American Retirement Association
Statement for the Record
U.S. Senate Health, Education, Labor, and Pensions Committee Hearing Entitled:
"Taking a Serious Look at the Retirement Crisis in America: What Can We Do to Expand Defined Benefit Pension Plans for Workers?"
February 28, 2024

Thank you, Chair Sanders, Ranking Member Cassidy, and Members of the 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 "Taking a Serious Look at the Retirement Crisis in America: What Can We Do to Expand Defined Benefit Pension Plans for Workers?"

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 35,000 retirement plan professionals nationwide. The ARA's members and their affiliated organizations 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 working Americans strengthen their retirement security by facilitating well-designed workplace-based retirement savings plans. We do this by educating and informing retirement benefit professionals, and by advocating for policies that give every working American the opportunity to secure a comfortable retirement.

Workplace retirement savings plans have proven that they work for those that have access to them. These plans provide long term economic growth and build financial security for the middle class. This includes both defined contributions plans, like 401(k) plans, as well as defined benefit plans, such as a standard pension plan. We appreciate you holding this hearing and look forward to a productive conversation on policies that Congress could implement to expand access and improve the employer-based system, not on ways to eliminate it or create a federal system.

Defined Contribution Plans Work for those with Access

For most Americans, the key to a successful retirement is having access to a workplace-based retirement savings plan. Recent data shows that nearly 60 percent of Americans – roughly 74.5 million -- had access to a workplace-based retirement plan in 2020. At the end of the first quarter in 2021, defined contribution retirement plans (the most common being the 401(k) held $9.9 trillion in assets.[1] Household retirement savings – including assets accumulated through those retirement plans plus all other types of retirement plans -- represents 59 percent of the non-bank financial capital provided to the equity and bond markets.[2]

The middle class is the primary beneficiary of these plans. Nearly two-thirds (64 percent) of active participants in 401(k) plans have an adjusted gross income of less than $100,000 per year.[3] One-third (33 percent) of participants have an income less than $50,000.[4] The critical factor that determines whether these moderate-income workers save for their retirement is whether they have access to a retirement savings plan at work. Data shows that more than 70% of workers earning between $30,000 and $50,000 will save in a plan if they have access to a workplace-based plan, but fewer than 7 percent of these workers will save on their own through an IRA.[5] Put differently, workers are 12 times more likely to save for their retirement if they have access to some type of payroll deduction retirement savings program offered by their employer.

Congress's continued support of expanding retirement plan coverage and simplifying retirement plan rules will increase retirement savings and build even further on the success of the workplace-based retirement plan system.

SECURE 2.0: Working to Close the Coverage Gap

Congress has taken strong bi-partisan action to close the retirement plan coverage gap by passing *SECURE 2.0* a little over a year ago. This landmark piece of retirement legislation contains a variety of provisions specifically designed to make it easier and less expensive for small employers to adopt workplace-based retirement plans, in addition to helping workers build their retirement savings.

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1 Investment Company Institute, Quarterly Retirement Market Data, June 16, 2021, available at https://www.ici.org/statistical-report/ret_21_q1

[2] Oxford Economics, Another Penny Saved: The Economic Benefits of Higher US Household Savings, June 2014, available at: http://www.oxfordeconomics.com/anotherpennysaved.

[3] Judy Xanthopoulos, PhD of Quantria Strategies, analysis of Internal Revenue Service, Statistics of Income, Individual Income Tax, and IRA Studies, 2017 Tax Year

[4] Ibid.

[5] IRS tabulations and Vanguard, How America Saves, 2018

Helping small employers offer retirement plans for their workers is the solution to closing the retirement coverage gap. According to the U.S. Small Business Administration, small businesses employ roughly 62 million Americans, totaling roughly 46 percent of all private sector employees.[6] Recent data shows that only 40 to 50 percent of small employers (i.e., employers with fewer than 50 employees) offered retirement plans, compared to 70 – 79 percent of employers with 50 to 99 employees and 78 to 91 percent of employers with over 100 employees.[7]

Many small employers would like to offer retirement benefits to their workers, but they often face significant time and financial constraints that make it impossible. Fortunately, *SECURE 2.0* includes a variety of provisions designed to reduce the cost and administrative burdens associated with administering a retirement plan, in addition to streamlining the enrollment process for employees.

