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THE NEXT GENERATION OF REFORMS TO THE RETIREMENT SAVING SYSTEM

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OPENING AND CLOSING REMARKS

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FIRESIDE CHAT

THE HON. SHELDON WHITEHOUSE (D-R.I.)

U.S. Senate

MODERATOR: J. MARK IWRY

Nonresident Senior Fellow, Economic Studies, Brookings

SUCCESSSES AND REMAINING CHALLENGES FOR RETIREMENT POLICY

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PRACTICAL AND EVIDENCE-BASED PROPOSALS FOR SECURE 3.0

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GODA: Good morning, everyone, and welcome to Brookings. Thank you to all of you here with us in person and to everyone joining us on the live stream. My name is Gopi Shah Goda. I'm a senior fellow here at the Brookings Institution, where I have the privilege of holding the Alice M. Rivlin Chair in Economic Policy and directing the Retirement Security Project in Economic Studies.

For more than two decades, the Retirement Security Project has worked on the premise that careful research can be turned into practical policy recommendations. Some of the ideas that come out of that work, like automatic enrollment and the automatic IRA, have become fixtures of the retirement policy conversation.

In fact, the effects of these efforts are visible even beyond just retirement policy, as shown by the Treasury Department's announcement yesterday that they will automatically enroll eligible children in Trump accounts, ensuring broader access to wealth accumulation through these new investment vehicles.

Today's event, the next generation of reforms to the retirement savings system, is meant to continue that tradition. As everyone here is aware, the Bipartisan Secure Act of 2019 and Secure 2.0 in 2022 took important steps to strengthen the retirement system. Among other things, they took steps to extend the reach of automatic enrollment, expanded checks credits to help small businesses start plans, made it easier for part-time workers to participate, and created a new federal savers match for lower and moderate income savers, which is scheduled to take effect in 2027.

But that doesn't mean that all the problems have been addressed. There are still millions of American workers without access to a retirement plan through their employer. Retirement tax preferences are weighted heavily towards higher income households who are most likely to save regardless. Moreover, many of the rules that shape how employers design their plans result in less effective use of the tax preference in incentivizing saving and employer contributions that are highly skewed towards better paid workers.

Finally, those who have been able to accumulate savings lack attractive options to turn those savings into an income stream that is predictable and that they can't outlive. As more and more people reach retirement with a 401k balance rather than a traditional pension, that challenge is becoming more pressing.

And of course, that's leaving out the big elephant in the room, Social Security. Social Security is the foundation of retirement income for most Americans, and its trust fund is projected to be depleted in 2032. Addressing that shortfall is a major topic of interest for the Retirement Security Project and one we'll keep working on.

So while it's largely outside of what we're talking about today, it's in the background of everything we plan to discuss, and we see strengthening the retirement savings system as a complement and not a substitute towards that conversation. But let's go back to today where we're focused on four proposals to improve the retirement savings system that sits on top of that foundation.

This project represents a partnership between Brookings and four sets of authors from the research and academic community. We asked each of them to develop a concrete proposal based on their body of work. The basic idea was to push our authors beyond the confines of academic writing and into the messy world of constraints, trade-offs, and stakeholders.

It's one thing to write a paragraph in the conclusion of a research paper with some high-level implications of the research findings for policy, and it's quite another to formulate exactly how the policy should be designed and administered, what it may cost, and how employers, record keepers, the industry, and workers would receive it.

So each author team developed a draft proposal which was workshopped with representatives from a wide range of perspectives, including the plan sponsor community, the financial services industry, advocates for small and large businesses, former policymakers, and congressional staff. The authors incorporated that feedback and then went through a rigorous review process, and I'm really thankful for all the work that the authors put in to their proposals in advance of today's event.

So the four proposals we're launching today are Expanding Access to Workplace Retirement Plans by Adam Bloomfield and Sita Slavov, Improving Retirement Security by Expanding the Saver's Match by Ben Harris and Natasha Sarin, Rethinking the Safe Harbor Rules for Employer Matching Contributions by Guillermo Carranza, Taha Choukhmane, Cormac O'Dea, and Larry Schmidt, and Restoring Lifetime Income to Retirement Plans by Default by Josh Gotbaum and Olivia Mitchell.

We're pleased to formally publish these proposals in conjunction with today's event. Our authors are here with us in person or virtually to tell you about their proposals, but there's a lot more detail in their work than they can do justice in an hour on stage. So I encourage you to read the full proposals which are now live on the Brookings and Retirement Security Project website.

I want to give you a brief overview of the morning's agenda. So we'll kick things off with a fireside chat between Senator Sheldon Whitehouse and Mark Iwry, who will discuss the automatic IRA. Then my colleague Josh Gotbaum will reflect on the successes and remaining challenges in retirement policy and introduce our second panel. There, each of our authors will briefly describe their proposal and participate in a discussion moderated by my colleague Jason Brown, visiting fellow with the Retirement Security Project. There'll be time for audience questions, and I'll come back briefly to-- at the end to close us out.

And with that, I'm delighted to introduce our first set of speakers, Senator Whitehouse and Mark Iwry. Senator Sheldon Whitehouse has represented Rhode Island in the United States Senate since 2007. Before coming to the Senate, he served as Rhode Island's attorney general and as US attorney for the District of Rhode Island. He serves on the Senate Finance Committee, the Budget Committee, the Judiciary Committee, and is the ranking member of the Environment and Public Works Committee. Especially relevant for our conversation today, in 2015 and subsequent congressional sessions, he has introduced the Automatic IRA Act alongside Representative Richard Neal. The Automatic IRA Act would require employers with at least ten participants that do not-- with at least ten employees, excuse me, that do not currently offer a retirement plan to automatically enroll their workers in a qualifying IRA.

Joining him in this fireside chat is Mark Iwry, a nonresident senior fellow here at the Brookings Retirement Security Project. It is especially fitting to have Mark lead this conversation as Mark co-developed the Automatic IRA concept with David John in a series of Brookings publications in the late 2000s. While in government in the 1990s, Mark directed the initiative to permit automatic enrollment and asset-allocated default investments in 401Ks. He later served as senior advisor to the secretary of the Treasury and deputy assistant secretary for retirement and health policy during the Obama administration, where he led much of the work that helped make automatic enrollment and lifetime income an enduring part of the retirement landscape.

Please join me in welcoming Senator Whitehouse and Mark Iwry to the stage.

IWRY: Good morning. Senator, we truly appreciate your willingness to take the time out of a packed schedule-

WHITEHOUSE: It's a busy day.

IWRY: And and join us to share your thoughts on the, the nation's private pension system.

WHITEHOUSE: Yep.

IWRY: And in particular, your proposed automatic IRA legislation.

WHITEHOUSE: Well, your proposed automatic IRA legislation. Credit where credit is due. The godfather of the concept.

IWRY: It was a group effort, including the Heritage Foundation and David John, my co-author at the time, 2006. A lot of people think that maybe the most important challenge to our pension system generally after, of course, the top priority of reforming Social Security-

WHITEHOUSE: Correct

IWRY: to achieve long-term financial soundness, as you have been-

WHITEHOUSE: Yes, we have another bill ...

IWRY: -working for with a, with another bill, and Gopi, as you mentioned. That the, maybe the top challenge apart from Social Security reform is to close the coverage gap, that is in our private pension system, to address the problem that tens of millions of working households in the US have no access to the most convenient, easy, effective way to save, namely a workplace retirement program. They're not in a 401k, they're not in a pension, they're not in any other kind of plan, and so they're essentially left out of the system.

So, senator, given that you are the sponsor of what many of us view as, and, and what is widely viewed in the community as the leading legislative proposal to dramatically expand coverage access for American households, would you like to tell us why you view retirement security as a, an issue that is so important that it's worth your and your colleagues' time and attention? And whether you see this as a serious problem in the context of all the other challenges facing working families today.

WHITEHOUSE: Well, I think the core fact that we have to reckon with is that if you are retiring on Social Security alone, you are not living a very comfortable life. The Social Security benefit is simply not adequate. And for a lot of people, Social Security is supplemented by a retirement or pension plan from their employer. And for a lot of people, it's supplemented by union-related benefits. But there's a very big population that, particularly folks who worked for small businesses where the business didn't have the sort of wherewithal to set up its own retirement plan, a florist shop with seven employees, for instance. It's just a huge administrative burden to try to cope with that. Whereas if you're GE, yeah, you've got a whole administrative enterprise.

IWRY: And economies of scale, et cetera.

WHITEHOUSE: Exactly. So, so how do you solve the adequate retirement income problem for those people? And that's, I think, where this idea comes in.

And I think it's, you know, it's really important. People are... should have a decent, comfortable retirement, and a lot of people work in small business. I'll just put up one little Rhode Island flag. Rhode Island has a pretty large elderly population. We're one of the states with the largest proportion of elderly folks, and we are very heavily a small business state. And so we've got lots of people who are in this circumstance, but it's true across the country, and I think meeting their needs for a safer and more secure retirement is good work to be doing.

