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WEBINAR

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P R O C E E D I N G S

MR. GALE: Thank you and good morning. I'd like to welcome everybody to this RSP event. After summer break we're just getting the kinks worked out on the Zoom call again.

I'm Bill Gale, the director of RSP. We have a lot going on this morning, so I want to cut pretty much right to the chase. I'm going to give you a quick summary of a book that RSP just put out about a month ago and then we have two new papers and discussants of those papers to go through. And then we'll have a general discussion that will include questions from the audience. If you'd like to send in questions use #Futureofretirement in Twitter or send an email to Events@Brookings.edu.

Before we start, I want to say that the book that we published, as well as the two papers we're releasing today, most of the book and all of the two papers were funded by Arnold Ventures. We greatly appreciate that support, especially as it's continued over several years.

So what I would like to do is present briefly the book that we just published. And let me load the slide. So our retirement event today is "Building a Better Retirement System for All Americans". The book we published is called “Wealth After Work: Innovative Reforms to Expand Retirement Security.” And what you'll notice, we do not propose an entire revamping of the retirement system, rather the book consists of 13 essays related to the theme that in a defined contribution world workers manage their own retirement, even if you have automatic enrollment and automatic investment and target date funds, workers are still responsible for ensuring their retirement.

And there's been an enormous amount of discussion about automatic enrollment, automatic escalation and contributions. And those are very important components of what workers need. But in this book, we emphasize three other aspects of the retirement system that workers who are managing their retirement need. One is simply access to retirement saving vehicles. The coverage rate is still — lingers around half of the workforce with employer sponsored pension or retirement plants. A second is simplicity. The number of options and the details of the options and the choice between those options can be stultifying, even for a retirement expert. And the mind boggles to think how a person who's not a retirement expert has to deal with this.

And, lastly, as I mentioned, there's been a lot of emphasis on generating balances, on saving money, on investing. There's been much less attention to pay so far to how the money comes out — the decumulation strategy. And that's important because you can save the right amount your whole life and then you can mess it up by taking it out in the wrong way. You can mess up your retirement. So you need to be able to complete the retirement strategy with these decumulation options or vehicles.

And the basic idea we've had in the back of our head the whole time is this little bit — little bit hackneyed, but you'll get the point. You don't need to be a mechanic to be able to drive a car, and we feel like you shouldn't need to be a financial expert just to navigate the retirement system. That people are owed a retirement system that they can navigate and manage.

So the book is divided into three sections. The first section describes background and context. And we focus on three issues, millennials, generational gaps, and the situation that women face in retirement. And we have the authors listed here of the various papers, but in this age of Twitter, I think I managed to summarize each paper in less than 280 characters. In fact, I think less than old Twitter, which was 140 characters.

But anyway, with the millennials, we show that they have more human capital than earlier generations at the same age, but they have lower financial net worth than earlier generations. Now you've heard this in other forms. We say that millennials have more student debt and are less likely to own homes than prior generations at the same age. That's the bad news. The good news is they have more human capital less and less mortgage debt. So these things are related and the millennials in some ways are doing better than prior generations, in many ways they're doing worse than earlier generations.

Second, we look at generational gaps. We find that older generations are progressively wealthier, younger generations progressively poorer. So a 65-year-old today has more wealth than a 65-year-old 10 years ago, who had more wealth than a 65-year-old 10 years before that. And the opposite for 35-year-olds.

We have a paper on the particular issues that women face in retirement. There's been a lot of focus on widowhood. Women often outlive their spouses, and that's correct, but in this piece, we focus on disparities in the labor market and how they translate into disparities in retirement. So if women earn less, if they have more interruptions to their labor market career and so on, that translates directly into retirement benefits. And so the solution for the disparities in retirement is not just a retirement issue, it's a life cycle labor force issue.

The second section of the book is four papers that look at access and look at navigating the retirement system. We present a case for dashboards, which would be a way to organize, simplify, and hopefully improve the choices that people make. We have a paper on the special situation of contingent workers and propose a single provider system to be able to follow them to — one account follows them as they move back and forth between contingent and non-contingent jobs, or from one contingent job to another. Gary Koenig, Jason Fichtner, and I have an article that aims to delay the date at which people start claiming Social Security with a program called START benefits where people save over the course of their working lives, the government employer pitches in as well, and this little nest egg allows them to delay the time that they start getting Social Security benefits, which boosts their annual benefits.

Finally, there are a number of papers on state retirement saving plans, which have become an important locus of retirement saving activity because of federal inaction on the auto IRA idea and the states have sort of filled the vacuum and a number of states have begun to implement automatic IRAs.

The last section of the book focuses on converting retirement wealth into retirement income. These are the decumulation strategies we've talked about — I mentioned earlier. The one paper proposes kind of a default strategy for withdrawals. This is default in contributions or default in enrollment or automatic investment. Those are pretty easy decisions to make. Default for withdrawals are difficult because, for example, if you annuitize somebody automatically, that's an irreversible choice. So in this default strategy we have a flexible, but we think secure, balance between managed payout fund, a longevity annuity, which would not kick in until say 80 or 85, and then emergency account to deal with short-term emergencies or, frankly, to deal with variations that people want in their age consumption profile on retirement.

A second paper is kind of an exhaustive treatment of ways to increase annuitization from 401K plans. We know that 401Ks are very good for many people in accumulating wealth, but with the annuitization, the withdrawal strategies are not as well developed. And this paper goes through a number of options.

And, finally, my favorite paper in the whole book is on tontines. This is not a French pastry, this is a financial instrument that existed 300 years ago, 400 years ago and may be coming back. It's a way of pooling resources that's not an annuity. It's a group of people who get together and when people die they forfeit their claim into the pool. So there's potential to use tontine-like instruments as a retirement saving vehicle. And this paper talks through those options.

So those are the themes we've been focusing on over the last couple of years at RSP. And I think the two main things to think about this is these are ideas that work within the system. We're not trying to overthrow the retirement system and replace it with something else, we're trying to make a complex system with a lot of partners in it work better. And these papers are policy proposals, they are concrete ideas that can make DC plans work better. We're not just talking about a theory, we're talking about specific proposals. I'm fairly certain that every paper in this book has specific proposals to make things work better.

So that is your thumbnail sketch of our book. I encourage you to take a look and we'll be talking about that –– some of these issues later in the discussion I'm sure.

In the meantime, we have four superb speakers today. Mark Iwry will be our first speaker. If you have ever been involved in the pension world, you know Mark Iwry is a nonresident senior fellow here at the Brookings Institution, visiting scholar at Wharton. For eight years he was the point person in the Obama administration on pension policy. He'll be followed by David John who is also a nonresident senior fellow at the Brookings Institution and a senior strategic policy advisor at AARP. And David is the deputy director of RSP and has worked with RSP for over a decade now.

Our first discussant is Olivia Mitchell. Olivia wears many hats. International Foundation of Employee Benefit Plans professor, professor of insurance and risk management and business economics and policy, executive director of the Pension Research Council, director of the Boetner Center on Pensions and Retirement Research. I will just add the title, the hat of leading pension economist in the United States. We're delighted to have Olivia as a discussant.

And we are equally delighted to have Anita Mukherjee, who is at the Wisconsin School of Business. She recently completed her Ph.D. from the Wharton School, had the good sense to attend Stanford as an undergraduate and a masters student, and works on social insurance, the economics of aging, and law and economics.

So thank you in advance to all the speakers. We'll hear from the in the order I discussed and then we'll have a general discussion after that.

So, over to you, Mark.

MR. IWRY: So thank you. I'm particularly happy this morning to see all of you and especially Olivia and Anita. Thank you for joining us for what we anticipate will be a thoughtful and stimulating discussion.

The paper that I'll be summarizing — which is co-authored by four of us, Chris Pulliam, David, Bill, and me — it takes a look at collective defined contribution plan designs and their potential uses. Our purpose here is to look beyond the conventional defined benefit and defined contribution designs to explore a richer and more nuanced array of strategies that are being developed to seek a more optimal sharing of financial risks between employers and individuals, including risk pooling among employees and among retirees.

As we know, in the typical DB plan, defined benefit plan, workers are automatically covered, employers guarantee and pre-fund benefits, make investment choices, bear the risks that the funding costs will increase due to low asset returns or increased longevity. The benefits are usually based on wages and tenure with the plan sponsor. And DBs are required to offer guaranteed retirement income for the lifetime of the participant and any spouse, although commonly many of them pay lump sum cash outs instead.

DB participants don't have to decide about or face risks associated with enrolling the contribution level, the investment allocation, portfolio rebalancing. Essentially they decide only when to claim benefits and in what form, and they benefit from pooled and professionally managed investments that meet fiduciary standards.

