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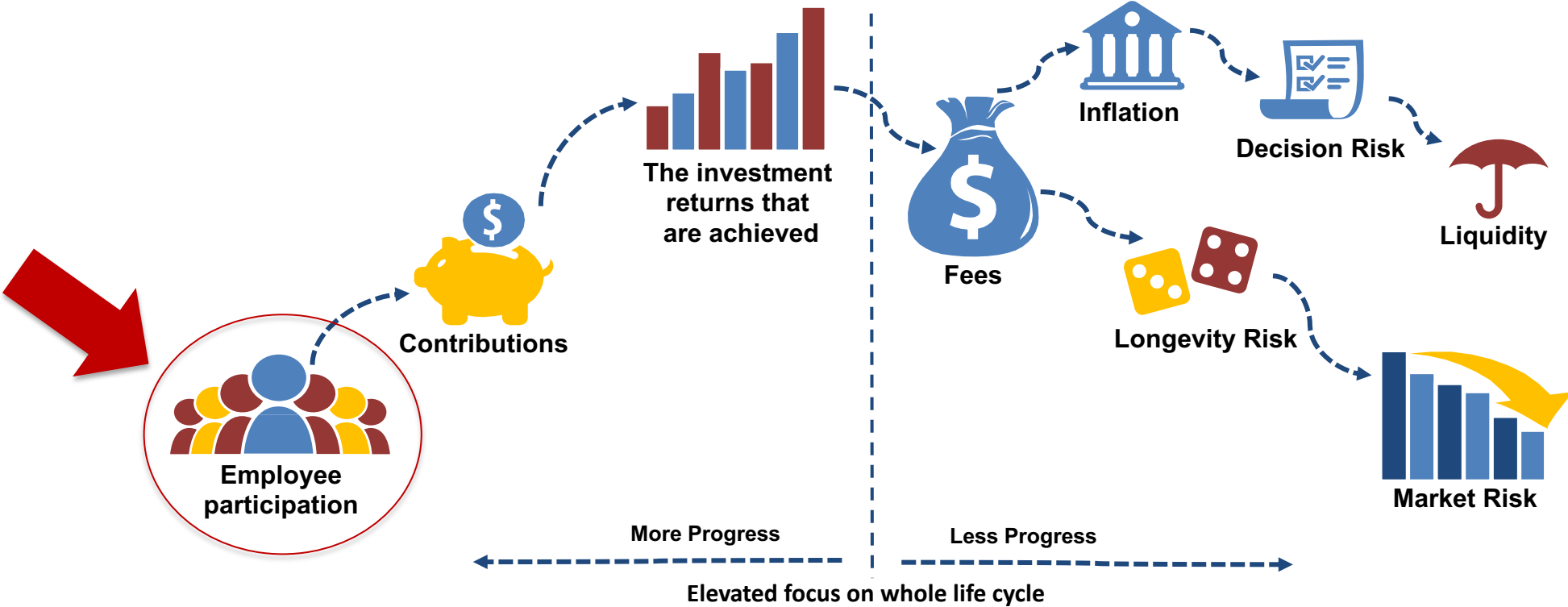
The State of Retirement Security: 2022 and Beyond
March 2, 2022

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DC Plans Must Evolve from *Savings* Plans into *Retirement* Plans

Need to Rethink DC System Design



<i>Accumulation is straightforward</i>	<i>Decumulation is dynamic & more difficult</i>
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Defaults have proven an effective way of overcoming participant inertia to help them become better savers. When shifting the focus to decumulation, the risks that affect how success is measured are varied and complex. Careful weighing of the trade-offs is required to select the correct spend-down strategy.

