exploit here. Put the emergency savings in a separate account and the retirement account becomes the second envelope in this study and, hopefully, we leave that off limits.

And then the last piece is that we have these parallel accounts and they're separate but integrated. Now, you can have an emergency savings account that's not integrated with the retirement account, but you can take advantage of additional behaviorally informed features if you do integrate them. So let me just give you a quick mathematical example of what we are thinking about and one of the proposals in the paper.

And that is to have the contributions that you're making to these two accounts are linked in the following way. So suppose, to make the math easy, we're going to deduct 10 percent from your pay to fund the retirement and the emergency account. So initially we're taking 10 percent out and we're going to say split it 50-50. It wouldn't have to be 50-50, but, once again, make the math easy. Put 5 percent in the retirement account and 5 percent in the emergency savings account.

Now, the goal with the retirement account is accumulate a whole bunch of money for retirement. The goal with the emergency savings account is to accumulate a bit of a buffer for when life happens, but not to accumulate boatloads of money. So as the emergency account fills up, we then start reallocating money across the two accounts. So we shift some of the money that would have been going to fund the emergency account into the retirement account, and then that one's going to grow more quickly. And then when life happens and you have to tap into your emergency account balances, we automatically start funding the

emergency account at a higher rate. So from the individual's standpoint the amount of money coming out of their paycheck is predictable every month, but the allocation of that amount across these two accounts is dynamically adjusting according to how often does life happen and how hard does it hit you when it does happen?

The example I've given is using a fixed contribution rate, 10 percent say -- I'm just using that as an example -- and that is probably an appropriate approach for workers that are on a fixed and regular salary. For contingent workers with fluctuating salaries you could have a different withdrawal rule, which is we take more out when your pay is high and then we take less out when your pay is low, but you can still have the same feature of allocating the money across the two accounts.

Now, how would you actually implement this in practice? I'm going to turn it over to my colleague, David John, who's going to talk through how we've been thinking about this.

MR. JOHN: Technology is always a wonder. Ideally, we would be in a position where we could just implement this without any trouble. It's always an exciting thing when you push a button and something actually happens here.

Now, ideally, we could push a button and we could create accounts like this, like we're talking about, in a matter of moments. Unfortunately, reality, and here in this case we're talking about both legal and regulatory regimes are slightly different. So when we sat down to discuss, well, now, how do we actually try to do this using the reality that exists in the moment as opposed to the reality that we would like to create in our minds? Luckily, at this point we had Mark Iwry, who is unparalleled as far as knowing all to the details of this. And we came up with three different approaches.

Sadly, each of these three approaches has major pluses as to how it would be done, but it also has major minuses. So here are our three designs. Number one, is the after-tax 401(k) account. And we'll go into the details in a second. Option two is a Deemed Roth IRA within a 401(k) account. And option three is a bank or credit union savings account.

Looking at the three individually, we start off with our after-tax 401(k) and we have starting in the positive. You know, this is Washington, but we are trying to be a positive force here, so we'll start there. First off, an after-tax 401(k) appears in many plans because the feature predates the actual 401(k). So in many cases, when an employer set up the plan, the after-tax was already there and they just folded it into the plan structure, which means that there is a limited amount of additional work that needs to be done to create the basic structure.

Number two is that we have a favorable tax treatment. Because these are after-tax contributions, the money can be withdrawn essentially without incurring a basic tax penalty or moving it into income or things along that line. Now, there's a glitch here and you'll get to that in a moment.

Number three is that the after-tax is exempt from withdrawal considerations. So, in other words, we don't have problems with trying to deal with hardship withdrawals or things along that line. It exists, it's there, it can be used, et cetera.

And last but not least -- well, almost last but not least, you can use automatic enrollment. Now, this, as Brigitte has described, is a rather key feature, so we know by definition that we can auto-enroll people into an after-tax and we can use that. And we also know, or we believe we know, that employers could match these contributions. The employer match is, obviously, a real positive here because, for one thing, it builds the account much faster. It's also an incentive to contribute to these accounts there.

Then we come up with the negative side. First off, this is the flip side of the favorable tax treatment. In an after-tax 401(k) all withdrawals are a blend of both your contributions and any earnings that have occurred in that account. So if you had a situation where your account, just again, to make up numbers the way Brigitte does and all of us -- (Laughter) sorry about that, Brigitte. All right, I've let out the deep, dark secret of all of our research, but it goes from there. (Laughter)

But if you have an account which is 80 percent your contributions and 20 percent

earnings, if you take out $100, even if the account is $10,000 in range, you bring out the $100, $80 will be considered your contributions, $20 will be considered earnings. The earnings are subject to tax and the earnings are subject to withholding penalties and the like, early withdrawal penalties should you be under the age of 55.

This is a problem. It's not necessarily a fatal problem, especially if the investment vehicle in this account is something like a stable value fund or something along that lien that has minimal earnings.

Next, we have the timeliness of withdrawals. The 401(k) system is designed by definition to be a long-term accumulation account. It is not designed immediately to provide you money by 5 p.m. if you have your tire blow out at 9 a.m. So how this withdrawal would be handled is subject to the provider, but it may well be, in certain cases, if the provider decides that the way we are going to do this is to sell off a certain portion of the assets within your after-tax account and that takes us 72 hours, there may be a delay in the time that you get your money. That obviously is a problem.

And last but not least, there are the issues around selecting an investment vehicle. The investment vehicle is crucial and you come up with some interesting back and forth. Because it may well be that certain people will say, well, this is all very nice, but I expect that I'm not going to have emergencies every six months or every year or so. And as a result, I want my savings here to build in much the same that my 401(k) builds. And, therefore, I want my money to go into something like a target date fund or a more active investment choice.