IWRY: Well, your proposed legislation to address that good work, the Automatic IRA Act, how is it designed to solve the problem or address the problem?

WHITEHOUSE: What it does is it basically does automatic withdrawal from somebody's paycheck, the same way that FICA withdraws automatically. And these small businesses very often have a payroll company that already does that for them. So you add to the payroll company's responsibilities that you also withdraw a percent of salary that goes to their own basic IRA. And if the employee doesn't wanna do that, they can opt out. That's not a mandate in that sense, but it's the default.

IWRY: Right.

WHITEHOUSE: And as people who've looked at default decision-making have shown, where you set the default matters a lot to outcomes. So this sets the default in favor of a contribution by the employee to their own portable retirement plan.

So that's the way it works. We have seen it roll out in 17 states I wanna say right now.

IWRY: Right.

WHITEHOUSE: And it seems to work pretty well. There are a couple of companies that have stepped in to do the administrative work of taking the revenue from the payroll contribution and putting it into the IRA. And those different companies are across the 17 states.

So the actual management of how this would work has been proven out on the ground in a lot of states, including in Rhode Island, which went this way about a year ago. And it seems to work administratively. It doesn't seem to be unduly burdensome. And with any luck, as we see it roll out, people will discover that suddenly they have a pretty good retirement nest egg that is growing automatically.

IWRY: Right. And the folks that this is targeted to, senator, the sort of target demographic of this automatic IRA, whether it's the state programs or the ultimate comprehensive bill that you've got at the federal level, who are they?

WHITEHOUSE: Small business employees. Small business employees. If you work for a massive American corporation that has a huge HR department and all sorts of capacity to provide employee benefits, then you very likely have some kind of a benefit tier.

And if they don't provide certain classes of employee that benefit, well, then you have this option. Right. But I think most do. It's really the small business community that needs the support of having something where you, if you're the employee employer, you basically just check the box and say, "We're gonna do this." And then your employees all, unless they default out, it happens automatically. It happens through the payroll company that's already withdrawing the FICA. And it connects pretty automatically with the several companies that are managing the investment side, the account side. And because it's portable, you're not trapped anywhere for that benefit. You can move as you move from small business to small business. But it's the small business employee that is the prime beneficiary of this.

IWRY: Right. And I mean, any, any employee presumably whose employer does not sponsor a plan, which is usually small business, might be a few sort of low-income medium-sized businesses. Yeah.

WHITEHOUSE: And there could be some companies who take good care of the C-suite, but don't do the same for their-

IWRY: Yeah ...

WHITEHOUSE: regular line employees. And in that case, the regular line employees would also have this option aside from whatever the company provides.

IWRY: Right. Now, senator, you referred to the portability. Isn't it the case that the contributions taken out by that administrative firm, and provided, sort of invested by the investment firms are in IRAs, so, as individual retirement accounts-

WHITEHOUSE: Correct, it's your account. If you go or if you retire or if you move to Fiji, whatever it is that you do with your life, it stays with you.

IWRY: Right. I, you know, I noticed that in I believe Rhode Island as well as the other states that are doing these automatic IRA, in effect pilot projects in a sense for your and Mr. Neal's bill that they actually tell the different employers when the employer is doing that withholding and then forwarding the withholdings to an investment as you were describing, to use the same IRA.

So, you know, if Josh has... is participating in this and has an IRA-

WHITEHOUSE: That connects ...

IWRY: -he's got Josh's IRA. If Josh moves from Brookings, God forbid, to some other employer, that employer, if they're part of this, if Josh doesn't have a plan at work, they send those withholdings, if Josh doesn't opt out, which I know he wouldn't, they'd send those withholdings to the same IRA-

WHITEHOUSE: Correct.

IWRY: -instead of having the money start out by being in one pot and then be at a second employer contributed to a second pot and proliferating.

WHITEHOUSE: Correct. Once the infrastructure, the operational infrastructure of this program is in place, it actually becomes extremely efficient and virtually effort free for the

employee, nearly effort free for the employer because all they're doing is adding a piece to their payroll company's withdraw- withholding. And then that automatically goes to into the investment account and-- This is yours, and so it connects to your existing IRA.

And that's actually not all that hard to do once somebody has figured out the system for doing it. And because we're at 17 states now, that system is pretty much up and running and seems to be operating very smoothly. So it is an administrative efficiency and a success. It's one of those things where just by doing it and solving the administrative burden problems and automating it, you just lower the not just the financial cost, but you lower the hassle factor and the confusion. And one big confusion to eliminate is not having to now deal with two IRAs because the system couldn't figure out that you already had one. The system does figure that out and connects the dots.

IWRY: Right. Right. So if there is a, an employer attitude to this that starts out as perhaps confused or skeptical, or I hear there's some new program, I'm going to be put into it because I don't have a 401k that I'm offering for my employees. You-- one might expect small businesses or at least some of their representatives in Washington to raise concerns about it.

Do you have a feel for how small employers have in fact responded or how they feel about this once they're actually in it and their employees are saving on a, an easy tax-favored basis?

WHITEHOUSE: Well, I think one of the reasons we haven't achieved this yet in Washington is because there is that suspicion, and there is that concern, and there are lobbying and advocacy groups that like to get paid to propagate those, you know, concerns.

But because the states have moved forward with this, there's now practical experience on the ground that alleviates those concerns. What we have-- as Rhode Island has gone into this, I don't think we have received a single complaint in the office from anybody objecting to this. And the experience that we've heard has been that employees think that this is the employer doing something nice for them. The employer is not obliged to say, "I am mandated to do this." The employer can perfectly well say, "We have this new program that we are implementing that allows you to set aside money for your retirement. It's super easy. It can go right into your existing IRA, and it starts on, you know, in January," and off we go to the races.

And I think it's actually turned out to operate quite smoothly and to be indeed welcome in some.

IWRY: Yeah. Yeah. And there are what? A million point four funded accounts, that is people who are actually saving across these 17 state auto-IRA programs.

WHITEHOUSE: Yes.

IWRY: Which is you know, moving the needle a little bit.

WHITEHOUSE: It is indeed. You know, it's really important when you're doing something new to get the infrastructure of its implementation in place so that people don't have to fear goblins in the corners. They actually see this is how it works. And so the states that have moved forward have performed a really exemplary service by going through that process,

getting it built, seeing if there are kinks in the system, and at the end of the day, they're now able to present to the world the simplicity and efficiency of all of the operations.

IWRY: Yeah. And there's been to your point about no complaints from employers in Rhode Island that you're aware of and that what you've heard, just to further elaborate on that, I think probably what you've been hearing as, as I've been hearing, and most of us have, is that when there are surveys of employers that are doing this in the various states, and the Pew Charitable Trusts has done great work in this area, they found that employers, small businesses are reacting the way you describe.

They're not complaining about the program. They're actually, a majority of them say that they like it. Some of them say it's okay. There are a few who just object to being required, of course, to do anything by government on principle. But it seems like the great majority actually who've been surveyed, who've been polled, say that this is a good thing.

And I'll note, when we did focus groups on this with some of the financial institutions early on as we were kind of thinking through the idea, small businesses, to your point at first, first half hour of the two-hour focus group session, said, "What? I'd be required to do this? By the government? Forget it. Whatever it is, you don't need to finish your sentence. The government's gonna require me to, period. Yeah, I'm against it."

After a half hour when it was explained, you know, in much the way that you've laid it out here, including the point that employees appreciate it when an employer makes available an easy way to save on a tax-favored basis. The, you know, the glory redounds to the employer to some extent. And so the focus groups also worked the way you're describing. By the one-hour point, eight or nine out of 10 employers were saying, "Yes. You know, actually, I like this idea, and I don't care whether you're telling me I have to do it or not. I'm free to adopt a 401k anytime I want, and so sure."

WHITEHOUSE: And remember that a small business with 5 or 10 or 15 or 20 employees is also a social unit, and the people who go to that social unit every day and encounter their fellow employees and the owner and their family and all of that, it's a community. And there's very often enormous amount of goodwill and desire for each other to succeed and to do well. And if there's a little bit of effort that's required, and here it's almost minuscule, if you already have a payroll company, which almost everybody does, then it's kind of adds to the social cohesion of that small business little community. And people tend to really cohere with each other in small businesses. It's a unit of social affection.

IWRY: Yeah. Yeah. You know, senator, a number of people have asked, have raised questions already, this, about your presentation, your proposal, and so I've agreed with folks that I'd fit a few into this--

WHITEHOUSE: Sure, sure.

IWRY: -rather than take them at the end. And so one of the things folks have asked about is, given the success of the 17 state auto-IRA programs, 'cause 15 of them are up and running, including Rhode Island's, and two more within a few months of starting, what's the relationship between your bill for Congress to pass at the federal level and these 17 programs? How do you envision that that all fitting together?

WHITEHOUSE: Well, from an operational point of view, they'd be pretty similar. And in terms of the geography if a state already has an existing program, then we would not step in

and bigfoot that program. We would allow the state program to continue to operate as it has. You don't need disruption in what is already working in those places.