First, *SECURE 2.0* created the Starter 401(k) plan, which is a new wage deferral-only simple safe harbor 401(k) plan. This plan allows employees to save up to $6,000 per year (with a $1,000 catch-up contribution) in a tax-preferred retirement account but is far less expensive and does not have the same level of administrative complexity as a traditional 401(k) plan. This is largely because the Starter 401(k) plan does not require employer contributions and avoids expensive and complicated testing requirements. As a result, small employers with significant time and financial constraints can offer these plans and help their workers start saving for retirement. This will help close the retirement coverage gap because it will bring access to an employer-sponsored retirement plan to millions of workers, many of whom are moderate-income individuals and racial minorities.

Second, *SECURE 2.0* included a dramatic expansion to startup tax credits available for employers that want to adopt a retirement plan for their employees. For taxable years after 2022, this expanded credit covers 100% of the employer's out-of-pocket plan costs, increased from the SECURE Act's 50% limit. Qualified employers with 51 to 100 employees may receive a credit covering 50% of out-of-pocket plan costs. Just like Starter 401(k) plans, these tax credits will help close the coverage gap by removing the financial barriers that make it difficult for many small businesses to offer retirement benefits.

Third, *SECURE 2.0* now requires plans established after December 29, 2022, to add an automatic enrollment feature to the plan no later than the 2025 plan year. While this is an administrative complexity, *SECURE 2.0* includes a tax credit that will provide $500 for small employers for implementing this feature. A recent report by researchers at Vanguard found that among new hires, participation rates triple to 91% under automatic enrollment, compared with 28% under voluntary enrollment.[8] This data shows that automatic enrollment can have an

[6] U.S. Small Business Administration SBA, Office of Advocacy, "Frequently Asked Questions About Small Business." United States, 2018. Available at: http://tinyurl.com/3vyjusb5

[7] *See* Bureau Labor Statistics, "Employee Benefits in the United States, March 2023," Historical Tables.

[8] Jeffrey W. Clark and Jean A. Young, Automatic Enrollment: The power of the default, February 2021, available at: https://institutional.vanguard.com/iam/pdf/ISGAE_022020.pdf

incredibly powerful impact on participant saving which can be leveraged to help close the retirement plan coverage gap.

Finally, *SECURE 2.0* also included a provision establishing the Saver's Match, which will replace the Saver's Credit in 2027. Rather than a credit against taxes owed, the Saver's Match will be deposited directly into the worker's retirement account. Importantly, more savers will be eligible for this matching contribution than the Saver's Credit thanks to expanded income limits. Under this new provision, eligible savers would get a 50 percent matching contribution on up to $2,000 in retirement savings annually. These expanded income thresholds mean that over 108 million Americans are now eligible for the Saver's Match, which includes millions of gig workers and certain government employees, such as public-school teachers, many of whom do not participate in plans with matching contributions.

Overall, SECURE 2.0 along with provisions in SECURE 1.0, will greatly reduce the retirement plan coverage gap. A number of these provisions were only effective a few months ago and a few provisions have yet to take effect. We applaud the bipartisan work behind SECURE 1.0 and SECURE 2.0 and look forward to working with Congress to ensure the provisions are successful in increasing retirement security in America.

State Plans Are Also Helping to Close the Coverage Gap

In recent years, state governments have taken steps to close the retirement plan coverage gap in their jurisdictions by enacting state auto-IRA programs. So far, 15 states have adopted auto-IRA programs, and several others are actively considering similar proposals.

These state auto-IRA programs generally require businesses over a certain size to provide their workers with access to some type of retirement plan. If employers do not already offer a workplace-based retirement plan, or do not want to adopt one available to them in the private marketplace, then they must enroll their workers in a state-run auto-IRA program. Enrolling workers into these auto-IRA programs is very inexpensive and is not labor-intensive, both of which are important to the success of these programs.

Both workers and small businesses benefit from these auto-IRA programs. Nearly all small businesses that do not have a retirement plan want to offer one for their employees. After conducting a survey of small business owners, Pew Charitable Trusts found that 86 percent of small- to medium-sized employers without plans support the concept of a payroll deduction retirement plan with automatic enrollment. Among small employers without plans, 51 percent said they would start their own plan rather than enroll workers in the state-facilitated program.[9]

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[9] Pew Charitable Trusts, Small Business Views on Retirement Savings Plans, January 2017, available at: https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/01/small-business-views-on-retirement-savings-plans

Accordingly, ARA supports these state auto-IRA plans specifically because they strike the appropriate balance between closing the coverage gap and not overwhelming small employers. In conjunction with *SECURE 2.0*, the ARA believes that these state auto-IRA programs will help close the coverage gap by expanding employer-based retirement coverage to millions of working Americans across the country.