The flip side of that is somebody who says, well, wait a minute, if I have $1,000 in this account, I want to be sure that I have $1,000 in this account and I don't want it to be $800 because the market just dropped the day before my tire blew or my roof started to leak. So how you choose these investment vehicles is going to be an interesting question. It's going to be one that is hard to answer when it comes down to it.

So then we come up to option two. Option two is the Deemed Roth account

within the 401(k). And once again, we have advantages.

Number one is that it can be readily incorporated into an existing 401(k) account. Now, what you have in this case is an artificial partition within the account, so the account is a 401(k) account, but it's like you have a subaccount in there which has the same treatment and the same investment opportunities and the same contribution limits as a regular Roth 401(k). So you have built this within this one provider and this makes it much easier, especially, as Brigitte was discussing, if you talk about having a maximum amount in the account. Both the after-tax and the Deemed Roth IRA are being handled by one set of providers, your 401(k) provider. So it's fairly simple bookkeeping to keep track of what goes into what.

Number two is that we have a different and even more favorable tax treatment. A Deemed Roth IRA, like a regular Roth IRA decides that any withdrawal that you make is first and foremost your contributions until you've completely drained the account of your contributions and then and only then do you start to run into the question of earnings and tax treatment and things along that line. So if the account is structured in a way where you have $1,000 and that $1,000, again, is $800 of your contributions, et cetera, and you draw $750, there are no tax implications. You're doing well.

Third, this provides for an ease in mental accounting. You have a different account, you receive a different type of statement for this account presumably, and this makes it easier for your mind to put this into two different envelopes.

And last but not least, as I say, we've got the favorable tax treatment of the withdrawals. The other part of the tax treatment has to do with your contributions and your investments and things along that line.

Sadly, there are disadvantages to this plan. Again, this is reality, as much as we'd like to avoid that nasty topic. First off, we have income limits that apply. This is the same income limits that apply to whether or not you can have a regular Roth IRA freestanding. Again, that's $133,000 in income for a single individual, single filer; $196,000 for a couple. This

probably doesn't affect many of the people who need this the most, but our studies show that the problem, the lack of cash availability, actually runs up and down the income stream. So we cannot make the assumption that just because a family is earning $200,000 or more, they have 3 months' worth of savings or even $2,000 worth of savings or even $400 worth of savings.

Second, we come into the question of investment choices. Especially if the account is automatically enrolled, we have the question of does the QDIA, meaning something like a target date fund, apply? Do the rules apply? These are the rules that would apply for contributions in an automatically enrolled 401(k).

And the question is, if you use automatic enrollment, can you then put the money automatically in some other type of investment vehicle? Again, it might be desirable to put the money in something like a stable value fund so that there is preservation of the amount, there's not volatility. And the question is, can you legally do this? Under the QDIA regs, you have 90 days before you have to move money automatically enrolled into a different account. So this is a question.

We have questions about the use of automatic enrollment altogether. We believe that it is possible to automatically enroll into both a regular 401(k) plan regardless of tax treatment and a Deemed Roth IRA, but we are not 100 percent certain about that. It's something that will have to be tested.

And last but not least, we have the same question about timeliness of withdrawals. How fast can you get the money? And that's something that needs to be set up.

That leads us to option three, which is the bank savings account. And for this I'd like to, in addition to our co-authors, I want to give a special thanks to Catherine Harvey at AARP, who helped us with a great deal of research, especially on the use of payroll cards and things along that line.

Once again, we have advantages. First off, this is viable at firms without a 401(k) plan. In other words, if you are among the 50 percent of the workforce, and that's counting both

full- and part-time employees, who don't have a retirement plan at work, you could have an emergency savings account at a bank or a credit union.

Second off, this is very clearly a separate account, so the mental accounting is pretty much a given in this case. Separate account, separate location, separate provider, separate statement -- pretty separate.

Next, it's exempt from ERISA because obviously this is not part of a retirement savings plan, which saves you a wide variety of questions having to do with anti-discrimination testing, QDIA rules as far as investments and things along that line.

You also have fewer concerns about where the money goes into. The money is likely to go into something like a regular savings account. We wouldn't put it into a transaction account because that encourage leakage too much, but it would go into the traditional type of savings account. And that also means that it's pretty easy, so we could set this up as a payroll savings account or a payroll card.

We have banks and credit unions for hundreds of years who have been perfectly capable of providing me with significant sums of money at a moment's notice, sometimes to my disadvantage if I haven't thought this all the way through, but the money is there and we don't have any question. If you have the flat tire at 9 a.m., you can have the money to fix that flat tire at 10 a.m., or 9:30 for that matter.

Sadly, there are also a series of disadvantages. Number one and most serious, automatic enrollment may not be possible. As a matter of fact, it would be very difficult. And the reason for this is that there are a variety of federal banking regulations, Know Your Customer rules and things along that line, which strongly suggest that an individual cannot be automatically enrolled into an account that they did not create. This makes automatic enrollment much more difficult.

Second, fees may be an issue. While a 401(k) plan uses fees that are withdrawn from the earnings of the account for the most part or withdrawn on a quarterly or maybe

annually basis, a credit union or bank account likely applies fees on a monthly basis regardless of whether the account has been used during that period of time or not. And in some cases, especially in the case where we might use payroll cards or the like, this can add up rather significantly.

Next, the employer match would be taxable because the amount of money that goes into the account in an employer match is basically counted as income in the time that the amount goes into the account. So, in order words, if I put in 50 bucks and the employer puts in 10, that's $10 that's added to my payroll at that point in time and I owe taxes from it right then and there.