And so we'd carve out those 17 states, and when they see it coming, they may think, "Well, let's just do this ourselves." So I don't know quite how large the geographic footprint ends up being, but it all coheres and it all comes kind of into the same infrastructure network of the payroll companies that know how to do this the banks or financial companies that know how to do the transfers and manage the IRAs and track people as they move about so they control their IRA.

I think it becomes a pretty cohesive thing because the implementation is so standardized among the 17 states, and then with whatever program we add onto that, that it really doesn't matter that much which type of program you have, state or federal. You're still going through the same payroll mechanism. You're still probably using the same national payroll companies. You're still using the same banks and financial institutions that are managing the investment and tracking you and your IRA. It all becomes very much of a piece.

And I think that helps it move smoothly. We're not coming in to bigfoot out the states that have done the hard work of making this now smooth and successful already.

IWRY: Right. And if a new state, someone that, a state that's not one of the original 17 wants to adopt the auto-IRA at the state level-

WHITEHOUSE: God bless them.

IWRY: Yeah. Yeah. You know, you've made... this is a great point, and I haven't really heard anyone make it quite the same way, that the major financial institutions that are handling the investments, and it's really a bunch of the leading institutions in the country, the, the top, you know, market share companies, as well as the administrators of the program.

So both the investment firms and the record keeper administrators of the program, they're totally national now in their business. So to your point, the idea that there are multiple states, that they're handling state programs, and that there'd be maybe a federal umbrella or a backup system if for states that don't join themselves would really tend to be very natural and efficient.

WHITEHOUSE: Yeah. The implementation wheel has been invented. And in fact is already rolling across the country, and the infrastructure to implement is already there. And so that's kind of the hard work when you're doing something new. So now you'd be joining into a running operation that is quite efficient.

IWRY: Right. So, when you get a, when you think about the, the prospects for the, the nationwide system, whether it's sort of a, you view it as a umbrella over the states or a gap filler for states that won't have adopted this, and of course, you might get a bunch more. Every year we're getting a few more. Like last year, Rhode Island. And next year we hope for several more. Pennsylvania is one of the... Massachusetts is another one that are-

WHITEHOUSE: Massachusetts does seem to follow Rhode Island's lead.

IWRY: Yeah, right. Yet another example where that would have happened, right, if they did it. So how do you see the political landscape for this kind of, of legislative effort?

WHITEHOUSE: Well, I think two significant facts are that Congressman Neal, Richie Neal stands a very good chance of being the chairman of Ways and Means. And this has been a priority of his for a long time. I'm kind of Robin to his Batman on this particular legislation. He is a very much a strong supporter, has been for a long time, and as chairman will have enormous sway over what gets taken up. I think it is a welcome notion in the Senate Finance Committee as well, and I'm gaining some seniority there. But Chairman, a Chairman Neal is a very significant fact to, in the prospects for this.

The other significant fact is that although the administration has not been very specific about it yet, President Trump has spoken about this sort of program as a thing that he wants to do. And I think that helps abate some kind of partisan concerns that might emerge that this is, you know, a woke Democrat idea of some kind. So I think the president's comments, there's not a program yet, there's not much detail yet, but his comments alone, I think, provide some comfort to potential bipartisanship on this.

IWRY: Right. And you're referring to that executive order where he charged Treasury and his top economic advisor in the White House to, among other things, in addition to setting up a website trumpira.gov, to actually formulate legislative proposals to help include uncovered people in the system one way or another. And so many people hope that they'll realize that they ought to land on your and Mr. Neal's proposal.

WHITEHOUSE: Yes. And also, if you go to those seventeen states, many of them have Republican members of Congress who now have first-hand experience of this happening among their constituents, and they have actual living constituents who are the beneficiaries of it.

And so that provides an additional platform of political support. If this thing had gone out in the seventeen states and been a train wreck, and people are howling about it, then that would be a bad political outcome, and it would degrade our capacity to go forward. The fact that the seventeen states appear to be working very smoothly creates a large pool of constituents to whom, I think Congress will be responsive.

IWRY: Right.

WHITEHOUSE: And it's one thing to hear about it from the president, it's another thing to hear about it from the big financial institutions that would be operating it. It's another thing to hear that your constituents are really happy with this idea at the state level, and therefore, why would you try to block it in federal legislation?

IWRY: Right. I don't know, senator, whether this was the case in the legislative process in Rhode Island, but I know having been involved in the legislative process in a bunch of the other 16 states, a reasonable number had bipartisan buy-in at the state level. And in fact one or two states had unanimous approval by one or the other of their state assembly or state senate. And others had Republicans actually leading the charge, committee chairs or other very influential people in their legislatures. Once they understood that your kind of design of auto-enrolling people into this, but not forcing them, not taking away the freedom of choice that the individual has, was what it is, a, a sweet spot between mandating that the employee save and not doing anything to help the employee save. There's a lot of buy-in, and also a lot of buy-in.

And if you have any thoughts on this, be really interested, from the community of folks who sell and operate 401k plans, you know, at first the fear was, will your automatic IRA at the state level or at the federal level compete with or crowd out, cause 401ks, cause employers

that sponsor a plan now to say, "Hey, I could drop the plan and just let the state or the federal government do it." And in fact, people came to realize pretty quickly that the employers with 401ks wanted to keep them. They can contribute a lot more on a tax-favored basis, they can make employer matching contributions, which by design, your bill does not provide for, the states don't provide for, in order to preserve and protect the private pension system while reforming it and universalizing it.

WHITEHOUSE: Yeah.

IWRY: So that, I mean, that is to your point about how this has gone down in a smooth way I think that's been that design that's inherent in your bill is a big part of it.

I'd also note that isn't it the case Rhode Island has joined Connecticut as a kind of a partnership and a number of the other states-- I think this just happened, you know, within the last year or so. A number of the other states have grouped together. So, you know, further to your point about how this shouldn't be hard to do on a coordinated basis. The state of Colorado has taken in as partners five or six other states. And so now there are actually a couple of state, interstate or multi-state compacts that in a way is building toward your ultimate nationwide coverage.

WHITEHOUSE: Well, there's a lot of commonality among the private sector enterprises that operate this. And particularly in the case of small Rhode Island, there are lots of businesses that people come from Connecticut to work in. Electric Boat has a lot of people who come to Rhode Island from Connecticut. There are lots of small businesses come across the border from our western suburb and from our northern suburb, Massachusetts, it's the same. So it's, yeah, so I think there's a, that, that cross border, state to state pollination is a helpful force for adoption here.

And I'd point out that we're closing in on a pretty significant election, which will create its own result, but one of those results automatically will be that the presidential race begins the following day. And whether you are a Republican presidential aspirant or a Democratic presidential aspirant, this is the kind of idea that could easily get into your campaign platform. And if we start to see Republicans and Democrats campaigning for the presidency and saying, "We think this is a good idea," as Obama and McCain both did years ago before there was this platform of experience that creates even more momentum to move it through Congress in bipartisan fashion.

IWRY: Well, may the endorsement by the McCain campaign and the Obama campaign, even as they were competing against one another in the heat of the election campaigns, may that be a precedent here.

WHITEHOUSE: Every reason to believe that it would be. I can't see a reason why either Democratic or Republican presidential candidate would say, "No, let's not do this." Particularly with the Trump executive order out there on the Republican side and with Richie Neal's leadership and a lot of good Democratic work on our side.

IWRY: Yeah. Well, it's truly encouraging, senator, to hear that you think there is that bipartisan cooperation prospect, and that on that hopeful note--

WHITEHOUSE: A happy note to close on

IWRY: We very much appreciate you taking the time.

WHITEHOUSE: Happy to be here. And Mark, again, many thanks to you for your leadership over this over many years.

It's a testament to how a good idea can acquire legs even in a partisan town. And now we just need to prove the point by passing the damned bill.

IWRY: Well, Senator, it's your leadership that's most important here. You and Mr. Neal's and will be the key to getting it done. And so thank you for that and for your leadership on so many other important issues and all you do for the American people.

WHITEHOUSE: Much appreciated, Mark. Great. And wonderful to be back with all of you.

GOTBAUM: Howdy, I'm Josh Gotbaum. I'm a scholar here at Brookings. I previously directed the Pension Benefit Guarantee Corporation, worked in the Treasury, the White House, other places, et cetera. My role here is to put some of today's discussions into a context.

90 years ago, Social Security was established. It's our most important elderly safety net program. It lifts tens of millions of people out of poverty. 60 years ago, Medicare and Medicaid were signed into law. Before then, roughly half of the elderly had no health insurance at all. Now virtually all do. Although there are very substantial financial challenges to these programs in paying for them, they enjoy almost universal support and continue to work in the way they were originally conceived.

Just over 50 years ago, the Employee Retirement Income Security Act, ERISA, was enacted. Here, the story is a bit more mixed. You may have noticed that technology is getting lots of attention these days, so let me start with that. Technology has dramatically expanded the availability and use of financial services But its benefits have been very slow to help retirement.