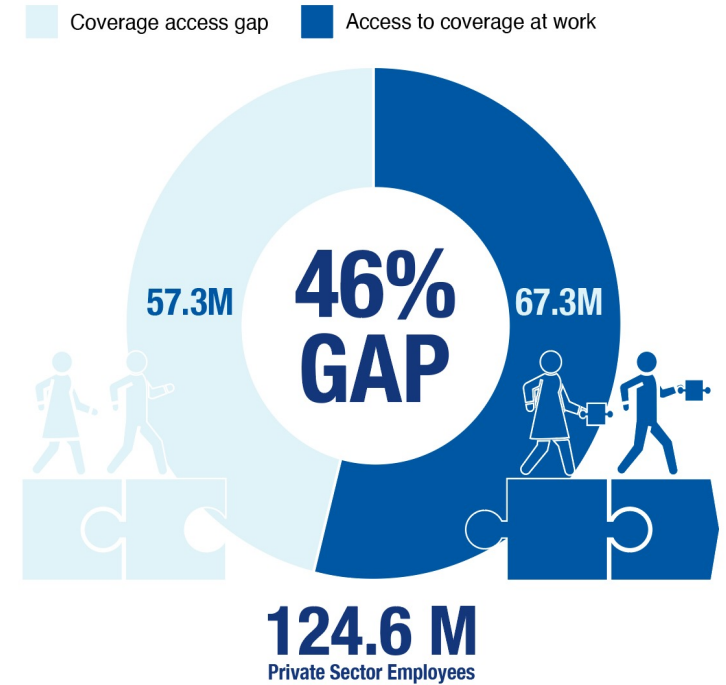
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Significant Gap in Access to Retirement Savings Among Private Sector Workers

- US employers are not required to offer a retirement savings plan
- Estimate 46% of the private sector workforce lacks access to workplace retirement savings plans (57.3 million workers in 2020)
- Disproportionately small businesses because of costs, administrative burden, and other responsibilities

More than 57 Million Employees Lack Access to a Retirement Savings Plan in their Workplace (2020)



ESI analysis of Census Bureau Current Population Survey and BLS National Compensation Survey Data.

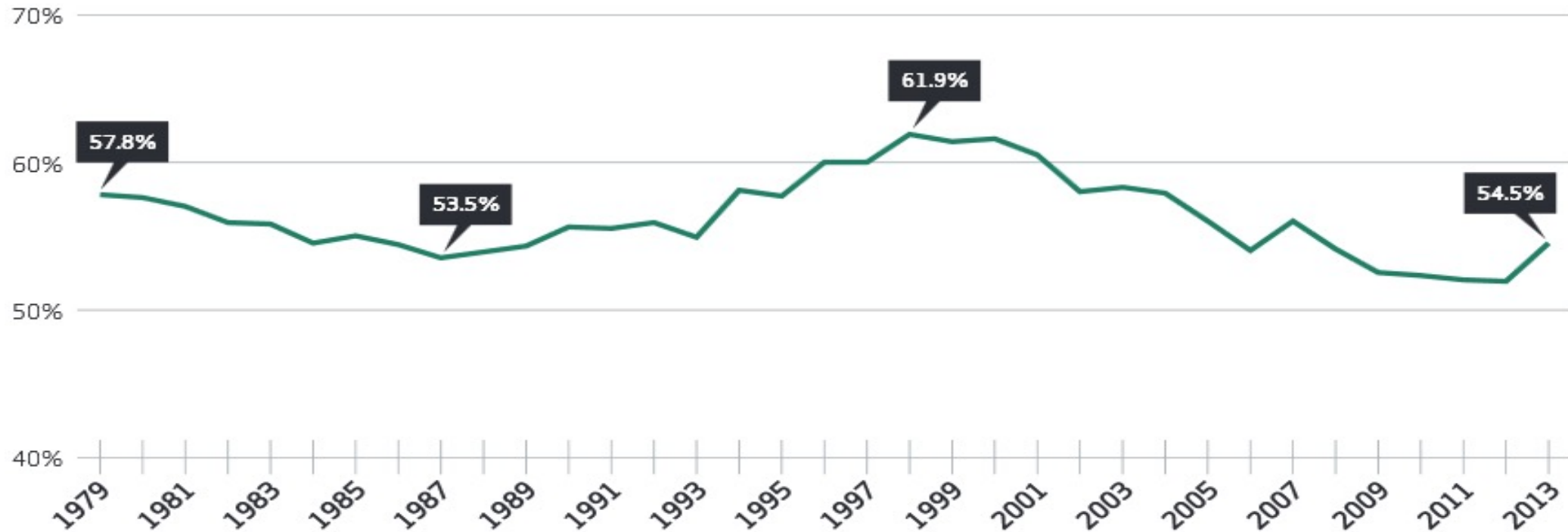
Source: Antonelli (2020). "What are the Potential Benefits of Universal Access to Retirement Savings?" Georgetown University Center for Retirement Initiatives in conjunction with Econsult Solutions, Inc.