And last but not least, we have a different regulatory regime. While the retirement plans come totally under 401(k), Department of Labor, Treasury, et cetera, bank and credit unions come under a different type of regulatory regime, including the National Credit Union Administration, the Office of the Comptroller of Currency, et cetera. And this especially makes it hard when we talk about the question of balancing out. So it would be very difficult to set a maximum for the rainy day account and then have money go back -- once you're reached that, to have contributions go into the 401(k) account. Basically, you'd have to have two uncapped accounts.

So those are our three situations at the moment. Reality being sort of a harsh mistress makes none of these perfect. And we would suggest at this point in time that we don't choose one over the other; that it may well be as we go forward with regulatory changes, with potential legislative changes over the years that one model works better for certain populations, other models work better for others.

And with that, we'll move to the comments and questions. Thanks.

MS. GARNICK: We're much better organized after our coffees, right? So I want to thank -- you know, I guess I would be lying just a little if I said thank you, Brigitte, you've done a good job, because I want to be more specific. Brigitte also happens to be a TIAA fellow,

which is to say I hear her research all the time, so let me be more precise and say thank you again for a great job. As usual, you covered the topic quite well.

One of the things that's really important here is our focal point on preventing leakage, and I think that's really key. What's really important is -- sorry, it sounds like that's me. There we go.

So if we look at what the data is really showing us, distributions out of DC plans range between 30 and 40 percent. I think that's a net number really important for us to focus on, how frequently people are losing the intent. The intent always is to have a stable income stream in retirement. People want the same standard of living, yet this leakage continually happens throughout the environment.

What's really important is that when you look at how much funds people have readily available to them it's literally 46 percent of the people that don't even have enough money to cover a $400 emergency. So during today's discussion we've talked about a $2,000 emergency. Imagine an emergency that's everyday type of situations that come up, one that's that low. So the leakage is really incredibly important.

Now, it's because employee loans are so prevalent that it makes the leakage become a bigger issue. So one of the things that's important is to look at how much money employees are spending on all of these loans. So it ends up around $9 billion on employee loans gets spent every single year.

And one of the things that's interesting, the Small Business Administration just put out a report highlighting that when employees go to their retirement funds for loans, there's a fear of retribution and loss of their jobs when they don't have the opportunity to pay back. So it's easy for many of us in large organizations to say, okay, it's an HR issue. When you're at a 5-person or 10-person or 15-person organization the lack of ability to pay back an employer-sponsored loan can become problematic to an extreme extent.

Now, we've applied the retirement framework here to help people understand the

importance of why having an account set up for emergency spending is so incredibly important. And I think what's really a key here is to have certainty with respect to principal. I'm going to harp on that for just a little while because I think this plays a central role in how we design a good emergency spending account.

Could you imagine being somebody that's a low-income employee saying I'm going to put $1,000 a month away and 10 months later getting told -- you know, thinking you have $11,000 in the account, right, you have all this money saved, but discovering that you have all of these tax consequences. Right? And that money isn't actually yours. That balance isn't reflective, and the type of confusion that that really creates. I think that's key.

One of the other things I'd love to focus on is we haven't yet talked about some of the portability issues. So I think that's a central component to any DC framework. And we can learn a lot about portability and some of the challenges that go there.

So I want to focus on the three different solutions that David talked about in terms of implementation, and I want to focus on some of the challenges. And I feel like I can do this because I think many people agree that emergency spending a big problem. And all of us agree that with the right level of retirement savings people can have financial security in retirement.

So let's think about what happens within the context of a 401(k). So it's kind of interesting because a lot of companies have really designed their retirement plans to make sure that they meet the safe harbor plans. Right? So here's one of the things that's really important. If we think about the framework that exists right now, the 10 percent penalty comes into play, which means that many people won't really have the opportunity to understand exactly how much money is available to them today. I think this also creates a scenario where if you were to have emergency spending and a 401(k) combined into one statement, it's very weak signaling in terms of mental accounting. It's going to be very confusing for people or certainly not the ideal situation.

Similarly, if we think about a Deemed Roth IRA, this one confuses me or scares me the most because the income limitations for a Roth are not at the individual level. They're at the household level. So one of the key pieces of information that we would need to get from employees is how much do you forecast your household wealth to be? And this is particularly important for people that happen to be second income earners for the household. And, in fact, those are the people that we want to be able to help the most. So I don't want to be in a situation where we're automatically enrolling people and having them be over the Roth cap without us getting good information in terms of household wealth.

And then finally, when we thought about depository institutions I thought this was a really clever solution, but the Know Your Customer rule really started to come into play. I think this one probably has the most legs, but one of the things that I was a little worried about is the impracticality of switching once you have sufficient savings on a cash account. So if you're sending, let's pick a number -- pick a number is a better way, right? -- 3 percent into your emergency spending and let's also pretend the remaining 17 percent into your retirement account, so for a 20 percent savings rate once you get there, how can you really move forward? So how can you switch back and forth?

So here's really additional areas of research. I think this paper has a lot of opportunities, but there are some things I'd love for the authors to go back and think a little bit about. I think the target balance of the emergency savings account is not very clear.

So people often talk about the rule of thumb. They say, okay, three of months of an annual salary. All right, I think the rule of thumb doesn't necessarily work, especially when we have such a wide income distribution. That, by the way, gets us at $14,500 if you look at the representative household and what they're earning. That's an awful lot of money. And nowhere throughout the paper did we see a target number that high. So if we're going to say, okay, people have said three months of salary, that's a pretty large dollar amount. Right?

When it comes to emergency spending in retirement I think one of the things

that's really important here is we don't have a holistic approach yet. This entire paper is focused on emergency spending while you have the luxury of still working. But in retirement these issues don't go away. In fact, the data with loss aversion suggests that a loss is two times as painful as a gain while you're working and five times as painful in retirement, which means the pain of losing money as a result of emergencies coming up is much more dramatic. So we need to extend this.