DBs have their drawbacks of course, including commonly backloaded benefit accumulation patterns that tend to concentrate benefits on the limited percentage of people who spend most of their career with the plan sponsor and retire from it with much smaller benefits to those who experience interrupted careers, as a lot of women do, or frequent job changes. Private sector DBs also involve underfunding risk, though mitigated by pension benefit guaranty corporation insurance, and inflation risk, as well as limited portability of benefits.

For employers, the pension guarantee, a defining feature of DB plans, involves a major drawback as well, that is large funding obligations that can change unpredictably and can wreak havoc on corporate balance sheets. DBs are also complex and often seen as underappreciated by employees.

These employer concerns have largely driven the shift in the U.S. from DB pension plans to not so much DC plans, as people often say, but rather individual retirement saving accounts, mostly 401Ks and IRAs. That is from pensions, lifetime income that employers fund, provide, and guarantee, to saving by individuals. But of course employers' flights from DBs to 401Ks and IRAs is a derisking for the employer which transfers the financial risks to the individual workers. It's not a derisking for them, most of whom are ill equipped to manage those risks.

This sort of well known steady decline in defined benefits sponsorship has resulted also from the shrinking of the unionized and manufacturing sectors where DBs have been common, the expansion of women's participation in the labor force, and rising DB costs as life expectancy and the ratio of retirees to active workers has increased.

By contrast, DC plans have an individual account for each participant, as we all know, that bases benefits on contributions and investment returns. So employees bear the investment risk. Of course the prevalent DC plan in the U.S. is a very particular kind of DC, namely the 401K. 401K sponsors avoid investment and longevity risks. They typically have significantly lower and more stable funding costs than DBs, they're simpler to administer, the employer matching contributions are more stable because they're relatively predictable, and they can be cut or suspended if the employer wants to, prospectively.

Finally, most employees have been successfully encouraged to prefer 401Ks to DBs. Not so much older employees approaching retirement, but younger and mid career people. And for a lot of people the appeal of owning a growing account balance seems to outweigh the less tangible long-term promise of post-retirement income that's framed by a DB plan. The 401Ks are more accessible, more portable than DBs during hardships and job changes.

So while 401Ks have become the dominant retirement vehicle in our country, they were essentially do-it-yourself plans, leaving participants to decide when to participate, whether to participate, how much to contribute, how to invest, and so forth.

Starting in the late 1990s, policy makers at Treasury launched a strategy to encourage transformation of the 401K into a more automated pension like 401K 2.0, essentially restoring some DB like features to 401Ks. And in a fully automated 401K enrollment, steady contribution increases, diversified investments, and rollovers of small balances upon a job change, all occur automatically, unless the participant overrides the automatic settings. But 401K participant generally miss out on the additional pooling that's available in DBs, often face retail pricing of fees, they still bear investment risk, they usually get less employer funding than DBs, they typically get lump sum payouts without regular retirement income or longevity pooling.

So the question is whether collective defined contribution plans can build on the strengths of automatic or automated 401Ks while addressing their drawbacks, offering a way to rethink the sharing of risk and pooling of risk. And we think that they might. Collective defined contribution plans and similar hybrid pension formats were developed in the Netherlands and Canada, where they're often called defined ambition plans or shared risk plans. They're also in Denmark. And they're receiving very serious consideration in the United Kingdom. In addition, these collective DCs and their variants are sometimes referred to as money purchase plans in the UK and in the U.S., target benefit variable DB, et cetera, including U.S. counterparts and close parallels.

The collective defined contribution plan lets the employer avoid that defined benefit funding volatility and costs as well as investment risk while providing savers and retirees DB like benefits and features that reduce and better manage financial risks for individuals compared to 401K plans.

Instead of the 401Ks individual accounts, participant directed investing, and typical lump sum payouts, collective DCs provide DB style pooling of contributions and investment earnings with professional investment management and target, though they don't guarantee, a future monthly benefit payment for life, sharing longevity risk among participants.

It's common for employers and employees to contribute to a collective DC. And as in DBs employees generally do not have a full on 401K style individual account, although contributions by and on behalf of them are tracked and reported to them. Regular income and longevity risk pooling helps retirees balance the risks associated with either over consuming early in retirement, thereby risking running out of funds later, or under consuming early in retirement and therefore potentially limiting oneself to a lower standard of living than necessary.

This pooling also enables individuals to save for an average life expectancy rather than needing to save for the contingency of an extremely long life expectancy given that people are uncertain what their actual life expectancy normally will be. Because collective DCs pool investment risk and longevity risk without guaranteeing benefit amounts, they can provide lifetime income without the regulatory marketing and profit margin costs of commercial annuities. Pooled professional investing also reduces administrative fees, expands access to a wider range of asset classes, including those that might offer an illiquidity premium, like infrastructure, helps spread risk over time and across workers, including routine asset volatility and sequence of return risk and timing risk that are associated with an individual having to liquidate assets from her account at a particular time. Some collective DCs, for example, will accumulate reserve funds from surplus returns in good markets, to buffer losses during down markets.

And, finally, they have professional investing to help workers avoid what one might call amateur mistakes, such as over investing in company stock or failing to diversify and rebalance. By company stock I mean employer stock, of course.

For employers a drawback of collective DCs is that they're less flexible than, say, profit sharing or 401Ks in terms of an employer's ability to reduce or suspend their contributions. For workers, the key drawbacks include that benefit levels are not guaranteed, as we say, that they're less portable than DC plans, and that employees bear the investment risk, albeit collectively in the form of potential benefit cuts or increased employee contributions.

These risks have been partially addressed using a defined ambition — as it's called — design that often distinguishes base and ancillary benefits. Base benefits being not guaranteed, but expected to be paid even under very conservative financial assumptions. And ancillary benefits, such as COLAs, being more explicitly contingent on the plan's financial condition. So if benefits need to be cut, the ancillary ones will be reduced first.

Compared to a conventional 401K, collective DCs provide pooled investment and longevity risk protection. Compared to an unsustainable DB, they offer a systematic orderly process to adjust benefits, which helps savers manage uncertainty, set expectations, and plan for retirement.

In the U.S., collective features of (technical inaudible).

SPEAKER: Mark, you're muted. Mark? Chris, can you unmute him?

MR. IWRY: I've been asked to unmute. It's coming rather late in my presentation, but I appreciate the thought.

Gene Kalwarski and Jim Holland at Cheiron, Sandy Matheson at MainePERS, have been particularly creative in developing or implementing variable DB or variable benefit plans in the U.S.

some of these designs, such as local government employees plan in Maine combine DB and collective DC features by providing DB style benefit formulas that guarantee a DB benefit as a base and target a higher variable benefit, depending on investment performance. They seek to limit employers' funding cost by designing the base benefit, albeit guaranteed, to be manageable in amount and use conservative funding assumptions to minimize the risk of underfunding. Alternatively, the base could be variable rather than guarantees, as we mentioned earlier. These variable DBs, or CDCs, are employer funded but might have employee contributions. They define targeted benefits in a DB like manner, they invest professionally and collectively without employee involvement, and the pool longevity risk to provide lifetime income.

While collective DC and similar plan designs have made inroads into pension systems in the U.S. and several other countries, their prospects for playing a larger constructive role depend on their ability to meet several challenges. First, can participants understand and ultimately accept the variable nature of specific targeted benefits that are not guaranteed? The Dutch experience provides a certain warning.

Second, can collective DC plans successfully mediate between different generations of workers, new versus old members, employees versus retirees. Disparities in treatment are hard to avoid and decisions to protect current retirees from benefit cuts can come at the expense of current workers who are funding those benefits. So CDCs have given rise to intergenerational tensions, design complexities, and challenging sustainability problems.

A third challenge where a CDC starts as a DB plan, the transition can be hard to manage, as illustrated by past conversions of traditional DBs in the U.S. to hybrid cash balance plans.

Fourth, collective DCs shift risk from employers to participants and the flexibility to reduce benefits raises questions about whether management has too much discretion to make changes adverse to participants without sufficient guardrails. That discretion creates possible risks of misunderstanding, mistrust, et cetera.

And, finally, CDCs raise questions about the trade off between pooling and portability when an employee changes jobs long before retirement. DC savings are portable, DB benefits tend not to be very portable, and CDCs seem likely to present similar challenges.

If collective DCs can meet these challenges, we think that adding selective features that are collective to conventional DBs or 401Ks in appropriate circumstances could improve outcomes for workers, retirees, and employers. Will employers have enough motivation to adopt them to replace either existing DBs or enhance 401Ks? If it's an existing regular DB that's well funded by a strong sponsor, as many of these plans still are in the public sector and especially bargain settings, there may be a less compelling case for collective DCs.