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No Progress in 40 Years to Close Coverage Gap

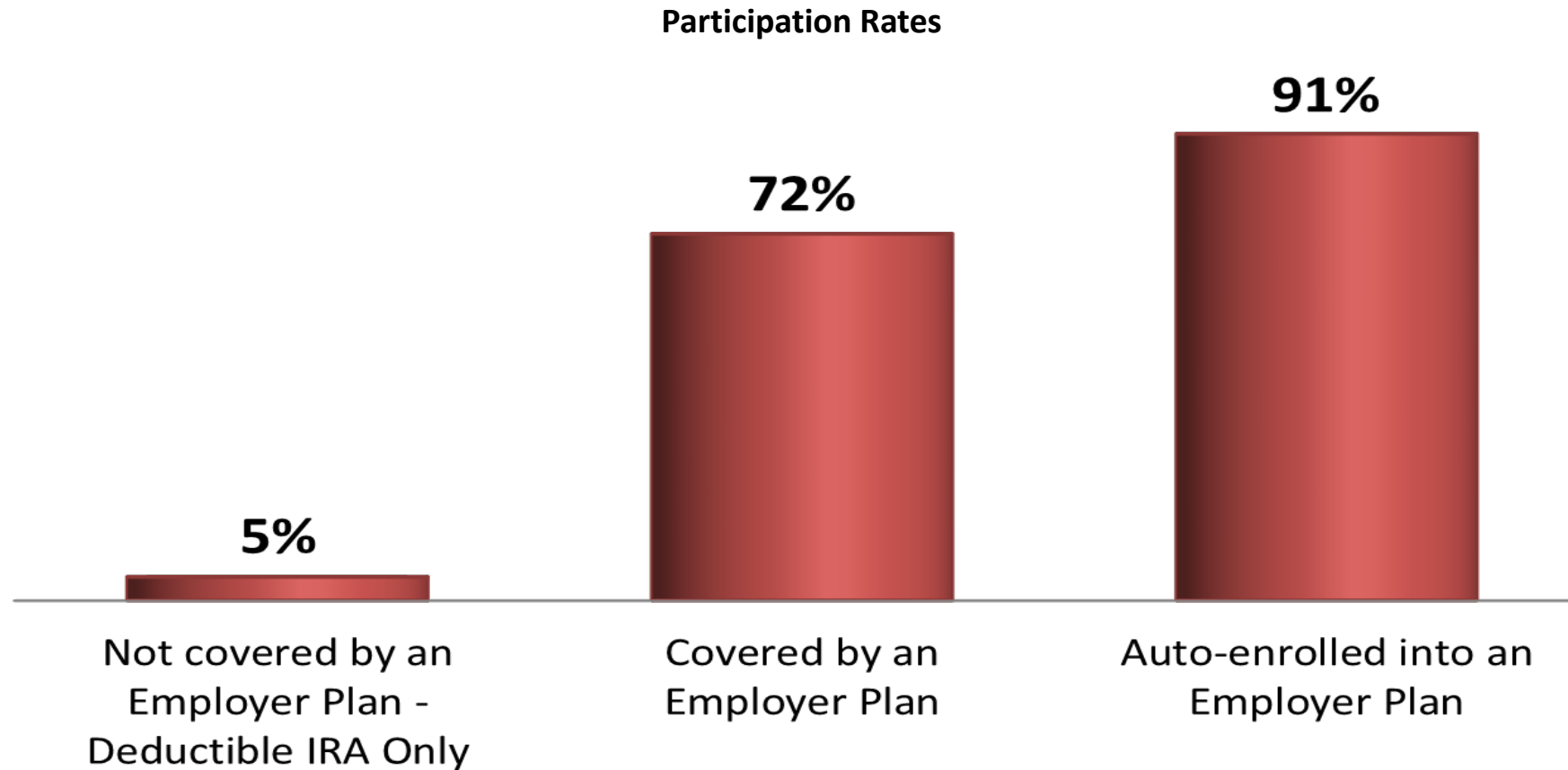
Only 55 Percent of Private Sector Workers Have Access to a Retirement Plan at Work

Private sector wage and salary workers age 25-64 whose employers sponsor a retirement plan, 1979-2013



SOURCE: Rhee, Nari & Boivie, Ilana. (2015). The Continuing Retirement Savings Crisis. National Institute on Retirement Security. https://www.nirsonline.org/wp-content/uploads/2017/07/final_rsc_2015.pdf

Can't People Already Save if They Want To?



