Reaction to “A Retirement Dashboard for the U.S.”

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“New Tools for a Better Retirement: Dashboards and Tontine Solutions for Americans”
Brookings Institution Webcast
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My critique is twofold:

- The dashboard proposal goes too far.
- The anticipated impact may be a trifle rosy.

The U.S. does need a national pension registry.

- It creates a national lost and found, which means no more lost accounts.
- It allows people to see all their assets at one time, which would reduce cashouts.
- The data are already readily available.

But the proposal goes too far, advocating for:

- Financial education and advice
- A tool to consolidate IRAs and 401(k) balances

The financial education effort is unnecessary.

- The authors propose endless “educational material” and calculators.
- But every American does not need to become a financial expert.
- The authors themselves caution against overwhelming users with too much information.
- And going beyond narrow registry generates private sector resistance.

The system should be simple enough so that people can follow a few basic rules:

- Delay claiming Social Security as long as possible.

- Take full advantage of any employer-sponsored plan by:
  - contributing enough to get the full match; and
  - investing in a target date fund.

- Think of your house as a financial asset.

- It's not rocket science.

A "one-button" account consolidation tool could be dangerous.

- Introspection

- More generally, the push to consolidate will shift money from 401(k)s to IRAs, which have:
  - fewer regulatory protections,
  - more potential conflicts of interest, and
  - higher fees.

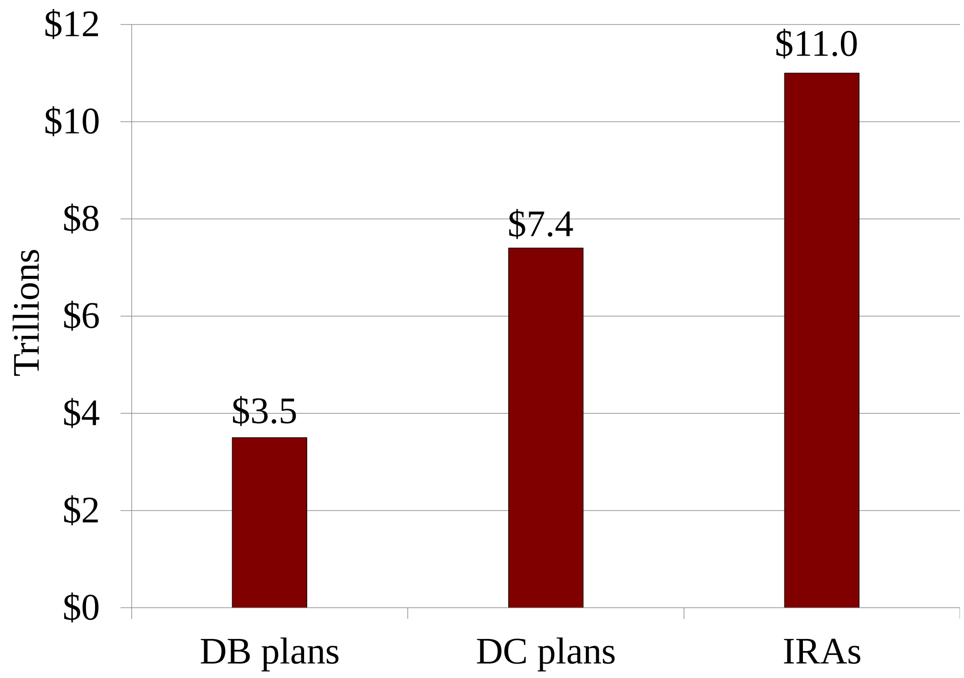
- Allowing people to consolidate by a push of a button will get them in trouble.

Don’t oversell the impact of a dashboard.

- Lost accounts are only a small fraction of total balances.
- Coverage, not leakage, is the reason for small account balances.

Total assets are in trillions, lost accounts are in millions.

Private Retirement Assets by Plan, Trillions of Dollars, 2019 Q4



Source: U.S. Board of Governors of the Federal Reserve System. *Flow of Funds Accounts*, 2020.

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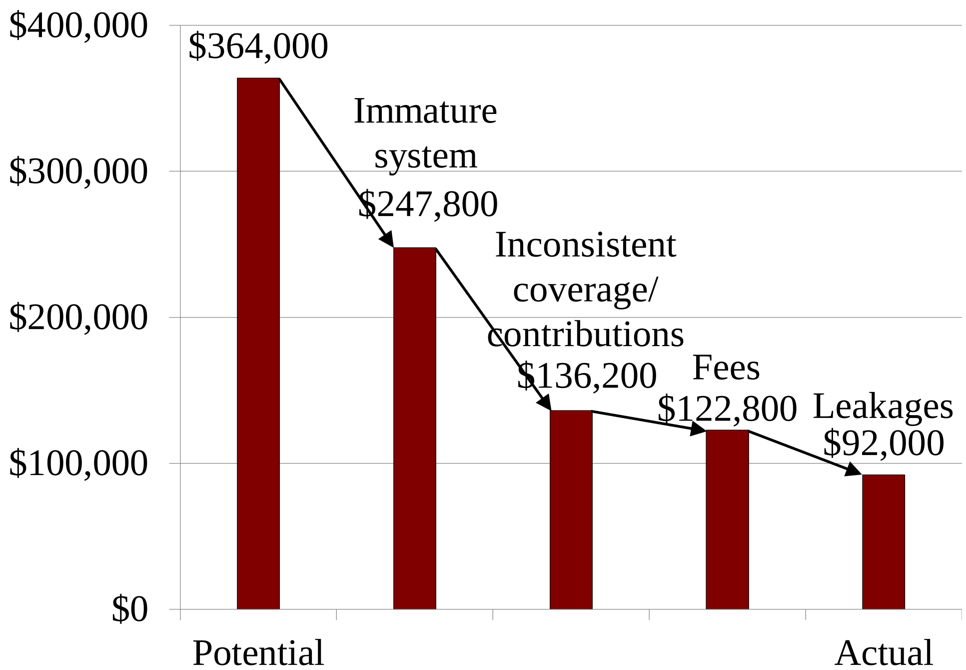
Coverage, not leakage, is the reason for low balances.

Impact of Immature System, Inconsistent Contributions, Fees, and Leakages on 401(k)/IRA Balances for a Typical Worker Ages 55-64 in 2014



Note: Individuals must have worked at some point between ages 55-64 and contributed at least $1 to a 401(k) plan over their careers.
Source: Andrew G. Biggs, Alicia H. Munnell, and Anqi Chen. 2019. "Why Are 401(k)/IRA Balances Substantially Below Potential?" Working Paper 2019-14. Center for Retirement Research at Boston College.

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Conclusion

- The bottom line is “yes” to a national registry.
- But no need to clutter it with “educational” material and financial tools.
- And no “one-button” for account consolidation.
- Let’s keep it really simple.
- And don’t oversell the potential impact of the initiative.

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