But for plan sponsors that are unwilling to bear the DB's volatile investment and funding costs, maintaining a DB in its current form may not be an option. And here, instead of a 401K some sponsors might be receptive to converting some of the DB guarantee to a more flexible variable collective DC, or enhancing a 401K with more pension features, like collective professional investing, longevity risk pooling, and lifetime income. The many sponsors that have previously shifted their risks to employees and retirees by shifting from DBs to 401Ks may be a harder sell. That said, collective DC factors might still be an appealing option for those that special Ks and not DBs, but that are willing to consider adding features incrementally to better serve participants.

So we view the collective DC as a welcome development with the potential to identify more optimal allocations of financial risks and retirement benefits.

Our other new paper on small accounts is being presented by David John, my colleague. So, David, over to you.

MR. JOHN: Thank you, Mark.

Let's move to the first slide I've got here please. There we are. Good.

Small accounts are an inevitable feature of any DC retirement system. And this is especially true in a case where there is automatic enrollment or mandatory participation, or in cases especially where you have an employer provided system where each employer has it's own plan and program and starts its own account.

Now, the problem with these accounts are, first off, a matter of cost. One of the most expensive things for a provider is opening a new account for a new participant. Plus the fact that you have the question of fees and how fees affect the balance of a small saver. At one point most fees were assessed as a percentage in basis points of the overall balance. And in that case the large accounts effectively subsidize the small accounts. But as the fee — and in particular the record keeping fee, has been broken out as a separate item — that has the potential to reduce balances. As you'll see in the slide, the average record keeping fee in 2017 median actually was about $59, and that could have substantial affect on a small account, but not much of an affect on a much larger account.

Second, the small accounts are much more likely to be taken out early before retirement, most often due to job change. And in many cases this is due to the fact that when a worker leaves a position the HR department asks them, well, what do you want to do with your retirement balance, shall we just give you a check.

Third, small accounts can be rolled into an IRA if the participant does not specify some other location. There are rules as to what an employer can do for a leaving participant. And in the event that a balance, and especially a smaller balance, is rolled into an IRA where the participant has not given any sort of an instruction, it's about 10 times more likely to be abandoned. So basically the savings go to — and are lost.

And last, but not least, and this is sort of logical, most smaller balances are typically held by minority savers, younger savers, and lower income savers. So now the question is what can we do about this, how can we reduce the prevalence of small accounts in a DC retirement system. And we have five proposals, and we'll go through them one at a time.

The first one — and this is actually only a partial list. This is a factor of who much space one has on a slide. The actual paper itself has a few more of these items. So let's make it easier to consolidate an account. I can testify from personal experience that it can be very difficult, even for those of us who work in this field full-time, to move a savings balance from one employer to another.

So among these ways to ease the consolidation of accounts, one is to require qualified DC plans to accept rollovers. At the moment that's at the discretion of the plan sponsor. Second is to allow ROTH IRAs to be rolled into qualified plans. Again, that's not allowed at this point. Another is that small balances rolled voluntarily into an IRA typically go into a sterile account that essentially is meeting the needs of inflation or the cost of inflation, but they aren't really growing. So if we allow them to be invested in the QDIA, as they were before they were rolled over, this would enable the balances to continue to grow. And if they're found, to be better used and provide more retirement income.

Last, or next to the last, is there's a question, currently a plan sponsor only really needs to consider the amount that has been saved during that employment period and not the overall balance, which probably reflects previous employers' balances.

And last, but not least, the whole question of auto portability. It would be so much easier if when I move from one job to another if my account automatically followed me along. So that's now number one. And this is a rather crucial element looking at some weaknesses of our current system and how to correct those. And, again, there are more of those in the actual paper.

Number two is how do we make it easier for especially low and moderate income workers to have larger balances. One that has been an RSP priority for — gosh, about 15-20 years now, is to enhance the saver's credit and to make the saver's credit a refundable match that goes into their retirement account rather than being received by the individual and often consumer. The actual use of the saver's credit is definitely sub-optimal. Only a fairly small percentage of those who are actually eligible to take the saver's credit actually do so.

One of the problems is that currently in order to access the saver's credit you have to use a 1040 form, which allows you to itemize deductions. And very few low or moderate income individuals actually use that form. So a rather crucial element is to allow this credit to be taken on all types of tax forms. Now, obviously this builds balances while reducing costs for both the saver and the provider, but there is an important public policy element here too because we know that if we can increase people's retirement income by just $1,000 a year, less than $100 a month, that this could save the states and the Federal Government several billion dollars that they currently have to spent for supporting retirees who don't have sufficient retirement income.

Third, it is to establish a pension dashboard. Now, this is covered in last year's paper, which is available in the book, which is available for holiday giving or any sorts of other types of presentations. A dashboard is something that is found in a number of European countries. It is being explored in the UK and it basically — one area, one website usually, which includes an online registry where you can track your retirement benefits. It also often helps you to find your past retirement benefits, lost accounts, project future income, and in some cases is t can even make it easy for an individual to actually combine their accounts into their current account. However, the dashboard, as many positive features that it actually has, requires the saver to proactively go to this site and actually perform the actions to combine the accounts.

So let's move to the next slide, which is the next way of dealing with this, which is establishing default consolidation roles. This could either be done by a single consolidator, as is found in areas like Australia, or it could be simply a series of rules, as found in certain other countries. And in this case, unless the saver decides otherwise, the past accounts would be automatically consolidated into their current account or another account that they choose. And essentially the lost balances would thereby be recouped.

Now, the one caveat here, especially in the American system, is that in order to do that there has to be some sort of a notice because in many cases the individual either has a different account because of tax reasons or they may have the separate account for various other reasons, such as a very low administrative fee, or something along that line. But a consolidation rule actually would help definitely to increase retirement income and to improve the finding of lost accounts.

Now, last but not least, the most extensive reform is to move to a lifetime provider. Now, in this case, the individual has one account — this is found, as Bill mentioned, in a paper that he and I did in the book — one account that moves with the worker from job to job. And as we envision it, this would be regardless of the type of employment. So this would be both for full and part-time traditional employees as well as contingent workers of the various types. An account that moves with you from job to job reduces leakage and eliminates the cost of setting up a new account each time you move to a new job, for the simple reason that you no longer have the question, what do you want to do with your retirement. It's going to follow you from place to place automatically. We envision this as the funds would go into a default investment choice unless the saver chooses a different one. And just like an individual can change banks at any time, you can move from one provider to another. So this allows the individual both to save their balances and also to over time, as they get more experience with investing and the like, to make changes that best meet their needs.

Now, the caveat here is that this is a rather serious change from the existing

U.S. system. Australia is in the process of moving to a type of lifetime provider account — they call it a "stapled account" — that would follow you from place to place. But moving to such a system in the U.S. would require a fair amount of adjustments and changes. It becomes less of a problem if we move to a system where an employer is required to offer some sort of a retirement savings benefit and the like. One of the things that Bill and I have proposed in the paper is that this can be done voluntarily. So if an individual chooses to have an account that moves with them from job to job, that would be one way of starting the process.

So that's the second paper here. And we are now going to move to Olivia Mitchell, the first of our discussants.

Thanks.

MS. MITCHELL: Thank you very much, and without further ado, let me just start by expressing my deep appreciation to the Brookings Institution and also to Bill Gale for being the point person all these years for the Retirement Saving Project. It's been a really very influential, very creative, and very informative set of activities. And also, I appreciate the opportunity to re-read the book, as well as these two papers. I have some general comments. I'm going to share my slides here and -- let's see if we can get this watched. Of course, now that I want to do it -- there we go. Okay. So, without further ado, I am from the Wharton School. I run the Pension Research Council and I've been working on pensions for, well, 40 years, more or less as it turns out, and so it's always great to have some new ideas in the mix. So, now, I have about 15 minutes and I have to discuss 15 papers. There's 13 chapters in the book, plus two additional. So, I collected my overall comments into three general areas, and I'm sure that we'll have more opportunity to interact during the Q & A. So, first, the facts.

In terms of the facts, I think we mostly agree on the stock-take. That is, the assessment of where we are today in the U.S. retirement system, what's working slightly better, what's working slightly worse. But, there's some things that I think the authors know about, but they don't emphasize either in the book or in the two new papers, and I abbreviate the authors by GIJ: Gale, Iwry, and John. Not GI Joe. So, the first point I would like to make is that we all know Social Security is the 100-times gorilla in the room. Not only the benefits, but also the taxes that are involved when we think about retirement.

And so in assessing retirement preparedness, I think we do have to at least pay more than lip service about the role of Social Security. On top of that, Medicare, and benefits, as well as taxes, because increasingly, these programs are becoming more expensive when assess how well we're doing in terms of retirement wealth.