Let me just give you some comparisons. Fifty years ago, about three-quarters of families had bank accounts. Today, virtually all do. Back then, about half of families used credit cards. Today, more than 80% of adults have them. Retirement plans are a different story Back then, just under half, forty-four percent of private sector workers participated in retirement plans.

Today, thanks to Mark Iwry, who as Gopi noted is a co-founder of the Retirement Security Project, and his early colleagues, we have automatic enrollment. We have the state auto IRA plans. And to provide an option for employers that don't offer an ERISA plan. However, despite all of that progress, and it is undeniable progress, just even now, just over half of private sector workers participate in any form of retirement savings. That's why the legislation that we'll be honest, Mark conceived and Senator Whitehead is sponsoring matters so much.

Expanding access is essential, but it is not nearly enough. Back then, retirement plans were overwhelmingly traditional defined benefit plans. They provided a monthly paycheck for life. That's what a pension is. Today, very few do. American business has largely abandoned the the plans for which ERISA itself was designed. And most plans today under the Employee Retirement Income Security Act do not provide employees secure retirement income, only a pot of money, forcing them to guess how to invest it and how quickly to spend it. They are not pensions.

Overall savings rates have improved some. Back then, a little over 4% of private payrolls was saved. The savings rate today is higher, about seven and a half percent, excluding Social Security But the employer share has actually declined. The bulk of that actually comes from employees now.

More than a decade ago, when Mark Iwry convinced me to join this community and take over the Pension Benefit Guarantee Corporation, he both warned me and educated me to the challenges facing retirement security, and I think it's apt to repeat those today. One, as we have already mentioned, there is still very limited access to the most efficient, effective form of savings, which is workplace savings, because employers don't offer plans.

Two. There are-- for many people, savings are inadequate. People are living longer and not enough additional savings is there. So adequacy of savings matters too.

And three, restoring some certainty to retirement by restoring lifetime income to a world that has largely abandoned traditional pensions.

All of these challenges have been known for years. All of them have been taken up by policymakers. Unfortunately, these efforts are, have not yet been successful. Despite all of these initiatives and the trillions now spent, now held in retirement savings accounts, people don't feel more secure today about retirement than they did thirty, forty, or fifty years ago. Thanks to rising healthcare costs, the elderly are no longer the age group least likely to be in poverty, and the number of elderly poor has actually risen.

Despite the enormous growth in retirement savings, fear of running out of money in retirement is the number one fear reported by Gallup every single year since they started asking the question a quarter century ago, and it's not an unreasonable fear. The Employee Benefits Research Institute, which does among the best simulations, projects that about forty percent of us will run out of money, including Social Security, before we die.

And I'll get to this morning. Two years ago, soon after she became the director of the Retirement Security Project, Gopi decided to commission papers assembling the evidence and laying the groundwork for proposals to solve these challenges. Her requirements, which she has repeated frequently, but I think are important to mention are, A, they need to be grounded in the data, they need to be realistic, and they need to be affordable at a time of budget stringency You will hear about four of them today.

Adam Bloomfield, a fellow at the Georgetown University Center for Retirement Initiatives, has worked with the FDIC and the Bureau of Census, is affiliated with George Mason, will discuss efforts to improve access to get employers to offer retirement savings plans and the effectiveness of tax incentives to do so. Ben Harris, who directs Brookings Economic Studies, his boss, and is a former assistant secretary of treasury, a former advisor to the vice president of the United States, and a longtime scholar of retirement policy, will discuss efforts, his proposals to improve increased savings by improving the savers match, which has already been legislated. Cormac O'Dea, virtually, a professor of economics at Yale, will discuss proposals to increase savings by encouraging employers to change the way they do the employer match. Last but absolutely not least, Olivia Mitchell, professor at the Wharton School at the University of Pennsylvania and director of the Pension Research Council, will present her, and I, in the interest of full disclosure, and my proposal to bring back the pension to ERISA plans to restore guaranteed lifetime income to retirement by default conversion of part of retirement savings to annuities.

This panel will be moderated by Jason Brown, a visiting fellow at Brookings, who has directed research at the Consumer Financial Protection Bureau, the Social Security Administration, and the Treasury. In other words, Gopi has assembled not only some distinguished authors, but but a moderator adequate to the task.

We hope these proposals will form the basis for a consensus for real improvements, so the next SECURE Act might be more than just a catchy acronym, that it might actually achieve the retirement security designed by tens of millions. And so with that, Jason and the panel, will you join us?

BROWN: I thank you very much, Josh, and thank you everyone for attending. And a big thanks to our presenters here. And Josh did a great job of introducing them and their ideas. But I just wanted to first note that they've done a really interesting job of pushing on different levers on how to achieve retirement security.

So what you're going to hear from today are ideas that touch on regulation or using using tax subsidies, working on the accumulation side or the decumulation side and on working through the employer or the individual. These presentations are going to be very brief. So as Gopi said, the, the full proposals are on the website so strongly encourage you to check them out.

But let's hear from them more individually. And let's start with you, Adam, because I think you can really frame the discussion, because in your piece with Sita you review the evidence on employer provision and employee take-up of retirement savings plans. And and you talk about what works and what doesn't work when it comes to promoting savings.

So like what, what influences the behavior of firms and individuals? And what should policymakers keep in mind when they're designing policies?

BLOOMFIELD: Thanks, Jason. Sita and I ask a question which is, if policymakers want there to be more plans, more retirement plans available, what keeps those desired plans from forming in the first place?

Our evidence suggests that financial cost is only part of the story. Paperwork, limited awareness, inertia, salience of the choice may matter a lot as well. I'll go over three things in the next five minutes: how we think about access, what evidence says about small firms, and what that all implies for policy.

First, how do we think about access? Access varies sharply across the labor market. As Senator Whitehouse mentioned earlier, workers at small employers, for example, are far less likely to have access to a retirement plan. Sita and I have not approached our research with the view that more access or participation is always better.

A retirement plan is part of a compensation package, and in theory, cash wages may adjust downward as retirement benefits are added or made more generous while workers differ substantially in the value they place on those tax advantages and on liquidity. So when thinking about policies to expand access, it matters a lot whether the limited access we observe in the labor market reflects underlying costs and worker preferences, or instead frictions that prevent mutually valuable plans from forming.

In our framework, employers' decisions to offer retirement plans, workers' access to them, and worker participation are all jointly determined outcomes. They depend on three factors:

firms' net costs and benefits worker valuations, and frictions on both sides of the labor market. Retirement plans are not simply a cost to employers.

They can create value for firms and workers through tax-advantaged compensation and may help firms recruit and retain workers who value retirement benefits, while at the same time making the compensation package less attractive to workers who prefer cash wages or greater liquidity. Without the frictions I have referred to, a plan forms when its value exceeds sorry, its value exceeds the cost of firms and workers.

In practice, different barriers call for different tools. If monetary costs are the barrier for plans forming, then of course, reduce them. However, if firms misperceive the costs and benefits, if they overlook options, if they fail to revisit an old decision they made in the past, then information, automation or prompting them to make an active choice may work a lot better.

Second, what does the evidence say about small firms? So two sets of findings from research that Sita and I have done are worth highlighting. First, consider the small employer tax credit for starting a retirement plan. Secure 2.0 made this credit a lot more generous, yet only about seven percent of apparently eligible firms claimed it in 2024.

Because some claimants would have started a plan anyway, the seven percent is an upper bound on the share of eligible firms that were induced to start a plan by the credit. Fewer than half of claimants typically claim it again the following year and take up is substantially higher when a tax preparer has previously claimed it-- claimed the credit for another one of their clients.

Those patterns are very tough to reconcile with a simple model in which firms are fully informed and respond to financial incentives. They are consistent with substantial administrative and informational burdens. Second, consider the state auto IRA policies, which were talked about considerably earlier.

These require employers without a retirement plan to make a choice. They've either got to facilitate payroll contributions into the state auto IRA program or establish their own plan. Among firms that respond to one of those two routes, or sorry, through one of those two routes, roughly a third of responding firms establish their own plan, even though that's generally the more costly option.

Taken together, these results are consistent with frictions at different points in the process. Administrative and informational burdens may limit firms' ability to respond to financial incentives while making a decision more salient to firms or requiring them to make an active choice may prompt firms to reconsider whether offering a plan is worthwhile.

Finally, what does this all mean for policy? Before we make financial incentives larger, we should make the existing incentives easier to notice, understand, and use. For the plan startup credit, we could embed the credit calculation directly into standard tax workflows, help make the full multi-year value clear when firms are making the choice to offer a plan or not.

More broadly, pooling plan costs across employers, improving technology, providing standardized compliance assistance technology can help reduce administrative and informational frictions. We should also study whether non-discrimination rules or firms' perceptions of those rules discourage plan formation.

These types of tools can potentially make a wider set of mutually valuable compensation packages feasible in the labor market without requiring us to make very strong assumptions about whether workers are saving too little or too much. Our evidence doesn't imply that monetary costs are unimportant.

