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PENSION SAVINGS: ARE WORKERS SAVING ENOUGH FOR RETIREMENT?

HEARING

BEFORE THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING PENSION SAVINGS, FOCUSING ON IF WORKERS ARE SAVING ENOUGH FOR RETIREMENT

JANUARY 31, 2013

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C O N T E N T S

STATEMENTS

THURSDAY, JANUARY 31, 2013

PENSION SAVINGS: ARE WORKERS SAVING ENOUGH FOR RETIREMENT?

THURSDAY, JANUARY 31, 2013

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD–430, Dirksen Senate Office Building, Hon. Tom Harkin, chairman of the committee, presiding.

Present: Senators Harkin, Casey, Franken, Baldwin, Murphy, Warren, Alexander, Enzi, Burr and Isakson.

OPENING STATEMENT OF SENATOR HARKIN

The CHAIRMAN. Good morning. The Senate Committee on Health, Education, Labor, and Pensions will please come to order.

I want to welcome everyone to the latest in our ongoing series of hearings focusing on retirement security. I'm told this is the seventh or the eighth hearing. This is the seventh hearing that we've had on this over the last couple of years.

Today we're going to take a closer look at the question: How much do families need to save for retirement? Well, I guess maybe I'm about to find that out. It's in my future.

[Laughter.]

That was an aside.

But I already know from my constituents that the dream of a secure retirement is growing fainter. Whether it is a young family struggling to pay off student loan debt, save for the kids' education and put something aside for their own retirement, or a 65-year-old nurse finally eligible to stop working, Americans are fearful about whether they'll have enough money to live on when they retire.

That's why we're starting this new Congress by focusing on how we can help people save for retirement. Today we're going to hear testimony about how much people need to save, what's holding them back, and how we can help them build a nest egg.

As a starting point, I think we need to keep in mind the bottom line: people simply are not saving enough. I've said this before, but the retirement income deficit—that is, the difference between what people need for their retirement in the future and what they actually have—now has been estimated to be as high as $6.6 trillion. Half of all Americans have less than $10,000 in savings.

These are very disturbing and frightening numbers. When people run out of money when they get old, they see their living standard decline. They lean more and more on the social safety net, squeezing government costs again at all levels. So it comes back on taxpayers again.

We need to do more to help American families cope with this looming crisis. Hard-working Americans deserve to be able to rest and take a vacation, spend more time with their grandkids when they get older. But to do so, they need to have better opportunities, opportunities to save prior to retirement.

We've always said there needs to be a three-legged stool of Social Security, pensions and savings. Social Security provided a base, but it was never meant to be a full retirement system. It was meant to be one leg of that stool. And then second, people of my generation and before counted on defined-benefit pensions. I always say that when I first came to Congress, one out of every two Americans had a pension, an annuity that would last until the day they died, defined benefit. Today it's one out of five, and getting less.

Third, people would have savings, but again these savings are not enough. As I said, half of all Americans have less than $10,000. And again, although many employers now offer retirement savings plans such as 401(k)'s, again those plans were designed to supplement, supplement traditional pensions, not replace them.

Savings rates are just too low, and very few 401(k) plans offer people an easy, cost-effective way to convert their savings into a steady stream of lifetime retirement income. I look forward to hearing about some of the innovative ways that companies like TIAA–CREF and Fidelity and others are helping people to cope with these challenges.

I'm a true believer that we need to restore the three-legged stool that starts with rebuilding the pension system. After all these hearings, we released a report last September called "The Retirement Crisis and a Plan to Solve It," and we put out some ideas and suggestions. I've been working with Senator Enzi a lot on this over the past several months, and his staff, and again we've heard time and again in this committee that employers, especially small business, just can't do pensions. They're too complex, they're too risky. They have to take it out of their bottom line to hire the people to run it. They have a fiduciary responsibility. That's why we need a new plan that's simplified, that's privately run, that takes the onus off of the employers and makes it easy for people to actually put money away for a defined benefit.

I'd like to say that our plan that we've been working on has some aspects of defined benefit and defined contribution.