Many people I know have had retired, only to wake up and hit their head, saying, oh, I didn't realize my Social Security and pension benefits are going to be taxed by the state and, in some cases, by the federal government. We also see a rise in income taxes and means testing of retiree benefits. And these are driving decisions and will drive them ever more powerfully in the future. That is, how much do you want to accumulate in your tax qualified retirement account vs. outside? What about the role of requirement minimum distribution? And penalties to the extent that they come back. So, all of these, I think, need to be modeled more explicitly in your next book, in your next set of papers, on retirement preparedness.

Also, we know that many vulnerable among the elderly are hoping to get SSDI, SSI, Medicaid, and these too are also means tested and income tested. And so, these factors, I think, make retirement not just a difficult decision, pretty much a darn well impossible decision for people that are really trying to integrate it. So, my takeaway is that I actually don't know for sure whether the book and the stock-take is overstating shortfalls or understating savings shortfalls. I believe that we're probably understating savings shortfalls because of what I have on the next slide.

In particular, the fact that Social Security, Medicare, and the disability insurance programs are facing nearer-term insolvency. It looks like within the next 10 years depending on who you look at. And this, I think, again, needs to be seen as the appropriate backdrop for a proper assessment of how to reinvent the U.S. retirement system.

On top of this -- I know, economists are always the dismal scientists, right? On top of this, we have the reality that many economists believes there's going to be a very low set of capital market returns instead of long-term. Now, some of the NBER researchers have suggested that after past pandemics that returns will low for 40 years. I hope that's not true with this pandemic that we face, but it is very troubling to think that our children and our grandchildren won't be able to earn the kinds of rates of return that we were fortunate, speaking as a baby boomer, to be able to benefit from. Meaning that we could save a little bit less and benefit by earning more on our savings than will be true for the next generation.

The evidence is also suggesting that longevity will keep rising post-Covid. Obviously, we know there've been some very severe hits to raise mortality rates, especially among blacks and Hispanics, but longevity is still likely to recover, assuming we get vaccinated and there's no new variant that mow us down. And medical care costs will rise, as well, as we continue living longer. So, this, I think, puts a different flavor, a different spin, on how well we're saving for retirement, and what is some of the risks that we need to be thinking about?

As the Social Security Administration does, when I think about future retirement preparedness, I like to have a range of outcomes. Maybe not exactly the three that Social Security uses -- the pessimistic, intermediate, and optimistic -- but I think in order to be able to inform policymakers, offering a range of options is often very informative.

So, those are some of the facts that I had some quibbles with. I don't disagree with what they've done, but I would add some additional pointers along those lines.

Now, in terms of the economics, the thing that I see is most missing in this set of proposals is that there's not a very carefully focused discussion of savings disincentives due to some of these means test and benefits taxes and regulations that I mentioned a moment ago. So, for example, we've known for years that people dissaved so that they could access Medicaid. Maybe not the wealthy. Maybe not even the mid-range of the wealth distribution. But a lot of people do have it in the back of their minds. Now, there have been some policies developed, including the Medicaid Partnership Program, which applies here in Pennsylvania, such that if you do buy in to long-term care insurance and then it turns out that you run out of assets or get close to running out of assets when you retire and need to go into a nursing home, there's a set-aside of some of your assets so that you can retain them by virtue of the fact that you did partially insure yourself. And I think that's the kind of programs and means test and offsets that we could really pay more attention to.

Of course, higher Medicare means testing. It's already there in the prescription drug portion. My prediction is it's going to get more and more means tested, and this is also going to reduce people's savings so that there's some incentive to get higher benefits. Future higher state and local income taxes will also potentially have a negative effect on private savings. So, this is again part of the backdrop of the economics future that we face. And, of course, something I've been very interested in is required minimum distributions which we have shown alter, depending on how they're changed again in the future, alter how much money you put in your tax qualified account, how much money you save outside of your tax qualified account, and even can influence how long you're going to work and when you're going to retire. So, these are some of the economic unfortunate complications that a retirement picture needs to take into account.

In terms of the policy actions, I was very interested in some that were offered, particularly how to help high-turnover, low pay workers, say, for retirement. This group, and also a group I've been part of, has done a lot of work on state-based mandatory savings accounts. Our particular focus has been Oregon, the Oregon Saves Program, the oldest one in the U.S., and we estimate that participation into these state-based savings accounts is on the order of one-third. And after a year, the average balance is fairly low. Eight hundred dollars or a little bit more. The issue, of course, is that these state-based savings accounts are targeted at low pay workers and people in high-turnover jobs. And this makes it very difficult for people to save any amount of money in these Auto-IRA plans. And, in fact, we did a survey asking people who opted out why they opted out. And the most common response given was, I can't afford to save. So, even making these policy options available -- taking the horse to the water -- doesn't necessarily mean the horse is going to be able to drink.

There've been other studies on people defaulted to auto accounts. (inaudible) have a paper that showed that in the military, young folks that were auto-enrolled, after a period of time did have more savings in their accounts, but they also took out more debt. Now, that's not necessarily bad. Some of the debt was for automobiles and mortgages where people may be getting a long-term benefit due to the durability of the purchases. But we have to be very alert to some of the potential unintended consequences of this higher debt. So, I think this really brings into focus the House Committee Auto-IRA bill and maybe during the Q & A, we can touch on whether this is a good idea to mandate employers with five or more workers to offer a pension.

Some of the proposals I liked -- of course, I'm an annuity fan. Not the complicated bells and whistles annuities, but very simple deferred life-plan income annuities. Some of my work has shown that if you took just 10 of people's 401k nest eggs at retirement and put them into a deferred income annuity starting at age 80 or 85, similar to what David spoke of, this is a super way to boost old-age consumption. I will note in our work that we understand that if you default everybody into a deferred annuity, but people only have $5,000 or $6,000, that doesn't make a lot of sense. So, we put a threshold, a lower limit, of about $65,000 in the 401k nest egg. And that's about a quarter of the way up the 401k asset distribution at age 65. So, a lot of people could really benefit from that.

In terms of tontines, these seem to be quite fashionable these days. These are annuities where participants bear systematic risk pool mortality changes and they're typically not governed by insurance regulation. The only point I would make is that these have been available in the U.S. for decades, from TIAA, as called participating annuities. There are also widely sold in the EU, not as tontines, per se, but as products which are insurance regulated but allow participating mortality. They turn out to be far less expensive than conventional non-participating annuities. People get a lot more bang for the buck, so I think these are a terrific idea.

Before I go on to what's missing, I did also want to say I'm less persuaded by the collective VC accounts. As was mentioned, the Dutch have tried this, but when the financial crisis hit, many Dutch had no idea that their benefits could have actually been cut and were cut. And so, it's one thing to say you have a notional VC plan, but it's another thing when the reality hits the road and benefits have to be cut. The Japanese also had something they called the Macro Economic Slide. It was an adjustment to try to cut benefits when times were bad, boost benefits when times were good. Guess what? When times were bad, benefits could not be cut. There was political objection at the highest level. I do think that we can have scale economies with multiple employer plans that are now hitting the market slowly, which potentially could also include deferred annuities, and I also like the proposal of a single account. So, in some countries -- in Chile where I've been doing a lot of work -- everybody in the country has a unique I.D. that called a Unitarian Register Number. And you do all your financial transactions -- your mortgage, your bank account, your pension contributions --everything through this unique I.D. And I think that would really cut down on multiple accounts and provide a lot of benefit to people that otherwise might lose track of their money.

What's missing? Well, you know, I have to talk about financial literacy. Our research shows that it's essential for folks to know about diversification, interest rates, and inflation to help them plan for retirement, save for retirement, and understand annuities better. So, that's absolutely critical. I think it's especially important for women and minorities, but this was not a particular focus of the third chapter.

Longevity risk is also critical. People seem to have an idea in their mind about what their life expectancy is, but they don't understand that's an expectation. There's a whole long survival tail out there beyond that beyond that and that makes people much more exposed to outliving their assets, being affected by medical care cost inflation, and that's an area where we particularly need to educate. Obviously, there's an advantage in delaying claiming Social Security because, in effect, you're buying yourself a deferred inflation-protected annuity, and we know that there's huge dangers of claiming as a break-even point.

One of the issues I would raise with the authors is that I worry that this dashboard might be important and useful, but unless consumers understand what they're looking at, unless they can make the translation from my $100,000 in my retirement account and what that means in terms of lifetime income, it's potentially not going to be very useful to financially illiterate customers.

Guaranteeing retirement accounts is another area I take issue with. The costs in the book are old, like the chapters were written a while ago. It's much more expensive in the current low-rate environment. So, for example, our calculations show that a money-back guarantee at retirement now costs 36 percent of each contribution over a 42-year work period. How many people really want guarantees given this, I think, fairly extraordinary cost?

