AMERICAN RETIREMENT ASSOCIATION

4401 N. Fairfax Drive | Suite 600 | Arlington, VA 22203
P 703.516.9300 | F 703.516.9308 | info@usaretirement.org | usaretirement.org

Working for America's Retirement

American Retirement Association Statement for the Record U.S. Senate Health, Education, Labor, and Pensions Committee Hearing entitled: "Rise and Shine: Improving Retirement and Enhancing Savings" April 12, 2022

Thank you, Chair Murray, Ranking Member Burr, and Members of the Senate Health, Education, Labor, and Pensions (HELP) Committee for the opportunity to submit a statement for the record on behalf of the American Retirement Association (ARA) in connection with the Hearing entitled "Rise and Shine: Improving Retirement and Enhancing Savings."

The ARA is the coordinating entity for its five underlying affiliate organizations representing the full spectrum of America's private retirement system – the American Society of Enrolled Actuaries (ASEA), the American Society of Pension Professionals and Actuaries (ASPPA), the National Association of Plan Advisors (NAPA), the National Tax-Deferred Savings Association (NTSA), and the Plan Sponsor Council of America (PSCA). Combined the ARA represents over 30,000 retirement plan professionals nationwide. The ARA's members and the organizations they are affiliated with support 95 percent of all the defined contribution plans, such as 401(k) plans, in the United States. The ARA and its underlying affiliate organizations are diverse in the roles they play, but united in their dedication to the success of America's private retirement system.

The ARA's mission is to help American workers bolster their retirement security by facilitating well-designed workplace retirement savings plans. We do that by both educating and informing retirement benefits professionals, and by advocating for policies that give every working American the opportunity to achieve a comfortable retirement. Workplace retirement savings plans are successful for those that have access to them. These plans provide long term economic growth and build financial security for the middle class. But more needs to be done.

Emergency savings principles

The ARA believes its important for retirement policy to assist with emergency savings. There are two types of proposals to leverage the workplace-based retirement savings system so that individuals can use that benefit if needed for unforeseen financial emergencies. One proposal provides an in-plan emergency safety valve – a universal penalty-free hardship withdrawal directly from the 401(k) plan account balance. The other proposal creates a separate account linked to the 401(k) plan – an emergency savings sidecar account.

An emergency savings proposal should be created for low-to-moderate income workers. With any emergency savings proposal we need to ensure that we are accomplishing two goals:

1) Helping Americans save for a financial emergency.

2) Ensuring that while an individual is saving for a financial emergency, they are also saving over the long-term for their retirement.

The way to strike the right balance is to determine how much a low-to-moderate income individual is contributing each year to their 401(k) plan. According to the annual Vanguard report, *How America Saves*, an individual earning between $30,000 and $50,000 per year is saving between $1,600 and $2,800 per year into their retirement account.

The contribution limit to an emergency savings sidecar account should be around $500 per year for a low-to-moderate income earner to be able to both build up an emergency savings account and continue to save over the long-term for retirement. A low to moderate income worker with a $500 contribution limit would be able to max out their emergency savings account within a year and have their additional savings going into their long-term retirement savings account.

If the contribution limit to these emergency savings sidecar accounts were higher – say for example, $3,000 or even $5,000, it would have a devastating impact on retirement security in America. With a $5,000 limit, an individual could contribute up to $5,000 per year into the emergency savings account, withdraw the full $5,000 penalty free, and rinse and repeat each year. In that scenario, zero dollars of the individual's elective deferrals would go into a long-term retirement savings account. The only money that would go into the long-term retirement savings account would be any employer nonelective or matching contributions if available under the 401(k) plan.

These proposals should have additional guardrails in place to ensure low-to-moderate individual continue to save over the long-term for their retirement. For example, the number of withdrawals from the sidecar account should be limited to one per year. Another sensible guardrail would be to require any withdrawn funds from the sidecar account to be repaid before another withdrawal can be made.

Improving participant outcomes through financial education

The ARA believes that providing education to participants about financial health and retirement savings improves retirement security. Our members recognize the need to educate participants on financial security, particularly on the principles of investing and retirement savings. Our members also understand that continuous innovation in plan design by policymakers and industry leaders improves retirement preparedness for millions of workers.

Our members have firsthand experience with how heavily plan clients rely on their service providers for a wide array of information related to retirement plans, regardless of the provider's established responsibilities. The ARA believes that being able to discuss with plan sponsors retirement plan features which are beneficial to participants is critical.

The ARA believes that expenses of retirement readiness programs and those relating to beneficial plan design features like automatic enrollment and automatic escalation should be payable, if the plan sponsor elects, from plan assets. In the current regulatory climate, however, these programs as well as the adoption of many optional plan designs and features popular with employers and employees are not legally required and are considered 'discretionary'. The result is that the expenses for considering popular design features or providing educational programs are not payable out of plan assets, causing employers, especially small employers, to forego them, even when they might generate tremendous benefits for employees. The ARA supports legislation that amends the Employee Retirement Income

Security Act (ERISA) to allow retirement plans to pay incidental plan design expenses that benefit participants and their beneficiaries.

Of the small employers that do have a retirement plan, getting them to add these beneficial retirement plan features like automatic enrollment and automatic escalation represents a significant hurdle. According to the latest Plan Sponsor Council of America's Annual Survey of Profit Sharing and 401(k) Plans, only 30% of employers with fewer than 50 workers have an automatic enrollment feature in their retirement plan, compared to over 78% of employers with more than 1,000 workers. Small employers need additional resources to improve their retirement plan design.

The selection of service providers engaged to assist with consideration of optional design features and programs which support saving for retirement would be subject to the same rules as under current law, including rules against self-dealing. The decisions of plan officials would be required to be solely in the best interest of the plan and fees paid to service providers would be required to be reasonable. These obligations would apply not only when the plan fiduciary initially selects a service provider but on an ongoing basis as well.

Conclusion

The ARA appreciates the Senate Health, Education, Labor, and Pensions Committee's focus on the ongoing challenges that American families face in achieving a secure retirement. We thank the Congress for taking a major step forward to improve the workplace retirement system with the enactment of the SECURE Act at the end of 2019. We look forward to working with the Committee as it moves forward with further improvements to the system in this Congress.