SOURCE: AARP. Data compiled by AARP's Public Policy Institute from unpublished estimates from the Employee Benefit Research Institute of the 2004 Survey of income and Program Participation Wave 7 Topical Module (2006 data). See also Brookings' Retirement Security Project, and WhiteHouse.gov. Automatic enrollment data estimates provided by Vanguard.

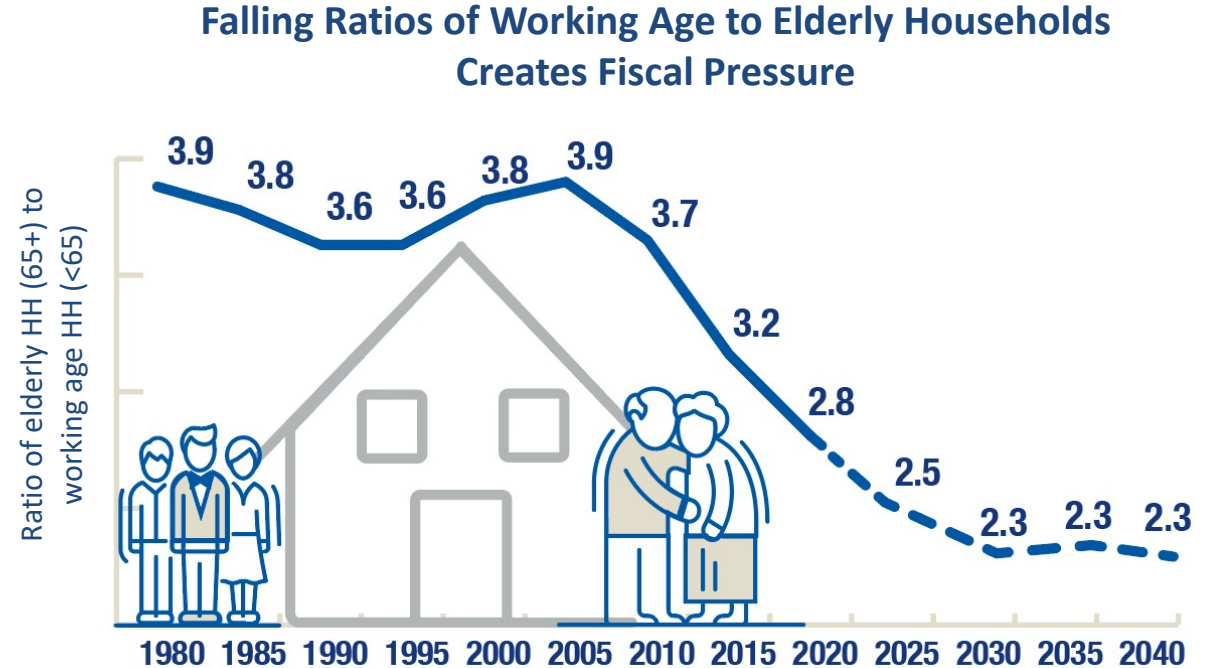
An Aging Population That's Living Longer

- 10,000 Americans are turning 65 every day from now until 2030
- By 2029, more than 20% of the U.S. population will be over the age of 65 ([U.S. Census](#))
- Nearly a quarter of today's 65-year-olds will live past age 90 ([Social Security Administration](#))
- A baby born in 2007 in the U.S. is expected to live to age 104 ([World Economic Forum](#))
- **If you retire at age 65, you may need to have savings, pensions and other resources from your working life (40+ years) to generate enough income for another 20-30 years once you stop working**
- **Between 2020 and 2040, the U.S. will see an 14% growth in its total population and a 32% growth in the 65+ population**
- Significant increases in the number of those over the age of 65 (63% growth past decade) and over the age of 75 (93% growth over next decade) who will continue to work



An Aging Population Increases the Urgency

- Senior households are growing in number and share of the population
- Increasing fiscal pressure from a decreasing share of working age households
- Generational shifts by 2040: Millennials and Gen Z will be in prime working years (30-60) and need to save for retirement



ESI analysis of US Census Bureau data
and University of Virginia Population Projections.