So, I wanted to close just with some implications for insurers and regulators. I believe that Deferred Income Annuities should become a default for just 10% of 401k plans over a threshold now that this Secure Act has passed. I think there's really something to be said for getting financial advisors to integrate VC payouts with overall retirement plans, so that people can delay claiming later. I also think we should get rid of the Social Security age 70 max and give people actuarily fair enhancements for delaying claiming further. It's not just self-interest. I think it would really change the nature of the discussion where people are encouraged to retire early vs. encouraged to continue working. I think we should also raise the early entitlement age for Social Security. Since SSDI disability program is there for the truly disabled and we don't need to encourage people to quit if longevity is going to continue increasing. And just a small plug for reverse mortgages, which are a way that people can help pay for their own retirement by extracting equity from their homes. I think that could be a very important development in the post-COVID environment.

So, just to conclude, this is always a great joy to talk about this research. It's some wonderfully creative thinking that we've seen here. A great value. Keep of the good work and just in case anybody wants more books or papers, you can download them for free from the Pension Research Council. And I'll also have just some references here in case anybody wanted to follow up any of these. So with that, let me turn it over to Anita, and she is going to offer her thoughts.

MS. MUKHERJEE: All right, well, thank you for having me here. Let me just share this. So, I'm humbled to be here today at Brookings, seeing all the names in my literature review as co-panelists. So, really, I've been learning a lot and I appreciate the discussion. I did not take on the Herculean task that Olivia did of discussing all 15 of the different articles, so in my discussion today, as Bill advised me, I focused on the paper that they had presented earlier on small retirement accounts issues and options.

So, just as a background for the small accounts literature, which is the area in which I've been working, I think studying inactive retirement accounts is quite tricky, right? Because when we save for retirement, part of the reasons defaults work and these retirement savings plan work, are that they're designed to be left untouched for a very long time. Right? You're meant to just sort of invest and then not think about it very much. But then it's difficult to then get people to think about it again, right? When the time is right. So, as Olivia mentioned, these required minimum distributions -- these show up for defined contribution accounts at age 72 now. Recently, it used to be age 70 1/2 and there's a challenge in having these accounts which are meant to be kind of silent for a long time, but then activated again at age 72, for example, which may or may not coincide with when people are actually retiring. So, in this discussion, I'm going to review some of the policies put forth in David John's paper that he presented to address this problem of small and inactive accounts, and also to offer some insights from my own work on the pain points of rolling over retirement funds and the extent of these inactive accounts that we see in our tax data and in unclaimed property.

So, I've been interested in this question of why do accounts become inactive? Right? So, this is something that is discussed quite in detail in different papers, but I haven't seen direct survey work with it. So, this chart that I'm showing you is not part of any paper. It's from a survey done by Employee Trust Fund that responds and which manages all the state's retirement plans. And so they asked their employees some questions, like, for example, what did you do with savings from your previous employer? And we see that about two-thirds of people did roll it over into an IRA or their new deferred contribution accounts. And about a quarter left it with their former employer and about 4 percent did not remember. In terms of the leakages that were discussed, about 6 percent did cash out savings from their previous account. But of this quarter that leave it with the former employer, when this firm asked the follow-up question of, why did you leave it with the former employer, I found it quite striking that the majority say it's because it was the easiest thing to do. Right? And so, here, I think it highlights this roll, and again the challenge that defaults play in the setting whereby default, you may leave funds behind, but again, defaults, because they're not very silient, may trigger an activity later in life. The respondents for this firm also said they don't know how to rollover funds or they don't know that rollover was an option, I think coinciding with some of these comments on financial literacy that Olivia mentioned. Right? So, you might be able to make it easier and give people more time to roll over funds, but if people are not fully aware of how to do that, or they don't even know this is a thing that people do, especially those most vulnerable, it may be challenging to have some of these policy solutions work without complimentary efforts and lots of financial education basically.

So, here, just a summary of some of the suggestions put forth in the paper. I like this phrase of "easily lost and drained early" small retirement accounts. Right? So, first, the suggestion was to consolidate accounts basically by increasing the rollover time and improving some of the features of auto-rollover accounts. Second was improve saver's credit, basically to replace a non-refundable credit on a tax return with a refundable credit given as a savings match. The idea is that this would encourage savings. Third, to create a national retirement dashboard to help people keep track of and consolidate accounts, and also interestingly, I found that the chapter -- in the paper -- to see financial advice. This is something that I had not initially realized was part of the dashboard that was being envisioned, but I think it's quite useful potentially to have a financial advice integrated into this dashboard. And I was wondering types of financial advice or in what form it may come in that dashboard.

(Inaudible) to create this dashboard consolidator basically to help people rollover accounts and limit the temptation to cash out because it's the easier option to do. A challenge here that the authors acknowledge is that some accounts are better kept separated. Right? Not all accounts can be rolled over together, and some accounts that feature better balance growth are better kept alone than consolidating into a default option.

And fifth, it was to offer a voluntary single account per worker just like we heard today that there are in other countries. This lifetime provider policy, which it sounds like the main goal is to raise the balances in these accounts by aggregating all the savings growth, which would avoid some of the fees that come specifically with small balance accounts.

So, one question when we think about, you know, these “easily lost and drained early” accounts is how big is this problem of an inactive accounts to begin with? This is something that I have been very interested in working with colleagues using U.S. tax data on, so just to share some information -- and this is all from traditional IRAs -- inactivity is quite prevalent. Three percent of 73-year-olds we estimate missed required minimum distributions in 2017. There’s a separate question of what does it really mean to miss them. Right? Maybe you claim them later. There is a penalty that’s not always enforced from missing these distributions. And we find that about 40 percent of accounts remain inactive for 10 or more years, meaning that they’ve missed distributions for more than 10 years. So, to me, this is, you know, quite a problem. It’s not just these people who are delaying for a couple of years, but it’s really many, many years.

And another insight from this work is that the chapter focuses on small accounts, but even large accounts can be inactive. Right? (Inaudible) to potentially different policy solutions that, you know, my work does not go into, but that you might be able to comment on for how to mitigate these problems. So, we find, for example, that the first (Inaudible) of inactive savings is around the $680, which I consider to be small in context of lifetime or old-age income, but the median left behind is about $6,300. The 75th percentile is $26,000, and the 90th percentile is $73,000. So, I think this distribution of inactive IRA values begs some policy intervention for why are people leaving behind these very large amounts? Like, maybe they want to bequeath all of it and, you know, we’ve done some work to try and think about that, but it seems that a lot of these are just inactive, maybe because people never knew about them or they were forgotten in some way.

I wanted to provide some context for how small accounts especially are sometimes born. So, here's a path of defined contribution accounts of job separation which -- I really think job separation is the vulnerable pinpoint in accounts beginning to potentially become inactive or unclaimed, and what we see is that for accounts that are more than $5,000, by default, the funds remained with the plan unless they're actively rolled over by the participant. If the savings are less than $5,000, however, there are two different options. If it's less than $1,000, the plan can decide to just cash you out. But if it's between $1,000 and $5,000, they have to set up a forced transfer IRA. These are also called automatic rollover IRAs in most instances. Now, the GAO has some really nice reports on this, but these are basically small, high-fee, balance preserving accounts which offer a unique lab to test if these defaults increase in activity. So, it might be nice to have these defaults, right, because you at least don't exit the savings from retirement. There's no leakage. They stay in a retirement fund, but on the other hand, if they become inactive, that might be a problem. And so, in my work, at which David highlighted in his presentation, we show that inactivity is about 10 times higher in these accounts created by default enrollment. So, we basically took advantage of this mini-experiment with the $1,000 and $5,000 thresholds, and on the (inaudible), what you're seeing is that the measures of inactivity are that people do not really change their address ever with the accounts. They don't update their address, and below, they don't have any interaction, meaning making a contribution or taking a distribution, for people who are induced into these automatic-rollover or forced transfer IRA options vs. people who choose to have their own IRA account.

And finally, one thing that I thought was missing in some of this discussion is the role of unclaimed property, because as far as I understand, this is the current policy solution to try and reunite a lot of these inactive retirement accounts with their owners. Plans are supposed to send to the state inactive accounts after three years of inactivity. Some states have it as five years. But, I see why you may not have covered this because in our work, we find that only about 3 percent of such funds are actually sent over to the state, and of the ones that are sent over, they tend to be the really small balance accounts. A full greater than a third of them have balances less than $100. The incentives of state unclaimed property are a bit unclear because sending to the state may help in that you now become part of a dashboard in a way, where people can search for their names and find their accounts, but on the other hand, escheatment process itself means that the funds are cashed out, so there’s no longer any investment in any way.