It suggests that policy design should target specific frictions that can affect whether plans form and on what terms they form. And for small employers, making the existing incentives easier to notice, understand, and use may end up mattering as much, if not more than making them more generous.

BROWN: Thanks a lot, Adam.

Well, so let's turn to a, a specific proposal. And we've got one from Ben who's, you know, looking at how to well, the savers match isn't even operationally, and you're already trying to improve it. So, it's let's hear from you.

HARRIS: Thanks, Jason. It's really a thrill to be here. Congratulations to Gopi for pulling this off. This is really exciting.

Yeah, I mean, you're right. I'm... we're changing a, a program which hasn't even started yet. It begins, you know, January 1st, 2027. I feel a little bit like when I cook dinner for my kids and then they, like, push it away and don't even try it. It's like, try it first before you want to change it. But really I think it should be seen as, you know, I'm very enthusiastic about what's been legislated before. And so kind of assuming that I'll be successful, how to build on top of it.

I mean, here's the big idea. The big idea is an incremental change to the savers match, which just makes it more generous for low- and middle-income working families. And to do that in a revenue neutral way, paid for by reasonable offsets. And, like, that is the big idea. How you expand the savers match is certainly up for debate. We present one way that's really more illustrative than how I'd do it if I was legislating it. We suggest a few different potential offsets, but there's, there are plenty of different options.

And so I would say, well, what's the intellectual thrust behind calling for an incremental change to the savers credit? And there are a few things. First of all, I think there's a recognition in the literature that the current system of defined contribution plans are really not saving incentives in the form of changing behavior.

I mean, when we looked at the literature early on, it seemed like, oh, it induces all this extra net saving. Now it looks like it just induces portfolio reallocation. Which isn't a reason to tear it down, but it's to acknowledge that doesn't really change behavior outside of changing how you allocate your portfolio and which account you're saving in.

And if you acknowledge that, and I think the literature's pretty clear on this at this point, if you acknowledge that, then we've got this two hundred and fifty billion dollar massive annual subsidy that only goes to the top two quintiles, more or less. I mean, some goes to the bottom sixty percent.

Almost all of it, I think the CBO most recent projections show that about eighty-four percent go to the top forty percent. If you had designed the defined contribution system from scratch, and we did not, I mean, this is very much an accidental system, you would never design a system where eighty-five percent goes to the wealthiest forty percent, right?

That's a byproduct of an accidental system. And so acknowledging that, A, there's a lot of money there, and B, that more of it should probably go towards the bottom sixty percent was one of the driving forces between mine and Natasha's proposal. A second potential well, the first is that acknowledging that it's not a great behavioral change.

The second is acknowledging that most of the money goes to the top 40%. The third driver behind this is acknowledging that the Social Security Trust Fund is going bankrupt. I don't know what will happen in a few years, but there needs to be other changes outside of Social Security to accommodate whatever is coming within Social Security.

We need to start buffering non-Social Security saving. We need to start buffering non-Social Security retirement security in advance of that change. The fourth driver, I think, has to do with respect to AI, and you're starting to hear a lot of proposals for ways to better share the gains from AI with people who don't work at those handful of companies, and there's really only three different proposals as far as I can tell.

One is allowing public ownership of these companies. I'm not a fan of that, and I'm getting, like, far afield if we go into that. Second is to offer employee ownership of companies more broadly, and a third is just to offer general population ownership of equities, and that's, I think, what the savers credit does.

What it doesn't do, what this proposal does not do, is tear apart the existing system. I don't think we should tear apart the existing system for a few reasons. One, it's really popular. I mean, I've advised presidential campaigns, and I would not lead with, "Let's tear down the DC system," as a, as an idea.

I mean, that, that's not a winning idea. People really like their 401s. They like their IRAs, and I don't think it's politically feasible tearing apart the whole system. I also don't think that a big deficit finance expansion is likely. So that's why we propose plausible offsets. I also think there's something to be said for the DC-- There's a lot of positives to the DC system.

Employers do a really good job of administering it. They're a trusted source of information, and they've earned that trust. And so I'm not looking to tear down the full DC system. The idea is to make it incrementally more more valuable for those in the bottom 40% or so. So what our proposal does is it says, let's look at three different offsets.

One changes the way that you value promissory notes and family businesses for the purposes of estate and gift taxation. It disallows certain discounts that are claimed. The second proposal is to have mandatory distributions on accounts worth more than \$10 million. Both of these were proposed in the Biden administration Green Book.

You know, for the case of accounts being worth more than \$10 million, it would be a 50% required RMD on the value above that. So if you have an \$11 million account, the required minimum distribution would be five hundred thousand. And the third is just to reduce the maximum contribution amounts by 3%.

So if you allow \$70,000 in joint contributions between employer and employees, you're reducing that by \$2,100. And so, what we do is we sort of accept the amount of income that's generated by those three different offsets, and we say, what would happen if we allow people to make bigger maximum contributions?

And they're big dollar amounts. It's actually not very realistic the way that we model it. I don't think that a family making thirty-five thousand dollars a year is gonna take advantage of a eighteen thousand dollar maximum contribution to a savers credit. That's crazy. And the way that the modeling was done, you kind of look at what people would contribute if they could contribute an unlimited amount.

But anyway, we show it's, you know, it's not surprisingly it's fairly progressive, and it benefits the bottom sixty percent. The last thing I'll say is, it benefits a lot of people, the way we modeled it in the Tax Policy Center microsimulation model. For the second quintile, which are households making from around thirty thousand to around sixty-seven thousand, you're seeing about one point six million households get a benefit in a given year from this increased savers match.

Now, you can have lots of different ways that you change the design, so I wouldn't take that one point six million as gospel. I would probably, you know, if I was going ahead and working with someone like Senator Whitehouse, would extend the eligibility threshold. Right now, you get a maximum phase out for married filing jointly at around seventy thousand in the savers match.

That should be higher if we're extending it. But this is just to say there are a lot of households I think that would benefit from this, and I'm optimistic about bipartisan energy behind it.

BROWN: All right. Thanks, Ben. Okay, let's turn to Cormac O'Dea. Cormac, towering over us like the Wizard of Oz. So I mean, you are trying to work through the employer system Cormac, and, you know, trying to you know, stimulate more retirement saving by employees who aren't maxing out their contributions, you know, at the expense of those who are. And so, do you want to tell us how you plan to do this?

O'DEA: Sure. And first of all, I regret not being there in person, a teaching commitment I couldn't move this afternoon, but I'm delighted to be here virtually. This proposal, it's joint with Guillermo Carranza, Taha Choukhmane, Larry Schmidt, and it builds on our collaboration with Fiona Greig. We're thinking about employer matches here, and specifically safe harbor rules around employer matching.

Some basic context. As we know, about 100 million Americans have an employer-sponsored retirement account. Most of those have an employer match, and about \$250 billion a year goes in through employer contributions, mostly in the form of matching.

Now, you might think that the matching formulas that we see out there in the wild that many of us have, you might think that they have arisen organically as part of interactions between employers and their employees, and that's certainly true to an extent. But it is also true that federal policy pretty substantially shapes plan design and match formulas more specifically.

This occurs because of the interplay between non-discrimination testing and safe harbor designations. So for decades, firms, if they want the tax advantage wrapper of a DC count like a 401, they need to ensure that not too great a share of the employer contributions are flowing to workers designated as highly compensated employees This is implemented by annual non-discrimination testing.

Now Congress has worried that those-- the compliance burden associated with that is disincentivizing especially small firms from creating retirement accounts. So starting in the

mid-1990s, they designated a number of formulas as safe harbor. So the idea was if you picked one of a relatively small number of match formulas, you didn't need to go through non-discrimination testing.

You are presumed compliant in a sense. These have become pretty popular with plans. So we put together a dataset in 2003 when our data starts. About a fifth of plans had a formula which was safe harbor. That number is now close to a half. So it's by designating, by giving these particular formula-- formulas safe harbor status Congress has intended or not generated a lever for shepherding plans into particular formulas.

So our specific proposal is to have a new safe harbor, to introduce a new safe harbor, which would also, like the existing ones exempt firms from non-discrimination testing. The structure of the proposal has two features, and each feature is designed to I suppose improve one aspect of or maybe one limitation of the current system.

One arm is designed to increase the savings that are flowing into these accounts, and the other arm is to broaden access. So briefly the feature designed to increase saving starts from noticing that both safe harbor templates that we have matching safe harbor matching templates, start from a dollar-for-dollar match.

It's a pretty substantial marginal incentive, but because it's so generous on those first dollars of saving, the employer matching incentives are really focused on a pretty small share of saving. A lot of the subsidy is going, and Ben, I think, alluded to this. A lot of the subsidies are going to folks who would have saved anyway. We propose a new safe harbor would have a lower match rate up to a higher cap.