Source: Antonelli (2020). "What are the Potential Benefits of Universal Access to Retirement Savings?" Georgetown University Center for Retirement Initiatives in conjunction with Econsult Solutions, Inc.

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States Are Driving Change by Designing and Adopting Universal Access Retirement Savings Programs

- Recognizing the significant fiscal and economic costs of doing nothing, states across the country have initiated a variety of efforts
- Trend is increasingly toward state-level universal access auto-IRAs requiring employers who do not have a retirement savings plan to either get one or to facilitate the ability of their workers to save through the state program (10 auto-IRA states of the 14 enacted state programs)

State Facilitated Retirement Savings Program Models Adopted to Date

Auto-IRA	Voluntary IRA	Voluntary Marketplace	Voluntary Open Multiple Employer Plan (MEP)
California (Active) Illinois (Active) Oregon (Active) Colorado Connecticut (Active) Maine Maryland New Jersey New York Virginia	New Mexico	New Mexico Washington (Active)	Massachusetts (Active) Vermont

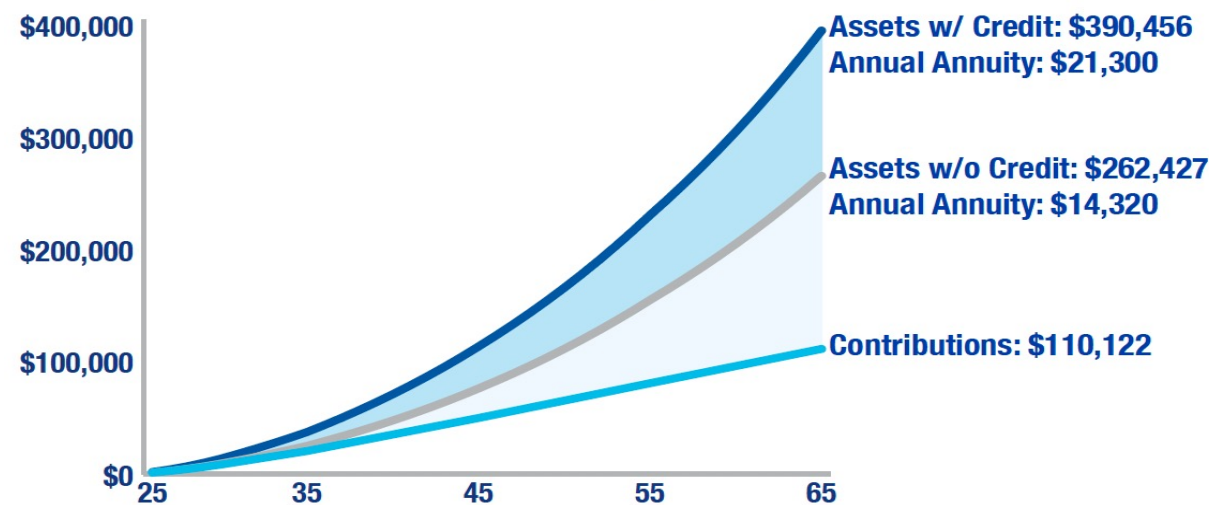
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Can Saving a Modest Amount Make a Difference? YES!

Starting Sooner and Saving Longer Improves Retirement Outcomes

By starting to save early through simple, automatic and consistent contributions, workers with average earnings levels will have the opportunity to build substantial private savings levels to increase their retirement incomes & supplement Social Security or help to defer starting Social Security (and boost benefits).

Figure 2.4: An Enhanced Saver's Credit Increases Lifetime Returns to a Young Auto-IRA Saver



Source: Antonelli (2020). "What are the Potential Benefits of Universal Access to Retirement Savings?" Georgetown University Center for Retirement Initiatives in conjunction with Econsult Solutions, Inc.

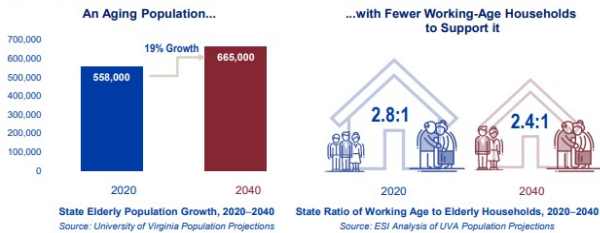
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Research on the State Benefits of Expanding Access

Iowa

State Benefits of Expanding Access to Retirement Savings

Demographic Change



Retirement Savings Access

Employer-sponsored retirement plans are the primary way for private sector workers to build savings, but employers are not required to offer them. Universal workplace access policies, where every firm is required to offer a plan, could significantly reduce gaps in access and expand retirement savings. Because the smallest employers are the least likely to offer coverage, thresholds exempting small employers from coverage requirements reduce the ability to close the access gap.*

Many Employees in the State Lack Access to a Retirement Savings Plan at Work...