So, just some kind of summary of reactions based on my own work and this wonderful paper on small and inactive accounts is that inactivity is a major challenge because we almost need to rethink how we engage with these savings because many times, they’re advertised and considered as intendedly inactive. Right? People say, set it and forget it, or, you know, something like you just should put away money for retirement and never think about it again. And I think that challenge behaviorally is a big one, especially when retirement doesn’t coincide with when these distributions need to be taken.

Existing solutions via state property portals are unlikely to make a big dent, but it might be interesting to offer some discussion about it just because they are the current policy system. So, should we maybe not have planned escheat? Like, the rule is on the books and even I don’t fully understand why plans don’t send them. I think because it's not enforced, but some more discussion of these imperfect policy options that are currently in place would be helpful, at least to me.

I think we need to think carefully about defaults with small balances. This is something that was covered nicely in the article. I think these small balance accounts that are created by default are more vulnerable to inactivity and just with the recent trends, where people now have an average of 12 jobs per lifetime, means more and more of these small accounts will be created and potentially littered across the IRA and universe.

One thing that I have not seen a lot, even in my reading or my own work or this chapter, would be whether we can consider the household instead of the individual as a unit of retirement account consolidation. From my reading, there's some evidence that widows, for example, are just unaware of benefits, like these very large balance accounts that are left behind, and I don't have particular thoughts on that. I think it would be useful because I think many times, people financially plan as a household, but a lot of these solutions that are put forth in the chapter and that are put forth in policy really focus on the individual and not the household.

And I think the book (inaudible) I really enjoyed reading because it offers insights on aspects of all of the above, especially in retirement dashboards and, for example, when we think about the household effects -- the effects on women and other demographics that might particularly benefit from thinking about retirement as more of a household problem than an individual problem.

So, I'll pause -- I'll stop here and hand over, I think, back to Bill to lead some discussion. Thank you for listening.

MR. GALE: All right. Thank you everyone. Special thanks to Olivia and Anita for very helpful, constructive, thoughtful comments. Let me remind listeners to send questions to #future retirement or events@brookings.edu.

I want to go big with this first question. We have always emphasized that we're trying to work within the system and make the system work better than it does. We acknowledge that it's complicated. Olivia shared that it's even more complicated than we let on, and Anita drilled down deep in these lost accounts and showed that that's even more complicated. So, the question for the panel is first, are we just barking up the wrong tree? Should we be thinking, scratch the system and start over? Or should we be continuing to try to kind of, you know, build contraptions onto this Rube Goldberg retirement system that we have? Mark, why don't we start with you.

MR. IWRY: Okay. Would you like me to be on mute or off mute, Bill? So, I would stay the course, I think, in our approach that there's a lot of good in this system, and that, you know, the glass is at least half full. We've accumulated the largest pool of investment capital in history. We have helped tens of millions of middle-income households to supplement, as you put it very aptly, Olivia, to supplement the foundation of Social Security, and through the private pension system. And, you know, our focus has been, Olivia, to look at the private pension system in particular, and to acknowledge Social Security as a bedrock. Happily, you know, we have a really good piece in the book that Bill and Jason wrote about Social Security, but mostly, we have just made that allocation choice in terms of our time and effort that we focus on the private pension system in most of our work. So, I think we're on the right track, that, you know, I think that there is a kind of range of aspirations, if you will. We are a kind of defined ambition group, you know, and we have to -- we've defined our ambition in more than one way. We have ideas that are bold and sweeping that really would make a lot of changes in the system, and one of them is the one that's working its way through Congress right now. Automatic enrollment in IRAs for that whole third or more of the workforce that has no access to plans.

Many of our other proposals are very specific. Kind of Swiss watchmaker changes to the system that would actually do a lot of good, but are much more micro than macro.

MR. JOHN: Add in here, we're also dealing with reality. Political reality. I mean, when it comes right down to it, all of us could have developed a better retirement system. The U.S. retirement system really wasn't set up as anything other than ad hoc developments over the years. There's never really been an overall discussion of, well, why did we do this and how do we do that? So, the idea of sweeping it away and starting over again isn't really feasible, and one of the things that we have tried to focus on is, what are the practical changes that can be made?

I also want to thank both discussions for some incredibly useful comments and thoughts, and I just point out to Olivia that the reason we don't do a whole lot with financial literacy is that you and Annamaria Lusardi have basically covered that position and we just have to say, yeah, right. Exactly. So, we'll go from there.

MR. GALE: Olivia, do you want to weigh in on the big picture vs. the micro-changes?

MS. MITCHELL: Well, I think that we are where we are, and I think we've learned a long time ago that every retirement system is half dependent. That is, you are where you stand because of where we've evolved over the years. But by the same token, we know that there is a different distribution of income and wealth in the country now than there was in the 1940s when Social Security was put together. Women's labor force attachment is very different. There's a lot of discussion now about why retirement wealth is so different for whites and non-whites, blacks, and Hispanics, and I think that's probably one of the most important questions we have to focus on in the future as we figure out how some of these changes that you propose might help ameliorate that situation.

MR. JOHN: Yeah. Good.

MR. GALE: Anita, let me turn to you. There's the Retirement Saving Lost and Found Act of 2021, which is, I guess, working its way through Congress right now. To what extent would that address the concerns you've raised or help resolve any of the issues that we were just discussing about lost accounts?

MS. MUKHERJEE: Yeah, so this policy would create a dashboard of the type that is proposed in David's paper -- well, all of your paper -- but I think because it's limited to lost and inactive accounts, I worry how much traction it's going to have. Right? It's not all accounts. You still at least have to know to look in that database. You still have to face some frictions in accessing those funds. But I think it will at least raise awareness by having one place to search for missing accounts. I think the closest analogy might be with state unclaimed property databases which already do some of this, and we see that most of those are not very effective. There's some states that do a really nice job, but -- so I worry a little bit. I think it's useful. It's a step in the right direction, but it seems like more of a unified unclaimed property database than a real big change of the type that you propose in your work.

MR. GALE: You mentioned dashboards. We've gotten a couple of questions about how they would work. David, could you give us a little more detail on that?

MR. JOHN: Well, one of the elements that's rather crucial is that it would include, as we envision it, financial literacy data, and in a way that individuals could access and understand, and we've even discussed the concept of helping people to find financial advisors who could help them and who are essentially working for the benefit of the saver rather than for the benefit of their own income. So, that's a rather crucial element. It would include, depending on how it's structured, search tools to help find past accounts. A way to put all of your retirement accounts that you found so far into one picture. And ideally, we'd like to do this in a way so that you also have your projected retirement, or Social Security benefits, so you have one picture of, here is what I have, along with an income projection. So, here is how I can plan to deal with the future going forward. We think that this again has tremendous potential in our existing system which is so fragmented anyway. It's a way of bringing together information and giving people an unbiased look at where they stand and where they can go from this point forward.

MR. IWRY: I would just add, if I may, that point that you all made earlier about a person needing to know what to do with that account balance or what the account balance means in terms of income replacement and retirement, we strongly agree with, and that's why David's pointing out that the -- even the income projection itself, that function is part of the dashboard as we conceive of it. And the dashboard, in a way, is a little bit of a paradigm or an example of our response to the big picture question, Bill, that you led off with. You know, we're taking the world as we see it, as we have it, Olivia, as you say, we're trying to trace out both the more incremental changes and the more aspirational changes, recognizing that the politics get more and more difficult as you get more macro and more aspirational. But, you know, I think that's a really good way to work and, you know, we like the idea that, you know, we start with what is most feasible, what might get enacted within the next few years, or done by regulations or by best practices in the industry, and then we go to the broader, more aspirational goals to the extent that there might be, you know, political opportunity to achieve them or to the extent that talking about those might better direct our more micro efforts.

MS. MITCHELL: So, if I could interject a related question. So, I believe, the Labor Department has just required defining contribution plan sponsors provide a retirement income illustration to participants. So, what's your assessment of how well this is going to work? Will it change behavior? Is there any hope or worry that when people see how little retirement income, they're going to have that they'll freak out?

MR. IWRY: Olivia, I've always worried that that was the case, but felt that we needed to balance that concern against the really critical financial literacy benefit, if you will, of understanding better what you're -- how to translate your account into a flow of retirement income. I think that the Labor Department could do better and they're well aware of this issue. They've gotten lots of comments from many of us and I think you and I have discussed this in the past. I think they could do better in this respect, that they could interpret the legislation to certainly facilitate, if not require, facilitate and approve an employer projecting future compensation, future salary, future contributions to the plan. It's the twenty-something that we're worried about. In your example, Anita, my gosh, I'm only going to get seven cents a month when I retire. I might as well stop saving altogether. But if you project that person's current saving out into the future in some reasonable way and protect the plan sponsor from any responsibility for implying that that's a prediction, rather than just a projection, then we can get people a more realistic view, and unfortunately, the regulations have not yet taken that step. They might still do so, but that would be critical.