Auto-IRA will further Close the Coverage Gap

The ARA also supports the creation of a federal auto-IRA program which will build upon the successful state-run programs. In February, Ranking Member Neal (D-MA) of the House Ways and Means Committee introduced HR 7293, the Automatic IRA Act of 2024. Similar to the state auto-IRA programs, this bill would require employers with more than 10 employees to automatically enroll their employees in a auto-IRA plan or qualified retirement plan, such as a 401(k).

This bill includes a tax credit of $500 per year for three years for employers of up to 100 employees that offer an auto-IRA product, including those facilitated through a state program. Additionally, SECURE 2.0's startup credit can be used to cover the costs of starting up their own qualified retirement plan. This means that most small businesses will not have to spend any money to comply with this legislation and provide their workers with access to an employer-based retirement plan.

Additionally, the Auto-IRA Act will buttress state efforts to close the coverage gap, not preempt them. As drafted, businesses that participate in certain state-based auto-IRA programs are also exempt from compliance. This means that states with mandatory auto-IRA programs can continue to run their programs, in addition to ensuring that workers in states without Auto-IRA programs have access to an employer-based retirement plan.

Accordingly, the ARA supports the Auto-IRA Act because it strikes the right balance to close the retirement plan coverage gap while imposing the minimum possible burden on small- to medium-sized employers.

The Retirement Savings for Americans Act will Decimate the Employer Sponsored Retirement System

The ARA vigorously opposes the Retirement Savings for Americans Act (S. 3102/H.R. 6065) which would create a new federal government-managed fund, called the American Worker Retirement Fund ("Fund"), for qualifying workers that do not have access to a workplace-based retirement plan. While the proposal is a well-intentioned attempt to address the retirement plan coverage gap, it is impractical, unfair, prohibitively expensive, and ripe for political abuse.

The most concerning feature of this proposal is the inclusion of the taxpayer-funded Government Match provision, which is only accessible to individuals who do not currently have access to an employer-sponsored retirement plan. The inclusion of a Government Match creates a perverse incentive for employers, particularly small employers with razor-thin margins, to shutter their existing retirement plans so that their workers are eligible to be enrolled in the Fund. This would harm certain retirement savers because many of these plans that would be eliminated have more generous employer matching rates than the Government Match.

This proposal would also have a devastating impact on financial literacy and retirement planning advice, specifically for workers who lose access to their workplace-based retirement plan because of this proposal. Plan advisors, recordkeepers, consultants, and third-party administrators who work with plan sponsors and participants alike to ensure that both the employer and employee have the best information available to make informed financial decisions. These service providers engaged with employer-sponsored retirement plans routinely meet with participants to educate them and help them develop their retirement strategy. Because everybody's retirement objectives are different, having this level of access to a retirement plan professional is a tremendous advantage for workers with access to them. The same quality of advice, communication materials and other resources simply will not exist in the government-run retirement fund.

Unfortunately, some academics believe the employer should not provide a retirement plan to employees. Teresa Ghilarducci, who is testifying at this hearing, has specifically stated that the relationship should be between the government and the worker when it comes to saving for retirement. In a recent Yahoo Finance article dated January 30, 2024, Ms. Ghilarducci is quoted in saying "There's a bill in Congress – from Senators Hickenlooper, Tillis, Congresswoman Sewell, and Congressman Smucker – that calls for a government match. It gets the individual employer out of it and focuses on the worker and the government." We respectfully disagree with Ms. Ghilarducci's opinion and believe that the employer plays a pivotal role in ensuring Americans save for a secure retirement.

Conclusion

The employer-sponsored retirement system has helped millions of workers secure a comfortable retirement. The system works because it provides employers with options on the best retirement plan for their employee population, whether it is a defined contribution plan or a defined benefit plan. We look forward to working with the members of this committee on ways to continue to expand the workplace retirement plan system to ensure all Americans have access to a retirement plan at work.