There's a bunch of research, including our own, which shows that the presence of a match can incentivize additional saving, but the actual level of the match is not as important. You can quadruple the match rate from twenty-five cents on the dollar to dollar for dollar and yes, you might generate some additional saving, but the gains might be modest.

So paired with this stretched match, we propose that the new safe harbor matching formula would have a non-matching component, a non-elective contribution, a contribution going to all eligible employees regardless of whether they save or not. These non-elective contributions, they exist. They're not especially uncommon, but they're not nearly as common as matching in the current i-in current common designs.

And they are designed to tackle and complement other policies that tackle the fact that there's a whole bunch of people who essentially d- are eligible for a match. They have access, but at least in the case of non-auto enrollment plans, about thirty percent of them do not avail of it. So our proposal is a new safe harbor designation that would bring together a modest non-elective contribution with a stretched match, a lower match rate than we often see up to a higher level.

Our proposal is structure rather than particular numbers, but both in the piece, which is now online and the underlying academic paper, we show some numbers and illustrate how this could be implemented in a way that is approximately cost neutral with the current system. Thank you very much.

BROWN: All right. Thanks, Cormac. So now I want to turn to Olivia. And so we've touched on this. Well, we haven't touched on this, but you know, Senator Whitehouse noted that people have lifetime income, Social Security. You don't live very comfortably only on Social

Security. And as Josh pointed out you know, people worry about running out of money in retirement, and there is a real risk of that happening.

And on the other side of the coin, some people underspend in retirement because they're so worried about running out of money. You have a proposal to increase lifetime income, and so maybe you could share with us how you, you propose doing that.

MITCHELL: Well, thank you very much, and thanks to Gopi and Brookings for all the work that you're doing in this area, which is incredibly important.

The motivation for our proposal is that even though we do have social security, most people do not buy guaranteed income, and this really threatens retirement security for millions, as Josh pointed out. Now, in the backdrop, we know that Social Security is facing insolvency, and if nothing else is done, benefits will have to be cut by about 25% within six years.

So that's important to keep in mind as well. Retirees, if you ask them, say they want a guaranteed lifetime income, but few company-based retirement plans offer them, and even when they are, they're rarely used as a default. And even in that case, when they are offered, very few retirees opt for them.

Later, if you query them on what they regretted, a majority of them say they wish they'd saved more, they wish they had kept on working, and they wish they had purchased lifetime income. So our plan is one which, I just put up one slide here, which would provide partial pretty good lifetime income as an automatic default from defined contribution plans.

Now, we know defaults work in the context of 401 and 403 plans. There's automatic enrollment. There's automatic contribution. There's automatic escalation, and if you don't know what to invest in, target date funds have become the standard. But at retirement, people get to whatever age that is, and there's no advice on how they should manage their money in retirement.

So our proposal is to have partial annuitization, less than 25% of people's assets over some threshold, automatic enrollment at retirement with a six-month trial period, lots of education and disclosure around this product. It balances the need for income and the opportunity for flexibility. And it's adjustable for up to six months post-retirement with other options feasible.

Now, the pros of this argument is that they return the re- the retirement income piece to ERISA, which after all was the Employee Retirement Income Security Act. It integrates longevity protection into defined contribution plans and they would ensure sustainable and low-cost lifetime income for millions of retirees.

It safeguards retirees' freedom of choice as well. So ultimately we need to work on implementing it, let employers move from being fiduciaries to facilitators of retirement choices. And what Congress could do is adopt QDIA's, letting employers advise their employees without fear of litigation. It would, we believe, require insurer financial soundness with oversight and financial standards.

It would ensure understanding through disclosure standards and employee non-fiduciary advice, and it would reduce costs because of greater competition and potentially DOL fee caps. Just a quick word on next steps. There is a UK effort now underway to make available one or more default pension solutions.

What the UK is doing is mandating provision of an opt-out default retirement income decumulation pathway. The second thing we would need to do is specify default parameters and limits. We need to design participant protection standards and oversight. We need to clarify employers' non-fiduciary roles.

And some of this, we believe, and we can discuss this during the Q&A with my coauthor, Josh Gotthelm whether it needs to be done via legislation or perhaps it could be done with administrative rules. So thank you very much.

BROWN: All right. Thanks, Olivia. Okay. So let's have a discussion about these, these ideas.

And first I want to go back to Adam's point that sometimes these incentives just don't seem to be very effective either because either they're not taken up or even they're undone. And so, you... What are the... I wanna think about efficacy for a moment and just ask you, what are the levers we think that policy can have the most durable impact?

BLOOMFIELD: Well, policy and policymakers have a very unique role in potentially making things much simpler and easier for people. The innovative power of industry can generate many interesting options, but unless a monopoly emerges, things can remain quite fragmented. And so, like with the internet or with GPS, the government has a very profound role in potentially simplifying things for people.

Some of that can be done through legislation or administrative changes, but every year, every quarter that I remain involved in studying the retirement system, I continue to discover new complexities and new differences in tax rates and vehicles and the dozens of different account types. And I think an important question that, and an important role that government can serve, both at state and local as well as federal, is to I think, does this, is this a complexity achieving its goals, or are we making things much tougher to navigate?

And I-- so I think if you had to ask me what would be the most durable impact that policymakers could have, it would be to make the rules easier to navigate. And some of that can be done in partnership with the providers.

BROWN: Staying on this, this question of efficacy, Cormac, so are there concerns about your proposal and whether you know, the, the efforts to stimulate more retirement saving for those who are not currently contributing could those just be taken out of wages? I mean, can they be offset you know, elsewhere? And have you thought about that and what are the risks there and why not? Why isn't this a, a concern?

O'DEA: Yeah. I mean, I think that's a really important point. I think the proposal that we have, I think, has a mechanical efficacy with a, a clear associated cost that you're alluding to.

The mechanical efficacy with a non-elective contribution is you're just simply putting it into the employee's account. And we have looked quite carefully, and when these are implemented, it doesn't look like the employees themselves are responding by offsetting that in their other saving, in their other DC savings.

That said, the, I think, associated cost, which we want to be clear about, is the one you raise, which is we don't in any sense think that this is free money, that employers wouldn't somehow adjust their wages in response to it. The way we sort of think about that is that

to keep the non-elective contribution relatively modest. If you do that you're at least opening up the account.

There are long-- people have long conjectured, I think Mark Iwry has spoken about this very credibly in the past that putting a non-elective contribution into an account opens up the account. It means that individuals are exposed and maybe there's financial literacy gains. If you keep those non-elective contributions, the levels we talk about in the proposal are percent and a half, maybe two percent.

If you keep them modest, at least those offsetting wage gains which-- or wage offsets which could occur might be themselves modest as well. So yes, there is a, I think, a mechanical efficacy involved in putting the money into the account, but there is certainly an associated cost that I think it's really important to engage in.

BROWN: And Ben you know, do you think that the sort of the right way to think about this, especially among say low-income people who are not contributing that much, is it-- is the best way to go about this is just redistribution or should we really try to push on this, you know, incentivize people to save more?

HARRIS: No, I mean, I think that people don't respond to savings incentives very well, in part because it's so insanely complicated. I mean, I love that people are like, "Oh, I know my marginal tax rate." You don't know your marginal tax rate. You don't. And I say this in, like, what I consider to be the world's greatest think tank with a very sophisticated audience.

I don't know my marginal tax rate because there's so many... I know what statutory rate. I mean, I can look at my income and crosswalk it. But if you said, "I give you an extra \$3,000, what's your tax rate on it?" It's almost impossible to calculate. It's all over the place. The complexity, it is so hard to be a consumer these days.

It's very hard to be an investor, and it's almost impossible to be both which is what we're talking when we're talking about retirement security. I mean, I sometimes give an example about how, this is a 12-year-old example, but this is, you know, we're still talking about these things, about how when I was policy director of the Hamilton Project, I had these research assistants come outside my door.

These are some of the most brilliant research assistants in the country. They're going off to Ivy League schools to be in PhD programs in economics. They understand the notion of compound interest, trust me. They did not understand how to set up an Ameritrade account. And so, and they just knocked, and, you know, they wanted to stay, they just didn't know the mechanics of how to do it.

So I completely agree with the sentiment that we need to make this simpler for people. And if we don't, people will do what people do in the face of great complexity, which is just stand still. And we've got to get away from that.

BROWN: Yeah. I mean, and this sounds like something that you're actually trying to address, Olivia, because people do kind of stand still. They sort of default. And as you, you said, people, you know, they do regret, you know, not annuitizing more of their wealth. And but at the same time, you know, it's so confronting that, like, people do have a choice and they often don't take it up. And so how do you get past that?

Trying to, you know, force people to, I mean, you're not forcing them. I mean, there, there's opt-outs and all of that. But are you sure you're, you know... Are you sure that this is going to be an outcome that they don't regret?

MITCHELL: Well, one of the things that we've found is that by and large, people understand their life expectancy, not pinpoint precision, but if you ask them, "What do you, how long do you think you'll live?" People report their life expectancy fairly accurately. What they have no clue about is the risk around that distribution. That is, they don't really understand the chances of, say, living... What if I ask you, "What are your chances of living to 85 or 95 or 105?" They have no clue, and that's the longevity risk that is not being handled right now.