MR. IWRY: Agree. Definitely.

MR. GALE: Good. Olivia, you mentioned the idea that the cost of a guarantee in pension returns has gone up because the risk-free rate has gone down. And the basic idea that if you're providing a risk-free benefit, you need to discount it at the risk-free rate. And that makes perfect sense to me. There's, of course, a big debate in the pension literature about that, but if -- you're welcome to comment on that debate generally, but in particular, I wanted to ask you, doesn't that apply to define benefit plans, too, which provide guaranteed benefits and is low interest rates -- is low interest rate scenario we've living in -- the below risk-free rates scenario we're living in -- is that going to be the death mill for DB plans?

MS. MITCHELL: Well, as you know, defined benefit plans in the private sector have headed south for several decades now, and in the U.K., I understand there's no large active functioning defined benefit plans anymore. So, yes, the consistent projected low returns are hurting funding. Those are also raising required contributions on the employer's part and making it more expensive to obtain PBGC insurance. So, I'm not very optimistic on those fronts at all. Now, at the state and local sector, of course, federal legislation doesn't touch them in terms of their funding and their insurance, so many state and local governments have been allowed to continue using, I think, way artificially high discount rates. And so, there have been a lot of reports in the press recently about how great state and local plans are doing, but, you know, if you could earn 45 percent when you're guess what? You could lose 45 percent the next year. And so, this whole move into riskier assets in the DB world, I think is extremely problematic. But there again, we have a problem because those who hold the burden of last resort are taxpayers. In other words, if the City of Philadelphia can't get out of its hole where it's only 35 percent funded, and that's using a high discount rate, then all of us that live in the city, or even on the outskirts, will need to probably have to pay up. Or else we'll have bigger holes in the pavement and fewer teachers and fewer police and firefighters.

MR. IWRY: Olivia, do you -- if I may jump in -- do you think that the collective defined contribution or variable DB, to use a synonym -- a variable DB solution that, for example, the State of Maine has implemented for some of its government employees or that some of the unions have been promoting, as we were discussing earlier. Do you think that's a potentially, at least modest, constructive step in the direction of getting those state and local DB plans better on a more sound, solvent footing, in a -- by at least taking some of the benefits, such as the COLAs, and making them explicitly variable, guaranteeing more core benefits? What's your take on that?

MS. MITCHELL: Well, every state is different as you know, and sometimes, the COLA benefits are interpreted as being backed by the full faith and credit of the state. Sometimes not. So, the amount of wiggle room, I think, will really have to depend on the state. I remember for a time in California, they got rid of the COLA associated with the benefits for the public sector employees because it was not deemed to be full faith and credit guaranteed. So, there may be some wiggle room, but what I still worry about, in terms of the collective VC, is the enforceability of the contract across generations. That is, if my generation says, okay, we're going to impose a cost on the next generation if returns go down and stay down, but the next generation hasn't had a voice in that discussion, and we can't enforce it on the next generation. I think it's highly speculative, at best, and probably not very functional.

MR. IWRY: And you make a great point. We pointed this out in our paper. If you saw, for example, the Dutch experience has been a very mixed bag and, you know, they've run into that intergenerational problem, as you pointed out earlier, and now have moved, to some degree, away from the original concept of the defined ambition collective DC. They've moved toward the DC end of the spectrum, away from the DB style promised and guarantee, and that's pretty telling after 20 years of experience in a very competent and thoughtful pension system.

MS. MITCHELL: I guess the other point I would make is that, you know, there's a lot of angst about insurance companies and high fees, and so forth. But it is the business of insurance companies to pool mortality risk. And it's very unclear to me as to whether a particular union or union and an employer together have the scale to do a good job pooling mortality risk and thereby providing annuities. So, I would rather, you know, maybe with better regulated insurers or what have you -- I would rather leave the longevity protection to the insurers and the saving to the financial sector. And decouple what's going on across generations.

MR. GALE: That's very interesting, especially because we already have Social Security winking the generations. It may be that in some very wide optimal portfolio since that function is already taken care of by Social Security and that for diversification purposes, the private retirement system should do something different. I just mention that because collective DCs, you know, sometimes you work on a topic, and it makes you more favorable to it. Sometimes you work and make it less favorable. I think working on a collective DC has made me less favorable toward them than when I had what I thought at the beginning, but a topic that made me -- in which I became more favorable toward the idea was this idea of a lifetime provider that Olivia mentioned, that David mentioned, and basically, it's been a subject of active debate within RSP because David and I like the idea, and Mark has concerns about it, so I'd like to ask Olivia to say a little more about the experience in Chile that you mentioned, and then Mark to weigh in with your concerns about using the system in the U.S. The idea, basically, to remind people, is instead of switching from job to job and retirement account to retirement account, to just have one retirement account follows the worker around from job to job or during periods of unemployment, so their rollovers would not be an issue. Consolidation would not be an issue. After Olivia and Mark, Anita and David, if you have additional remarks you'd like to add, I just -- I find this a fascinating issue and would like to get it on the table.

MS. MITCHELL: Well, of course, my first introduction to a lifetime provider was when I started teaching at Cornell a number of decades ago, and at that point, because I worked for the state system, I could have either picked the New York State Defined Benefit System or the TIAA-CREF system. And I thought, well, I don't know where I'm going to be in 30, 40 years. So, and TIAA-CREF is completely portable. It is the lifetime provider for most of us in the research and higher education environment. So, I think it's fabulous and, you know, no matter where I work, no matter whether I remain at Penn or go somewhere else, I don't have to do anything. It's all taken care of for me. Now, of course, were I to leave and go work in the private sector for some other employer, then the question would be, you know, what would I do? But I think that the idea of having, in a sense, an industry/occupational-wide provider has worked very well. Now, of course, over time, there's been more competition in the higher education sector and Fidelity and Vanguard and others have come into the business, but once again, you can still remain with those providers over time.

Now, in Chile, the deal is that everybody has a unique I.D., and so, you don't need to stay with one provider. You have to pick one provider at the moment you start working and contributing to the system. You can move to a different AFP if you wish, but you can only be in one at a time, but everything is maintained in terms of your unique I.D. Not only that, but bank accounts, mortgages, car purchases, everything, every financial transaction happens at that level which makes it wonderful for researchers who are interested in looking at things like what we're doing now. What happens when people withdraw from their pension account? They've been permitted to do it three times so far. Where do they put the money? Do they pay off debt? Do they save it? And the answer is a little bit of both.

MR. GALE: Mark?

MR. IWRY: Yeah. So, I think in a sense -- excuse me -- I think in a sense, we're looking at almost potentially two systems. One, the system of employer-sponsored plans in our private pension system that covers a majority, but not a very large majority, of the workforce. And that, I think, is working much less well than it could, but that it's working well in many ways. And so, my -- one of my concerns is that we bifurcate a little bit and view the policies appropriate for the, you know, 90 or more million people covered by employer plans a little differently from the 55 or 60 million people who are not covered by employer plans and don't have access to employer plans. In a sense, our state auto-IRAs and the, to some degree, the federal proposal, but particularly the state ones right now, are illustrating how a single account system could work very well because we've got people moving from employer A to employer B. If both employers are participating in the state auto-IRA system because they're not sponsoring an actual plan, the employer B contributes to the same IRA as employer A, and I think, you know, all of us like that a lot, and see the advantage of that. On the other hand, for the people who are already covered, I think that could be very advantageous, but we ought to be careful in moving down that road not to destroy the employer plan system and not to make it much less interesting for employers to continue to sponsor plans. Now, some want out and if they want out, that's fine. That's their decision. Some employers would want a more limited involvement. But many employers have done so much good, including implementing our move to automatic enrollment in 401ks, including cross-subsidization by eager savers in high tax brackets, of reluctant savers who work in the lower paid jobs at the same employer. The non-discrimination rules in our system that really kind of try to guarantee that taxpayers get bang for their buck in our tax subsidy for private pensions. All of that works through the employer system. So, I think that, you know, racial minorities, blacks, Hispanics, women, and lower paid people have done much better when they're in an employer plan. Problem -- especially with auto-enrollment. But so many are not eligible for an employer plan. So, I think there's a lot of merit to this, but that it needs to be implemented in a way that is very careful and may be much more limited in the employer plan universe, but more boldly, in the universe of people who are not covered or eligible for an employer plan or who are very much on the margin of that. A lot more to be said about it, but I don't want to take any more time.

MR. GALE: So, it's complicated. Anita, let me come back to you and ask you to comment on this or, more generally, you've done work on social insurance on the economics of aging. How does this topic or your research fit in to how we should be thinking about lifetime provider or retirement reform?