And then finally, the positioning. Honestly, I don't like that we came up with the name of "rainy day" because if I close my eyes and think of rainy days, I think, ah, those are the board games, that's the clean the garage days. How about if we named it something dramatic like "emergency spending?" And if we're going to use this card, why not make it a bright, red card? Why not call it the "budget buster?" Right?

I often think to myself, you know, the 401(k) industry is the only industry in the world named after a tax code. (Laughter) Can we not take something like "rainy day" and make it reflective of what it really is? So I like the phrase "budget busters" because I thought, you know when you're taking that card out and spending money, wouldn't it feel really good to be able to say, ah, how often have you busted your budget?

Because in the long run, we're not hoping that people have enough money for an emergency. That is not our goal here. Our goal here is to make sure that people acquire better budgeting skills. That's why this paper has a lot of legs. So these are some areas of research that I think we should focus on next.

MR. NEWVILLE: All right. Good morning, everyone. My name is David Newville. I'm with Prosperity Now. I'm the director of federal policy. Thanks to Brookings for hosting the event and the co-authors for the opportunity to comment here on this great paper, a very comprehensive paper looking at emergency savings options paired with retirement.

At Prosperity Now we focus on wealth inequality, financial insecurity, asset building, particularly for low- and moderate-income workers and employees, individuals. So I

am going to share some high-level thoughts based on our focus on low- to moderate-income employees. We've done some work actually with employers on the issue of financial security and financial wellness which I can share. And then policy, of course, because that's my perspective, mostly federal policy that I can share.

There won't be enough time obviously to cover all of these things and some of them have already been covered thoroughly in the paper and by some of the other presentations. But I just wanted to share some additional thoughts, some in scope, some out of scope, that would apply to this great paper here and the great proposals that are circulating around, emergency savings and pairing it with retirement.

So the first thing, you know, looking at the perspective of low- and moderate-income employees, you know, you've heard many of these topics today in consideration for the design for the three different models. Financial volatility, this is mentioned in the paper; it was also brought up here today. There's a growing body of research that shows that low-income and, unfortunately, higher-income folks are increasingly not only having a problem getting ahead, saving for retirement and saving for longer term purposes, but just being able to keep their income level to manage irregular expenses, not even emergency expenses in some cases, just the timing of payments and being able to make bills and things work.

Now, when you're thinking about that context, you know, for us at Prosperity Now and I think for those who come from a retirement perspective, we often think more of the asset-building side of savings and helping people get ahead. When you pair it with emergency savings there's a lot of promise here, as well. But when looking at the different models, when setting goals and expectations for all these things, I think we really have to keep the volatility perspective in mind.

So one example I would think about that covers a lot these different perspectives is when we think about savings, we think about savings competitors, different products, what are those types of things. But we also have to think about the substitutes, right? And payday

lending, small-dollar loans, a lot of that has come up today.

You know, these families, low-income families, when they're thinking about this, they're coming in with a scarcity framework. They need this money quickly. They're going to evaluate the substitutes very quickly. And trying to design a product for this population that will meet some of these things in the same fashion or be competitive with them, you know, the issue for some of the models about having to wait a couple days to be able to access your funds through ACH transfer or other things, that can be a huge aspect.

If we're doing a bank product, even a payroll card that's associated with a bank, there's a lot of issues. We know from the on and under banks about surprise fees, hidden fees, so transparency is pretty important. Simplicity is a huge issue, as well. You know, something even as simple as saying we're going to take 5 percent and 5 percent of your income and put 5 percent in emergency, 5 percent in long-term savings. If you get paid on an irregular schedule, that 5 percent might change.

If you're very stressed, you have low income, even calculating that 5 percent and saying how much is this, how much is that, simple things just putting dollar amounts on it; you can see this from the payday industry, very clear dollar amounts about repayment, $20 every month, $20 every 2 weeks. Thinking about it in those terms, designing it so the emergency savings account fills up first and then after that's filled maybe it goes to the longer term retirement or the matches go the longer term in the shorter term. Little things like this can make a huge difference in adoption and design. So that's just one aspect related to low- to moderate-income employees I wanted to throw out.

When we talk about the employer perspective we've done some work with employers on financial security issues. Financial wellness, many people know, is a growing area for employers. A lot of employers see these issues with their employees. They want to help them and they want to provide services.

These services have been around for a while, but there's more work that needs

to be done to show what's effective and what's effective with certain types of employees and what industries. So among employers there's a lot of uncertainty about what the best perspectives are and what to offer. And if you offer something like an emergency savings product, how do you package that with other things?

And the being able to -- if you don't have this expertise, because HR services are already overburdened in many organizations, how do you identify who the right provider is? Who's going to do it at the right cost, provide the right services for your employees, the target population, can be a burden as well. And making sure that is adopted in a way that's easy to on-board and can get buy-in from various stakeholders in a corporate or a smaller organization that can meet some of these other things, whether it's limiting liability, increasing worker productivity, lowering costs, or dealing with participation or leakage issues. These are all things that need to be deeply considered when designing it and trying to pitch it to employers for larger-scale adoption and success.

And then government, you know, one of the great things about this, a lot of these different issues, is there are regulatory issues, some policy issues, but many of these can be deployed in ways without major legislative changes or major regulatory changes, depending on the model. A lot of these have been covered already. One thing I would just note when it comes to low- and moderate-income employees, asset limits or savings penalties, a lot of lower-income employees may be on certain programs, whether it be Medicaid or SNAP assistance or TANF, and these programs, depending on the program and depending on the state, can have limits where if you save a certain amount of money you get kicked off your benefits. And benefit recipients are acutely aware of this. It can be a huge deterrent to saving. And I think not the responsibility to design something that can work around every program and every type of asset limit, but I think keeping that in consideration when designing it and pitching it to employers is a very aspect to consider.