1.28 Million Private Sector Employees Statewide

Coverage Access Gap Access to Coverage at Work



Workplace Access to Retirement Savings Among Private Sector Workers (2020)

Source: ESI Analysis of Census Bureau and BLS Data

...Especially Those Working for the Smallest Employers

Employer Size	Workers Without Access ("Gap")	% of State Access Gap Unaddressed
<5 Employees	64,000	15%
<10 Employees	136,000	32%
<25 Employees	230,000	54%

How Employer Size Thresholds for Providing Coverage Reduce the Ability to Close the Access Gap (2020)

Source: ESI Analysis of Census Bureau and BLS Data

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* For further information and national analysis, see: [What are the Potential Benefits to Universal Access to Retirement Savings?](#)

State Benefits of Expanding Access to Retirement Savings



Iowa

State Benefits of Expanding Access to Retirement Savings

Savings

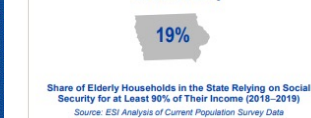
Expanding Access Would Grow Savings...	Auto-IRA (no threshold)	Auto-IRA (employers <10 exempt)
Additional Savers	252,000	162,000
Average Contribution	\$2,100	\$2,170
Total Contributions	\$530 Million	\$350 Million

Projected Increases in Savings Within the State in the Year 2040 from Expanded Access

Source: ESI Projections

Projected savings levels are highest when the most workers are covered. Savings could be further enhanced through incentives such as a refundable federal saver's tax credit.*

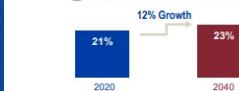
Many Seniors Rely Heavily on Social Security



Economic and Fiscal Impacts

An increase in savings would grow the disposable income available to retirees, boosting the economy because seniors represent an increasing share of household spending power.

Growing Household Spending...



Share of Statewide Household Spending by Seniors, 2020-2040

Source: ESI Analysis BLS Data

This analysis presents state data and analyses pertaining to an IRA model only, which does not allow for employer contributions. States are preempted by federal law (ERISA) from requiring employers to offer a 401(k)/MEP because those are considered employee benefit plans.*

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* For further information and national analysis, see: [What are the Potential Benefits to Universal Access to Retirement Savings?](#)

...Allowing Savers Across the State to Supplement Their Income in Retirement



Current government expenditures to support low-income seniors through benefit programs like Medicaid are significant. Increases in retiree incomes through enhanced savings would limit the growing demand for these programs as the population ages.

...While Reducing Government Spending



Annual Per-Beneficiary Spending (Federal & State) for Elderly Medicaid Recipients, 2017-2018

Source: Centers for Medicaid and Medicare Services

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SECURE Act of 2019

Effort to Make It Easier for Employers to Adopt and Maintain Plans

- Setting Every Community Up for Retirement Plan Enhancement (SECURE) Act passed in 2019 and took effect January 1, 2021. Most significant reform in a decade at the federal level.
- Creates pooled employer plans (PEPs)
 - Allows plans to come together (pooling) to offer a plan rather than do it on their own to save costs, reduce administrative burden and reduce fiduciary risks
 - Small and medium employers may stand to benefit the most
- New provisions to support lifetime income (lifetime income disclosure, safe harbor, etc.) - how do you re-create a paycheck in retirement and help retirees manage their savings to last a lifetime?



Retirement Reform Priorities – DC/Private Sector Workforce

- Close the access gap
- Rethink the nature of investments
- Develop and integrate lifetime income solutions (retirement income paycheck)
- Support retirement by considering broader set of issues related to financial wellness

How Can We Build Financial Security?

- If you want individuals to save, make it easy
- If you want individuals to save more, make it easy
- If you want employers to help their workers save, make it easy
- And if you want individuals to spend less, make it hard.

-Professor Brigitte Madrian

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