Moreover, we don't recommend full annuitization. We only recommend it for a portion of your defined contribution assets and only above a threshold. So if you only have \$10,000 in your retirement account, there's no point in annuitizing that. But I think the current default is zero longevity protection, outside Social Security. And so a modest move toward enhancing that longevity protection would be highly beneficial.

BROWN: Yeah. And just you know, Cormac has done work on people's, you know estimation of their survival probabilities, and that being a driver of why people don't annuitize as much of their wealth as they could. But that also gets to the question of, like, what is the role of kind of education and de-biasing, and is that part of achieving better retirement security? I'll just go back to you, Olivia.

MITCHELL: Well, we know now that I think it's about 25 states have mandated financial literacy education in high school, and that's a good step forward, but we still have another 25 states that need to move in that direction.

As part of that, I would strongly recommend teaching people about longevity risk, not just how to manage money, interest rates, diversification, inflation, and so on, but also how to think about the chances that, by and large, you have a non-zero chance of living to 125. Moreover, with AI and all sorts of medical breakthroughs, you might well live far beyond that. So that's the longevity risk. We have to teach about it.

We have, the employers have to help default employees into partial annuitization and make people un- aware that, you know, capital market risk is a big deal. Healthcare shocks, healthcare costs are a big deal, but longevity risk can lead you to running out of money.

BROWN: Yeah. So Cormac, do you wanna build on that?

O'DEA: Yeah, I just would-- Also, I just agree with Olivia but emphasizing the important role of education, but also emphasizing that maybe you-- it doesn't get you all the way there. And the frictions that-- not just the survival pessimism, and I agree with everything Olivia said there, but the other frictions at the individual side, along with risks that employers fear on on the, the provider side just doesn't make it a hospitable environment for lifetime income.

So I think the set of proposals that she and Josh are putting forward, I think are very welcome there.

BROWN: Yeah. And Adam, you-

BLOOMFIELD: Yeah. I mean, I'll be very brave and chime in on financial literacy with Olivia here. But I would say, and I think I've spoken about this with you briefly, and Ana Maria, is that for every, you know, 100 or 200 papers that have been written about financial literacy and consumers and households, there's actually a very few about business owners and about the kind of literacy they are assumed to have by the system and which I think a lot of my work tries to illustrate that businesses are humans.

They are subject to a variety of cognitive challenges and complexity to navigate. And I think that some of the returns on financial literacy that have been shown to accrue to households, we should think about how businesses also may benefit from literacy or the kinds of literacy you need to navigate finances as a business.

HARRIS: Jason, can I? So, Olivia is obviously a titan in retirement security, and it makes me really happy that I agree with everything she says. So I just want to agree with a few things specifically. The first is, okay, as an economist, if I could impart what I know as an economist into the general population, the first thing would be the difference between sticker price of college and the net price.

But let's put that aside. The second thing would be what Olivia was talking about, which is like the fantastic uncertainty of your lifespan. This makes it almost impossible... People are actually very rational. What they do is they hoard money because they don't want to outlive their assets. I'm 49 years old. There's a pretty decent chance I'm going to live to between 65 years old and, like, 95. How the hell am I supposed to save given that uncertainty? I may have to live between zero days in retirement and three decades. Like, that's a just fantastic source of uncertainty that makes it very hard to save for.

And so Olivia's proposal, which is such a smart idea, which is partial annuitization, you get the best of all worlds, which is you get to address some of that longevity risk, and then you still provide a fair amount of flexibility, which people value, and they've shown to value in these accounts.

And so from my perspective I almost think the decumulation side is more important than the accumulation side. Because what we've done is we've presented a system where it's impossible for people to do anything other than what they do, which is just to hoard money and hope that, you know, you don't outlive it.

BROWN: Right. I mean, as Cormac pointed out in his paper there's \$14 trillion in these tax advantage accounts. And yet there's still this perception of You know, all sorts of risk, economic risk in retirement. And I don't know if you, either you or Olivia want to touch on longevity annuities, but that's another idea that both you have both of you have put out over the years. A, a relatively cheap way of getting some additional resources over later in later in life.

MITCHELL: Well, I would just add that if there is in fact a move for employers to not only allow, but default workers into partial annuitization, this would lower costs, it would create more competition, and I think it would be quite beneficial to virtually everyone, except perhaps someone that had just been given a diagnosis of, you know, a year left to live.

BROWN: I wanna touch a little bit on feasibility of these ideas. I, you know, you know, Ben, I think yours, yours really sticks out as, you know, one of those ideas where benefits are broad, you've got over a million people benefiting, and then, you know, the costs are borne by, you know, .00001% of the population with, you know, pay-fors that are obscure, no one's heard of.

And, but somehow those things, you know, can be kinda challenging to to nonetheless get done. I I don't know what your thoughts are on...

HARRIS: Yeah, I mean, I'm encouraged by Secure 1.0 and by Secure 2.0. These were smart pieces of legislation, they're bipartisan pieces of legislation, and they are enacted.

And so, I think that they-- what they've done is set the stage for a certain type of discussion moving forward. These are incremental reforms. They're not blowing up the system, but I think they're making the retirement landscape better. So that's what we're really trying to do, what Natasha and I were trying to do, is put forth a tractable proposal that could actually get legislated.

In some ways, it's really nice to think about, look, if we go back you know, 60 years in the tax code and start from scratch, what would we do? Or if we could go back and, you know, rethink Social Security from the outset, what would we do? That's a nice intellectual exercise, but it's not the reality of what we're living in.

And so, you know, life's about trade-offs. I'm an economist, but, so that's kinda how we think. But the trade-off here is, for people that have more than \$10 million in a tax-preferred retirement account, you have to take out half of the amount above that. Or if you're a wealthy family and you are getting market discounts for inter-family transfers of family businesses because you have fractional interest, and who wants to own a fraction of a business, but as a family, you own a large share of the business, you know, reducing that, that benefit and providing more money to two million people, that feels like a pretty good trade-off to me.

And it feels like one that a lot of members of Congress of both sides of the aisle could get behind. And so that was the idea. We didn't wanna just, you know, have a pie in the sky idea. And none of these are pie in the sky ideas. All of these are tractable. All of these could potentially happen. All of these should be included in Secure 3.0, but the idea was to operate in the realm of the plausible.

BROWN: Yeah. And Cormac, on in your case you've been workshopping this idea, and I'm wondering you know, what has been the response that you had, especially from, you know, the employer community?

O'DEA: Yeah. I suppose there's two ways that one might implement it. You can implement it as a new safe harbor, and that would, I mean, almost certainly be very popular with employers. It doesn't take any existing option off the table. It's a new option. I mean, the downside of that is that we know these decisions are taken every couple of years. We could imagine take-up would be much more modest, and it would just take a lot longer.

There's a trade-off here. So Ben already alluded to trade-offs. An alternative is to replace one of the exi-existing safe harbors either with or without grandfathering. That would be a little bit more costly to certain employers because it would require them either to change their plan or go back into non-discrimination testing. That's the cost of that more ambitious approach.

The benefit would be if you think that the broadening access and increased savings are credible, we do they might happen-- there might be more of them, and they might happen quicker.

BROWN: And Olivia, do you wanna say a couple words? I know you, you s- there's some uncertainty of whether this required legislation or it could be done by regulation or...

MITCHELL: So I might defer to my colleague, Josh Gotbaum. Would you like a mic or come up and and there you go. Thank you. 'Cause he's the more experienced.

GOTBAUM: I don't wanna derail this except to say that it appears that the proposed default partial, what Olivia calls pretty good lifetime income could be implemented by legislation, and legislation is already proposed. But it also could be implemented by the Department of Labor using its existing authority to designate a qualified default investment alternative. And so there are really two paths depending on whether support is greater in the Congress side or in the Department of Labor side.

MITCHELL: Thank you.

BROWN: Well, now that we've unleashed the microphones, let's you know, invite the, the audience to to participate. So what we'll do is we'll take a few questions and then turn it back over to the panel to to see if any of them strike their fancy. So please, you know, raise your hand and we'll bring a mic to you.

AUDIENCE QUESTION: Hi, John Topoleski, Congressional Research Service. About sort of partial annuitization, why not have... allow people the opportunity to sort of take a lump sum and sort of, top up their Social Security? Seems to me that pe- people might have more... Despite Social Security's concerns, I think people may have more trust in Social Security than they might in, like, insurance companies.

MITCHELL: An interesting question. I'm not sure that I would agree with you that people trust Social Security more than insurance companies. The reason is, of course, we've heard that the Social Security system is insolvent, and the benefits are gonna have to be cut. I personally believe that more people would participate in an insurance risk pool where the money is actually invested.

In Social Security, it's basically a pay-as-you-go system now, so any money that gets put in immediately goes to pay retirees. But it's just a judgment call. I myself would rather have my money go into an insurer, a highly rated insurer

BROWN: Other questions? And, oh, thank you, John, for giving your name and affiliation. If you could.