One thing that was mentioned in the paper and also today, retirement account

access, roughly half of employees right now have access to a workplace-based account, but the other half don't. And there were, in the previous administration, there were some real attempts to address this. There was myRA, DOL had rules around Secure Choice. Unfortunately, the current administration, one would hope the government would at least hold harmless and allow these innovations to flourish, but the current administration has taken steps in Congress to actually try to make this harder by ending some of these programs and repealing some of these regulations. But this is something that I think still is outside the scope of this direct paper, but thinking beyond the workplace and how do we reach these other folks is going to be an important aspect about the learnings from this type of work and any pilots that come from it, to be able to build off that because it's still going to continue to be a major issue.

And consumer protections is another important one. You know, with ERISA-based products there are already pretty robust protections that are in place. And even with payroll cards, the CPB has its prepaid rule that came out and it has survived a Congressional Review Act challenge, so it's not permanent. But, you know, consumer protections and thinking about, again, the substitutes that are out there, as protections get eroded for other types of credit products and other things, I think it just puts more of a burden to make sure that this product is a safe alternative and easy to access when you're competing with substitutes that don't have to play by the same rules.

And then lastly, I would just say this has been mentioned by David and a couple of the other speakers, there's no one size fits all. Different models might work for different populations, for different industries, so I think a lot of research and pilots are welcome in this area to figure out what's going to work with who and where.

Setting goals and measuring success, as I said before, I think we often think about the long-term success and leakage and those type of things, but particularly with the low-income population I think even if someone only saves a couple hundred dollars and they pull it out a couple months later and then they put it back in, one might look at the data and say that's

a failure for the program. But, in fact, if you look at the alternatives and more holistically at the lives of low-income employees, if they don't go to get a payday loan, the typical of which is around $200 or $300 and don't end up paying back, which ends up often being $1,000, and getting caught in a debt trap, that could be seen as a success even though there's not actual increased savings metrics there. So I think we have to be very careful when studying this about what we consider success and what the goals are for different populations.

Other emergency savings channels, thinking holistically, as well, how do we pair it with tax time where people get huge refunds and thinking about -- that are lower-income, that they can use and save some of that? How do we coordinate with those types of things? Other innovations, such as mortgage reserve accounts, which leverage kind of escrow accounts to help people build emergency savings are things to think about.

And then last but not least, financial capability, which has come up a little bit here, as well. You can't just, in the workplace and otherwise, just dropping a product with someone and not pairing it with financial capability services and showing them how to use it and showing them how it's better than some of these alternatives, like high-cost credit. Just adding these things aren't going to make a huge difference, obviously, between successful and lack of adoption.

And we've seen many times in the workplace, as well, it takes time for these things to play out. Some studies are shorter. They show adoption in the short term. But sometimes you can see employees gauge some interest or only use part of the product, but it can take longer term engagement, especially in workplaces. But the nice thing about it is you can have that repeated engagement. Sometimes you have to set your success and your study further out to really see engagement with long term workers because these things can take time and there's a steep angle for education in cases. Thank you.

MR. GALE: All right. Well, first of all, thank you to both presenters and both discussants. That was very informative. Authors, you are going to get the last word at the end

of the session, but is there anything in the discussants' comments that you want to address immediately to correct any issues?

MS. MADRIAN: I would just say thank you for taking the time to carefully read our paper. And I think you've raised a whole bunch of really valid points and we will go back and think -- you know, some of them are things we've already thought about, but some of them are things I think we could think more about and revise the paper and address them and make the paper stronger. So thank you.

MR. JOHN: Oh, yes, thank you. Damn technology. (Laughter) And I would just agree.

MR. GALE: All right. So the issue we face is do we do this through ERISA, through regular accounts that have to deal with ERISA, or do we do it through bank accounts that have to deal with terrorists. And it seems like it's sort of an even match, which is a little -- or some days it seems like it's an even match and seems a little scary. I want to ask a couple of just factual questions to make sure we're all on the same page and then we'll open it up to the audience in a second.

When you said in your presentation that every $2 in there is $1 dollar of the retirement system, that's not including regular withdrawals, right, you know, appropriate withdrawals?

MS. MADRIAN: So that was the Argento, Bryant, Sabelhaus paper that Diane cited, and they were looking at under 55 population. So I don't know what you mean by regular withdrawal. It's not withdrawals for people who have reached the age where they're not going to be pay tax penalty.

MR. GALE: But did it include loans?

MS. MADRIAN: Only the portion of a loan that wasn't repaid.

MR. GALE: Wasn't repaid, okay. And then in the question where people say they can't "come up" with $2,000, does that include putting it on their credit card or not include

putting it on a credit card?

MS. MADRIAN: That's a good question and I think it depends on how people answer that question, but.

SPEAKER: I thought it was without borrowing they couldn't come up with it.

MR. JOHN: Yeah, that's my understanding, too, that this is money that they have on-hand that they can reach without having to sell something or borrow or something along that line.

MR. GALE: All right. Yeah, I mean, I've heard it that way. I've heard it including borrowing from family and friends and I've heard it as people not being able to access the funds.

MS. GARNICK: Right. So I think that there are plenty of surveys that are out there. And originally, I think some of the original work came out of the Pension Research Council. And the question was along the lines of could you borrow, you know, do you have access to $2,000? And then the next iteration was how about do you have access to $2,000 without nudging your family and friends and shaking them down? So I think one of the issues that we face is that there are many different surveys, each of which have a slightly different answer.

Now, the one takeaway is the consistency across all of these surveys is that people have inadequate access. Right? So whether we want to think about if they have access to 2,000 or 400, whether that's on a credit card, whether that's shaking down their parents or in some cases their kids, right, the most important takeaway is the consistency across all of these surveys is that people simply don't have access.