MS. MUKHERJEE: And so, the single account per worker question is something that I find interesting that we're discussing because every time I present my work to different audiences, I think that's one of the first questions that people ask. If the IRS has all this information, why don't we just -- at least on the information side -- present it in a unified way to everybody. And I don't have a good answer for that other than maybe there's a lot of liability or there used to be a letter and now, there's not. I think this is something that there's a lot of interest in and I think people are quite surprised that there is not an option to have a single consolidated account. So, I really appreciate the policy proposal along those lines.

With my own work, I think, I've done some work on intergenerational transfers for retirement planning and giving, and so I think the comment I made on thinking about the household unit and the family unit is something that I'd be interested to hear more from my panelists on because I think one of the benefits (inaudible) this consolidation is also that as people age, it seems that adult children often step in to help parents, especially those who may be -- where the child may be more financially literate than the parent for a host of reasons. It seems that enabling that child to help the parent would be useful, and so some of this information, consolidation, or this retirement account actual fund consolidation, would be really helpful. But I'd curious if others have thoughts on that intergenerational aspect of retirement planning and kind of old age planning, because that's been an area of my own work.

MR. GALE: Good. Good. Let's let David comment on lifetime provider and then we'll start talking about that.

MR. JOHN: I think that's a really interesting question. I know there's a project underway right now by some of the retirement consumer groups to look at, for instance, retirement benefits in divorce and things along that line, and all of that needs to be dealt with. On the lifetime provider, one of the things that I think is interesting is that when we've talked to many employers, their response has been basically, well, my first goal right now is not to get sued. And I have a feeling that in this era that moving to something like a single lifetime provider might be something that many employers find actually very attractive and that, again, with care, this could be added into a way that actually strengthens the employer benefits. This is especially true in the event that Congress does go forward with our requiring employers with five or more employees to offer some type of a retirement savings benefit or pension. Now, let's turn to the intergeneration. I think that's absolutely fascinating. I think that's something that we definitely need to look at, especially because we are in a very fluid situation, both in the case of the workforce, but also in the case of the family unit.

MR. GALE: One of the interesting intergenerational issues is that poverty seems to be transmitted more directly in black households across generations than white households. So, if a black household is in poverty, the chance that the kids are in poverty is very high relative to that same for white households. And that raises tons of issues on its own, but maybe we should focus here on the retirement implications -- the implications retirement system for people of color. And earlier RSP volume, released about 10 years ago, laid out a number of concerns relating to people of color in retirement and advocated a number of proposals of which the one Mark -- the logic was similar to what Mark just said earlier, which is that getting people into the employer system is a uniquely helpful thing relative to trying to do it all on their own. But more generally, to what extent is the retirement system failing black people, people of color, women, minorities, etc.? How -- we've talked a lot about retirement instruments. We haven't talked so much about the people that are using them. How can we address the issues of people of color in the retirement system?

MR. JOHN: Let me start. I mean, first off, what we know that in the developing household wealth, that retirement savings, retirement assets are second only to homeownership in helping to build household wealth. And I think this is something that we need to deal with very directly. Olivia actually touched on one of the problems that we face in working in this area, which is actually asset tests. And the simple fact that an individual hypothetically in one of the auto-IRA states could be building wealth through a retirement savings plan and then find that there is a means test that basically requires them to spend it down to get essential services. Now, a number of years ago, RSP and a variety of others helped to take the retirement assets out of what is now SNAP and this is something that needs to be dealt with, and this could actually make it much easier for lower income and other households to actually build their wealth in retirement.

MR. IWRY: And I would add, Olivia, we very much agree with your point and I guess what our mistake was only asking you to comment on 15 papers, because if we'd gone back to some of our previous books and papers, David's referring to that effort which he was involved in, by the way, to help if I recall correctly, David, get the asset test reformed in food stamps and SNAP, but long before that, Bill, you remember when Peter Orszag and you and I were working with Bob Greenstein on this issue. And the Center for Budget Policy Priorities put out a paper which we helped support and inform on precisely this topic. So, Olivia, it's not that we don't focus or care about it, it's that we only turn back to it every 20 or 30 years, if there hasn't been much progress in the interim. I would note that California, to your point, David -- I talked to them at length about this when we first instituted the program in California, and when we first proposed that the states have these auto-IRAs. And they looked very carefully. And it turned out, very fortunately, that most of the programs that actually apply to the California residents who are eligible for the California CalSavers Auto-IRA, did not impose a penalty on the saving. In other states, they might have to some degree, but when they went through program-by-program, it was a much better picture. There was much less of a reason for concern. That doesn't mean it's true, you know, in general, and I think we all agree that reforming that, as David suggested, would be the key here. You know, to provide some leeway for lower income people to save and get public assistance.

MS. MITCHELL: Another point that I would like to mention, if I could, is that we have a paper that just came out in the Journal of Retirement which compared white women, black women, and Hispanic women in terms of their retirement preparedness. And, what we found was that black and Hispanic women are not as likely to hold assets, but they're more likely to hold debt, especially student debt. And, so, that was interesting to us because I hadn't anticipated that, as well. And then, also, black and Hispanic women are more likely to engage in costly borrowing like payday loans or overdrawing checking accounts. Things like that. And not use the best techniques in terms of managing their credit. They tend to not pay their credit card accounts in full and so on. So, I think all of this feeds into the question of why black and Hispanic women get to retirement without as much savings. It's because there's a whole history of differential access and so forth that we have to keep in mind.

MR. JOHN: Good point.

MR. IWRY: Does that take you, Olivia -- and I think -- I'm sure we've discussed this in the past -- but big picture question of strategy. Do we work on financial wellness on debt management, on avoiding high cost debt, on the financial literacy you need, to know that credit card debt ought to be paid off every month or else you'll pay high interest rates, to know to avoid payday loans, etc., concurrently with promoting asset building?

MS. MITCHELL: Yes.

MR. IWRY: Which, you know, I think most of us have always felt, both at the same time, that the accumulation of assets while you work to help the people reduce and avoid high- cost debt is an optimal strategy. You know, that it helps change people's attitudes. It helps give them that sense of independence of breaking out of the cycle of constantly being in debt, as you see some pile of your assets start to accumulate. You know, the hope and maybe the greater resolve that it give people to reduce their debt at the same time. Do you see it that way?

MS. MITCHELL: I wish that the auto-IRA programs could also embed or include some amount of financial literacy because it's one thing to get people to default into saving $800 a year, but as soon as something untoward -- COVID, for example, hits or a hole in your roof or your car breaks down -- then people are going to access the money. And to the extent it's there, that's beneficial. Maybe they won't have to take on such high-cost debt. But then we're led back to the question, are these really retirement accounts that people are using to save for their older years, or are they primarily rainy-day accounts, which people also need. And so, I think we have to put that on the table, as well.

MR. IWRY: Definitely agree. I think rainy-day accounts or emergency savings accounts are definitely a position that we need to look at further.

MR. GALE: All right. Thank you. We have two or three minutes left. I want to turn to Mark and David here, the founders of the auto-IRA idea that's been percolating through Congress. In general, there's been federal inaction on this for years and as a result, the states have taken up the cause. A number of states have successfully implemented auto-IRAs. What happens if the dog catches the car? What happens if the federal government does implement auto-IRAs? How will that interact with the existing state auto-

IRAs?

MR. JOHN: David, shall I start?

MR. IWRY: Sure.

MR. GALE: We have two minutes.

MR. IWRY: Yep. We'll share the two minutes. I'd say they co-exist. The federal program is designed to be built on the shoulders of the state programs. The state programs have essentially piloted the auto-IRA concept that David and I developed more than 15 years ago. And having a nationwide auto-IRA would be integrated with the state programs so that they would all work together. The states that have already enacted these laws would be enabled to continue with the current programs that they have, or programs similar to those. States that have not enacted these laws would be part of the nationwide automatic IRA and it would all fit together in a harmonious way. David?

Mr. JOHN: Yeah. The state programs are working, and they are working both to cover individuals who need this assistance and they're also helping to promote the creation of private retirement plans also. So, absolutely. The state programs would continue and arguably, assuming that they meet the federal standards going forward, new programs from the states could continue to be created. They benefit employees, they are simple, easy to understand, etc., and I will stop there.

MR. GALE: All right. That's a great place to stop. Let me start by thanking Anita and Olivia for superb comments. I want to thank the outstanding AV team at the Brookings Institution that always makes these things work, and we want to thank Chris Pulliam, who's been our co-author and sort of the glue guy on this entire (inaudible) and so -- and finally, thank everyone for attending. And it's 12:00 and we are done, so thank you very much. Have a great day.

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