AUDIENCE QUESTION: Hi. Yeah. My name's Lawrence Molinaro. I'm an intern over at AEI. Before that I was working in the financial services industry particularly around annuities in-- as a financial advisor. So, so my question for you, 'cause I really Olivia, is I really like that idea.

But I guess my question is when it comes to the mechanism and kind of following that, that previous question where... I-Is there any sort of risk of overburdening those insurance companies if everyone starts participating in this sort of twenty-five percent partial annuitization? Do you have any thoughts on that? I'm just curious.

MITCHELL: Well, we could have a whole conference about insurance companies, and this is my own personal view. I don't think that the federal government has much opportunity to

regulate insurance companies. They're regulated at the state level. But that we need to work on separately. I think that insurers would actually provide a better product, lower cost with a bigger risk pool, so I'm quite encouraged by that possibility.

AUDIENCE QUESTION: Hi Robert Palacios. Hi, Olivia. Nice to see you. My question is to you. I really like the idea of partial annuitization. My concern and we know in international cases, you know, we have good experience with this, for example, mandatory annuitization in certain countries. With partial annuitization with a default, my concern is twofold.

One, depending on where that threshold is set, it's going to leave out a lot of people. And so you're gonna have basically high income high life expectancy people. So that could drive up the prices. The second concern is that those are gonna be exactly the kind of people who know their life expectancies best and are going to have other options, and they might opt out.

And then that would again drive the, the prices up. So I'm a little worried about the sort of adverse selection of people having... being able to opt out. I don't think-- I don't-- My instinct would be that the default won't be as strong as it is in the invest-- in the accumulation phase because people, w- in particular that group of people, will know a lot, and they may actually opt out, and then that will drive the, the prices up of the annuities.

MITCHELL: Thank you for that, Robert. So we know that Social Security is very progressive in the sense that the replacement rate is much higher for low-wage workers, and that's one reason that the low-wage workers tend not to need so much annuitization. That's why we put in the threshold. So if you have, say, two hundred thousand dollars or more saved in your retirement account, then twenty-five percent of that, above that cutoff, would be annuitized.

And I think that would really help with the access and the pricing. You may say that high-income people know their life expectancy. That may well be true, but they do not know the longevity risk. I've done some research on that, and they don't have any better idea of that than anyone else. So that does provide the opportunity for the default annuitization.

HARRIS: Can I just say, there, there's also a difference between immediate annuities and deferred annuities. Just kind to Olivia's point on people not knowing the distribution of their risks. This is a while ago, but I don't think there's any reason why it would change. Catherine Abraham and I looked at surveys of people around age 50 and asked what's the likelihood of living to age 70? Of those who said there's a 0% chance of living to age 70, half did. Right? So you would expect on a, as a group, if you say to people, "What's the percent chance you're gonna live to age 70?" And the group that says 50%, half would.

Anyway, people who thought they were gonna die were wrong fairly, on fairly large margins. People know if they're gonna die in the next year. Beyond that, people's ability to assess their likelihood of dying at different ages is pretty off. And so, you know, I think that these deferred annuities, it's just the right answer, and ones you purchase over time that where you can say the, the issue is not needing money at age 65. The issue is being age 65 and potentially needing money at age 70 or age 75.

MITCHELL: Or 95.

HARRIS: Or 95, right? Like, that's the risk. The risk is living longer than, than you expected. And I... The last thing I'll say is, like, for me, this is largely a middle class issue. There's a scholar here who used to say, "Low-income Americans have a lot of problems. Retirement

security is not one of them." And just to unpack that for a bit, I mean, the benefits are so progressive with respect to Medicare and Social Security that if you look at the point of retirement security as providing you a similar standard of living and retirement as you did during your working years, Social Security and Medicare do a great job of that- Yeah

for low-income Americans. But for those who are middle income or maybe upper middle income the system is not set up to enjoy the same standard of living in, you know, throughout your life in retirement as you did during your working years.

MITCHELL: If I could just add, Medicare, Social Security's becoming insolvent in 2032. I believe the number for Medicare is 2036.

HARRIS: I think it's earlier than that, isn't it?

MITCHELL: Might even be 2034.

BROWN: 2033.

HARRIS: Yeah, 2033.

MITCHELL: Yeah. Okay. But so that, that level of security is also diminishing and dwindling.

BROWN: That's just HI though. Stay outpatient, you're fine. All right, let's take one more question.

AUDIENCE QUESTION: Thank you. I'm Julie Wile from The Washington Post. This question's for Mr. Harris. Your proposal seems to rely heavily on that, you know, you said 85% of the benefits are going to the top 40%, and you're relying on taking some of the money from that top 40%, especially the top, you know, 1%, the \$10 million accounts, the people who are putting in the maximum contribution.

That seems like the opposite direction of where we've seen this go. We've seen bigger allowable contributions, letting more money go to the top anytime there's been a proposal to take some of that away, you know, to close backdoor Roths. Like, even things that seem like a pretty obvious loophole that's only benefiting the rich, it's never worked in recent years.

What do you think the feasibility is of a proposal that relies on reducing some of these tax benefits that are going to the top?

HARRIS: Look, I mean, I spent every day of 2021 trying to get the Build Back Better legislation through Congress, and if there had been one more senator on the Democratic side of things, we probably would've legislated some of the things we're talking about. So, like, I -- it was right here as far as some of these, as some of these trade-offs. And I think that we're, you know, depending on the composition of Congress, I think we're not so, not so far off.

On the incidence, let me just kind of say there's a bizarre incidence if you... You know, I like to say that 85% figure as far as who benefits from these tax incentives, but it's also the same payers of the income tax system. There's this kind of weird incidence where you've got like the top 40% are both the payers of the income tax and the benefit of tax incentives for retirement saving. They're kind of paying themselves to save in a weird way. And and so

anyway, just to kind of acknowledge that the incidence, when you look at the whole incidence as far as who pays income tax and who benefits from the retirement savings incentives are kind of off.

But just to answer your question, I mean, we were very close to passing some, some offsets that would have targeted higher income taxpayers in 2021, and I think that you'll see certain Congresses take another run at that.

BROWN: Thanks. Well, we'll leave it at that. Thank you all for these great presentations.

There were a lot of work that went into them, and I think it shows in the final product. So I encourage everyone to read them closely and we'll give you a round of applause. Gopi's gonna wrap things up for us.

GODA: Yeah. Thank you so much to our panel, to all of our participants in today's program. I'm so pleased with how this project has turned out and to actually launch these proposals for all of you to read. There's one common thread that I was reflecting on in all of these proposals, and I think it reflects the last few decades of research in this area.

I mean, this may come as news to many of you who are here in the room, but, you know, 25, 30 years ago, we didn't realize just how powerful defaults can be and just how important choice architecture biases are in retirement savings decisions, both by individuals, workers, but also employers, right? And we've learned so much about that through decades of research.

I mean, the-- this might surprise many of you, it-- the first research paper on automatic enrollment. I mean, you might have realized like, okay, switching from an opt-in to an opt-out retirement plan would lead to more enrollment. But just how much it affects decisions was quite striking. It went from something like twenty percent enrollment to eighty percent enrollment.

And you saw that magnitude kind of take shape in a lot of different policy proposals over the years. And you see all of that research reflected in these proposals that we heard about today. And so I just wanna applaud the authors that really thinking about how evidence can be used in making policy better, 'cause that was very evident in all of the proposals that you all prepared.

So I just wanna take a few minutes to thank the many people who made this project and today's event possible. Thank you to Senator Whitehouse and Mark Iwry for kicking us off, and to Josh Gotbaum for his remarks. I wanna thank our panelists and authors who are here with us today or virtually due to teaching constraints.

You know, Cormac has to tell all of his undergraduate students about the saving system and how economics works this afternoon, which is an equally important job. And I just appreciate everyone's willingness to take on this messy world of kind of real world policy making and and incorporating that into their proposals.

Thanks to Jason for moderating our panel and your thought partnership on every stage of this project. I'm also grateful for feedback I received as this project developed from my colleagues Mark Iwry, Josh Gotbaum, Bill Gale, and Ben Harris. So thanks so much. There was also a workshop in May that allowed for all of the authors to get feedback from a wide variety of people in this space.

And all of those reviews and discussions I think gave the authors a lot to think about, and the proposals are much stronger for it. And I'm grateful to Stephanie for managing this project throughout the last year, to Meg Waring and the Brookings events and the AV teams, and to Aiden Creron and Olivia Kim, who worked as research assistants in the Retirement Security Project. They did very careful review and fact-checking of the proposals, keeping our authors honest. And so let's just give the team at the Retirement Security Project a big round of applause.

Big thank you to Arnold Ventures for their support of this project and evidence-based policymaking more broadly. We appreciate your guidance as this project has developed. And last but not least, we thank all of you here in the room and online for joining us this morning and we wish you a great rest of your day.

So thank you so much