MR. GALE: Right. Well, if the answer's always 40 percent regardless of the question, then there are other problems. (Laughter) One of the other question, I want to clarify, my understanding is Canada does not have early withdrawal penalties on its retirement plans. Is that correct?

MS. MADRIAN: David, you would have better insight into CPP, but I think you're

absolutely right.

MR. GALE: We have an event on this next week, by the way.

MR. JOHN: Yeah, I believe you're right actually. But we will have great details on that a week from today starting at 1:30. (Laughter) Shameless promotion.

MR. GALE: My impression, though, is that they don't have the early withdrawal problem that we have despite not having the penalty, so if anybody has any insights on that let's turn to them in just a second.

I just want to ask the authors two questions. One is what's the right optimal leakage to have? If 30, 40 percent is too high, I mean, there's got to be some positive number that people face uncertain wages, but they get a tax advantage to saving in a retirement account. Do we have any sense what we should be seeing if people were well prepared?

MS. MADRIAN: So I guess more shameless self-promotion, I've got another paper with David Laibson and James Choi, John Beshears, Chris Clayton, and Chris Harris called "Optimal Illiquidity." So we're just framing it on the flip side. What's the optimal stickiness we should have in a retirement savings system? It's a theoretical paper with a bunch of simulations and the basic results is that a system where you have something like Social Security where the money's off limits, and then a system with a retirement account, like a 401(k) account with a tax penalty, is actually pretty close to the optimal structure with a 10 percent penalty, with the caveat that the size of the illiquid piece should be much bigger than is in the current system.

So the structure of the liquidity in the U.S. system in terms of how to set it up I think is about right. But if you wanted to take the current system today and not tweak Social Security, let's just say Social Security's off limits, you would want to take the 401(k) piece and put at least part of that off limits.

MR. GALE: Okay, good. All right.

MR. JOHN: And I think there's one other aspect to that: it depends on the

emergency. It's one thing to talk about an emergency that's, say, $400, $2,000, or something along that line. But we also have a significant group of people who will do something like lose their job for whatever reason and in that case it may well be that they need to support their family on 401(k) for a period of time, and that's a completely different level of emergency.

MR. GALE: All right, great. Let's turn to questions. Be sure to use the mic. Be sure to state your name and be sure to ask a question. Thank you.

SPEAKER: Bill, before the questions, I'd just like to clarify who the authors of the paper are. It's not just Brigitte and David and myself, Mark Iwry, but you have John Beshears, James Choi, and David Laibson, and so there are six co-authors of this research and of the paper. The other three couldn't be here today, but we all stand behind it and we all view it, as Brigitte said very well at the beginning, as a work in progress. So we very much appreciate the really insightful comments from Diane and David, and the questions and feedback that we're about to get from you both today and in the future when you have a chance to think about this more and look at our draft.

MR. GALE: Great. Thank you.

SPEAKER: And thank Sarah Holmes for her great assistance and support in all of this.

MR. GALE: Sarah, please take the microphone away from him. (Laughter)

MS. HOLMES: Happily.

SPEAKER: Did you say John? Am I recognized?

MR. GALE: Go ahead.

MR. POLZER: Well, I'll go first then. My name's Karl Polzer and I started a project called the Center on Capital & Social Equity, which promotes inclusion of everybody in capitalism in our 401(k) system. I also work with a large industry that has many low-wage workers. And I really, really appreciate this work and the self-criticism especially; it's very rare to run through all the disadvantages.

But I think what's emerging is a very complex unicorn and a mismatch because most of the retirement, the subsidized retirement savings system serves higher-income and middle-income people and excludes lower-income people. These are the people that need these accounts. So if you're trying to get to them, that's -- unless you make it universal, unless you somehow broaden the base, the industry, the long-term care industry I work with wouldn't probably do this if it was available.

Now, in terms of the taxes, here's a way to get there. If you converted -- now we have tax reform on the table, even though we're not sure 401(k)'s are on the table, if you locked off the government's contribution to pensions, which is basically the tax break, if you converted part of the exclusion into a tax credit that everybody got, everybody would have an account, and you could prevent leakage in that part. You could leave the rest -- or you could make it in a way, you could save $3,000 apiece, you could do it in a way that would be cost-neutral, and you could add a compartment for savings.

So, just some ideas.

MR. JOHN: More shameless self-promotion, which seems to be a habit here. Jen Brown and I have a paper -- Jen Brown is with the National Institute on Retirement Savings -- on how to reform the saver's credit, which includes something very similar to what you're talking about.

MR. GALE: Great. John Turner.

MR. TURNER: My questions about fees. It seems to me a potential disadvantage of all of the options. Is it because the account balances would be relatively low, but the fees would be relatively high and they would be higher than the fees associated with the pension account that was related to it? And so it's a question, are fees a potential problem?

And then the second part of that is that there's a lot of fees lawsuits, and it seems that for some companies the concern about being sued because of fees is a disincentive to providing plans. So those are the two parts of the question.

MR. GALE: Way in the back.

MR. SALISBURY: Hi, Dallas Salisbury. Just two points on the prior question, is that Canadian plans do not have any restrictions on withdrawals, number one.

Number two, they have a very interesting difference, which is that whereas in this country you have an annual opportunity to contribute and then that goes away and you star recounting every year, is in the Canadian system that is actually cumulative. So if you have had an account for 20 years, but you only contributed 10 percent of what you could have, you could then do a single catch-up at the 20-year point to bring you all the way up with a pretax contribution. And then, again, have no withdrawal penalty on an income tax.

So, I mean, there are some very distinct differences in design between the Canadian -- my choice of words -- equivalent of our 401(k) plans, even though they're not exactly equivalent.

MR. GALE: Thank you. How does that bear behaviorally about the annual contribution and it was sort of a use it or lose it that forced people to -- made it into a focal point, forced them to avoid procrastination? Does that sound right to you?

MS. MADRIAN: For most households, the annual contribution limit is not particularly relevant. It's only relevant for really high-income households. I think the big distinction for the U.S. versus the Canadian system with respect to the annual versus cumulative contribution limit would accrue to workers who have really volatile incomes or who, you know, start out very low and then they're income skyrockets. And I think most people are not -- I mean, I don't know how the level of the two limits would compare, but I'm guessing for most people it probably isn't going to make much of a difference, but there would be a small number who would benefit.

MR. JOHN: My only side comment would be that at least the institute's Retirement Confidence Survey is now for 26, 27 years have consistently shown that individuals wait to somewhat should we say ripe, old ages to actually pay attention to saving for retirement.

So they may well contribute at the national average level in these programs, which runs between 5 and 7 percent of pay and then wake up one day at 54 and the kids are now done with college, the mortgage is now paid off, I finally have the economic capacity to save, and I finally actually think that I might need to save.

So I may well not be wealthier or anything else, but suddenly, the ability to do a catch-up on a pretax basis, at least some preliminary research in Canada done in Ontario, in Toronto, indicates that there is some phenomena.

To David's point, even wealthy people may be broke; that across the income spectrum you at least have the potential of that kind of a catch-up. Potential. I'm not saying it happens. I'm just saying you'd get some of it up.

MS. GARNICK: In the spirit of self-promotion, we also looked at this issue and wrote a paper entitled "The Gender Retirement Gap." So it ends up that women only participate in the workforce about 75 percent of the time that men do over the course of their lives.

And when we think about retirement savings note that one of the things that we do is we always think about it as a percentage of pay. But if we're working in the workforce and you run into a woman who's of child-bearing years and you ask them are you saving for retirement, they say, of course. And you point out if you happen to be a stay-at-home mom, your cap is going to drop to 5,000 or 5,500, not the 18,000 that you think.

One of the other interesting things and a very quick fix that all of us could immediately do is let's pretend that you say I'm going to save $12,000 this year. That's my retirement goal. None of us say, oh, I'm going to save it over my first paychecks. We say I'm going to save $1,000 a month, smooth it out, make it easy.

Well, this means that women of the child-bearing years would only reach their retirement goal if they happen to deliver their babies on December 31st. Right? So one of the really easy things that we can do is quickly communicate to ladies make sure that you hit your retirement contribution max before you go on maternity leave because there's not 100 percent

chance that you will return in time to reach your retirement savings goal.

So I think that's one of the key distinctions between us and Canada in terms of the lifetime wealth aggregate. Right? Because people are in and out of the workforce, women in particular.

MR. JOHN: Well, I think that also applies in the case of a legacy, that if you inherit a certain amount, you could use the Canadian system to save a certain part of that.

And let me say that I now have higher admiration than I even had before for my older daughter, who delivered on December 30th. (Laughter)

MS. TOWNSEND: Hi, Kathleen Kennedy Townsend. Thank you so much for your great work and also for your presentation, which was really clear. That was really terrific.

So what would help me in understanding what you're doing is if you could describe who you're trying to help more specifically in terms of income. For instance, if it's the 401(k)'s group specifically, are they making $80,000? They're all employed at one point because they're in the 401(k) system. So are they making $80,000? Are they making $100,000 or $200,000? And who needs help? Because you're probably not helping, which is the 50 percent of Americans who aren't part of the 401(k) system.

And then because when you started talking about how people will be taxed, I'm thinking if they can't reach $400, how much money do they have? Why are they worried about tax consequences? They probably don't have enough money to be taxed.

So it was hard for me to understand who you're actually talking about if they can't make any -- if they don't have enough money to get $400 or $2,000, they probably are not worried about tax consequences. So it was just hard for me to understand exactly who your audience is for this effort, although if it's 50 percent of people in the 401(k) system, it's a lot of people. So thank you.

MS. MADRIAN: So, great question. So we're thinking about this in the context of the 401(k) system because those institutions already exist and I think it makes sense to start

there. I know that you are well aware of the state efforts to expand access to retirement savings, so I could easily see down the road if the efforts of Oregon and Maryland and other states are successful that you could piggyback this onto a whole other set of institutions, but, you know, kind of starting where we think there's the greatest chance of success.

I think as David pointed out in his comments, there's ample evidence of hand-to-mouth spending behavior at all points of the income distribution, not just lower-income workers, but there are high-income workers who are literally spending all of their paychecks every month and don't have much in the way of savings either. So I think there is need across the board and we're not being picky. The employees who feel like they don't need it will opt out.

And in terms of is there capacity, I think one of the things I like about the Indian day laborer example that I showed, and I realized that India is not the U.S., but I think we tend to think of poor workers in India being generally even more poor that the very poor at least employed in the U.S., is that even poor people have a capacity to save if they have the right institutions and support to do so.

And coming up to comments made by David and -- I guess both Davids, you know, if you could help people save $400, you might easily help them avoid $400 in fees and they're twice as well off as they might have been otherwise. And I think that's the hope and it's an unanswered question whether a mechanism like this is going to be successful in actually generating that outcome, but that's the hope. If you can get people to save even modest amounts of money, you help them avoid the high fees that they would pay on other short-term, predominantly high-cost sources of credit.

MR. JOHN: And having said that, this is phase one. This is essentially the easier of the two targets. There needs to be a phase two paper which discusses how to do this for the individuals who currently don't have a retirement savings plan. And that will be also something that is done going forward.

Having said that, we know that problems exist and the re-exist. Pew has

research showing that for people who had a significant financial event in 2014, 70 percent of them also had an event in 2015. So this is a continuing problem and it does apply up and down the income scale and up and down the age scale. AARP has a factsheet out showing the proportion of individuals 55 to 64 who have -- I believe that's the right range -- who have problems with this type of liquidity.

So it's not just a matter of income at this point. It's a matter of permanent need and this is a need that extends into retirement. All too often we think of retirement as an income stream, but the fact is that we have bumps throughout life, which is both expected and unfortunate.

MR. GALE: All right, one last question. Gary Burtless and then we'll let the authors have the last word.

MR. BURTLESS: I like the proposals very much, but I really wonder whether that $1 of leakage for every $2 of contributions is attributable to the problem that this proposal addresses. I sit on the Pension Committee here at Brookings and I can assure you that there's very little take-up of the offer for people to borrow on their 403(b) contributions. It just doesn't happen very much. And the share of people that don't repay is even smaller. So if people have a month to figure out how to pay a $4,000 bill and they can't figure out in that month that they can borrow on their 403(b), there's probably some bigger issue going on.

My suspicion is that a lot of the loss is when people's employment ends. And does the money get rolled over into another recognized retirement account? And sometimes that's a bad thing, but a lot of times it's not a terrible thing. They're young people. They're going to graduate school. You know, they need new furniture for their living room or something. It's not a disaster because they're not doing anything big because there isn't much money. And then later on in life, my suspicion is a lot of the loss occurs because of the health reverses and the job displacement that really doesn't give people -- they require a lot of money, not a little money. That's my suspicion.

It's not the $4,000 or the $400 or the $800 that's causing this $1 in loss for every $2 in contribution. It really is people responding to life cycle events for which you don't want to privilege retirement saving over maintaining consumption levels while people are working age. But I don't know. Maybe the statistics about this $1 of loss would persuade me otherwise.

MS. MADRIAN: So it's a great question. I think the truth is we don't have a lot of data on what the money is being used for when it's being taken out of the system. We do know a lot of it is coming out of the system at job change or at least out of employer accounts. But the size of the IRA market is now larger than the size of the money in 401(k)'s and 403(b)'s and IRA-land is kind of like the wild, wild West in terms of taking money out. And we have very, very little information what's going on there.

I will note that I think Brookings' experience is probably atypical, so there's lots of good industry data out there that suggests that at any point in time about one in five participants has an outstanding loan. And if you look at over a longer period of time of like seven or eight years, it's like half of people have had a loan at some point over that time period. So loans are quite prevalent.

You are correct that most of the money is repaid because it's being repaid through payroll deduction. But employees are tapping into the 401(k) plans using the loan mechanism right and left.

MR. GALE: David, before we turn to you, would either of you like to add anything. Thank you both for your comments.

David, you get the last word.

MR. JOHN: Oh, dear, last word.

SPEAKER: I'd also like to -- whichever order.

MR. GALE: All right. Well, Mark, go ahead.

MR. IWRY: Bill, these comments don't have to be shamelessly self-promoting, do they? (Laughter)

Okay. I'm interesting in just responding to a couple of the really good questions. And so before you wrap it up, David, John Turner, your point about fees is excellent and is something we've been worried about. And our question to sort of push the debate further is whether the 401(k) sponsor, in the event that this is done in a 401(k) context, wouldn't enjoy potential economies of scale with these very small balances, so that if they wanted to do what they do with 401(k) balances, which is to often bear the fees and expenses for employees or much of the fees and expenses, this might not be a huge add-on. And because these balances would be small in the emergency savings, the risk of litigation is also proportionately correspondingly small.

To Kathleen's question, I think you make a great point and we also focused hard on the people not eligible for 401(k)'s, Kathleen, not only in obviously all the other work that many of us are doing, the start programs, et cetera, but here the third option is something that's a standalone bank or credit union account that an employer can make available regardless of whether it has a 401(k). And that's one of the main advantages of that, but it's not limited to 401(k)-eligible employees or employers.

And finally, Diane, we think that the -- great comments and we think that just to address one of them here, the nondiscrimination issue in a 401(k) plan can be handled, mitigated considerably in a variety of ways, including for safe harbor plans you could limit this to non-highly compensated people, for example, who have the greatest need even though others also have a need.

MR. GALE: Thank you. David?

MR. JOHN: All right. One other point on the fees is that for the bank account or payroll card option it would be quite possible for the employer to negotiate a certain level of fees in the contract given the fact that there will be a certain regular cash flow coming in and presumably there is a fair number of individual accounts that would be dealt with.

Let me recommend, also, looking at the paper and the part on the payroll cards

to look at the question about whether or not such a group account would be administered by the employer, the individuals, or perhaps a third party that deals with that. It's well worth looking into.

In general, to close, what we are finding here is that we have a regulatory system and a mindset that is monomaniacal rather than dealing with reality. We have a set of regulations, whether we're talking about banks or we're talking about 401(k)'s, other retirement accounts, or whatever, that looks at one particular purpose as the end-all and be-all of life. And unfortunately, as Brigitte pointed, life happens.

It's going to be key, and we hope that this paper is at least a start in that direction, it's going to be key to recognize that if we're going to deal with financial capability, we have to have products. We have to have abilities that meet individuals' actual needs at the time that they hit those needs. That's going to require more flexibility. It's going to require more of an ability to innovate within product areas, et cetera.

We've proposed one start and this is probably one of the more simple starts to that greater usefulness of these accounts. But a lot more needs to be done, which means that all of us who are involved in research have loads and loads of work to do, and that's a good thing. Thank you.

MR. GALE: All right. Thank you all for excellent comments and discussion and presentation. Thank you.

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