As the chairman of this committee, I am making this a top priority for this committee to look at and to actually bring something to fruition, hopefully in this Congress.

With that, I'll turn to Senator Alexander.

Opening Statement of Senator Alexander

Senator ALEXANDER. Thanks, Mr. Chairman. I want to applaud you and Senator Enzi for your consistent focus on this. Lots of times, one of the most useful functions of the U.S. Senate is to put a spotlight on the right question and then explore toward some good solution. I believe you've clearly put the spotlight on the right question, are workers saving enough for retirement, and your focus on the retirement income deficit.

I also appreciate the even-handed way you have approached these hearings. You have your own suggested idea, but you have opened the hearings to witnesses from all directions, and that gives us a chance really to test Senator Harkin's proposals, as well as other proposals, and hopefully come to a good conclusion.

I thank the witnesses for being here. I told them earlier I look forward to hearing what they have to say.

Of course, we currently have the mandatory retirement plan—Social Security. My preference would be to explore what we need to do to beef up and strengthen our voluntary retirement plans. We read regularly about troubles that both corporate and union defined-benefit plans have. We need to be careful in the changing world that we have where businesses aren't like businesses were 40 or 50 years ago. We're in a global marketplace with rapidly changing companies. Employers look different than employers did some time ago. We have to be very careful about decisions we make here, because we're talking about tens of millions of individuals, and we're talking about hundreds of thousands of businesses who might be affected by whatever we do.

I would like for us to be careful as we go through this process about placing new mandates on business enterprises in America, and I would like to use an example or two to suggest why.

I was visited not long ago by a franchise group that owns 20 fast food restaurants in DC, Virginia and Maryland, and they employ 542 people. They are trying to make a profit, which is their goal in business. They start out with a 6.2 percent Social Security and Medicare tax. They have a menu labeling mandate that costs another $1,000 per restaurant. For each $1 increase in the minimum wage mandate, that's nearly $25,000 per year according to a company study. They also have some paid sick leave mandates.

I'm not re-litigating any of those issues. I'm just saying if you're operating a business, those are some of the mandates you start out paying, and we have to be careful about thinking about adding new ones.

Then there's the healthcare mandates that are coming, again not to re-litigate them, but if I were the owner of those 20 fast food restaurants, I would be concerned. They tell me that they offer health care to their 542 employees, but only 34 take it. If nothing changed next year—that is, if the healthcare law didn't go into effect—they would still be spending $94,000 on health care. Under the healthcare law, if they opt to pay the penalty, they will be spending $1 million instead of $94,000. That exceeds their expected net profit for the year 2013. If they were to decide themselves to continue to offer healthcare, their costs would be estimated to be between $400,000 and $1.4 million.

You could apply the same sort of reasoning and statistics to an even smaller company and come out with similar results. If we want to create an environment for the largest number of new jobs in America so people can have the largest incomes so that they can then have more money to spend on saving for retirement, we need to be very careful and circumspect about any new cost or mandate on existing businesses. Or, in the case of the healthcare law mandate, many restaurants are considering reducing the number of employees they have, and reducing the number of full-time employees—people who work more than 30 hours—and therefore those workers won't make as much money. Therefore, they may not have as much to retire.

So my point is that, No. 1, I think the Chairman is doing a terrific job of moving us toward the right questions. He has offered a very thoughtful solution of his own. He has invited witnesses all across the board that should educate us. And my hope would be that as we look toward a solution, that we are very circumspect about imposing any new mandates on business enterprises in the country because I think they are likely to be self-defeating, reduce the number of full-time jobs, and reduce the level of incomes that people have from which they can save.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Alexander.

We have an excellent panel of witnesses today, people that have done a lot of work in and thinking about retirement, and they have a lot to share with this committee. I thank them all for being here. I will introduce a couple, and then I'll turn to Senator Warren for other introductions.

First we'll hear from Ed Moslander, Senior Managing Director at TIAA–CREF. Mr. Moslander has been with TIAA–CREF for more than 28 years and has extensive experience working with plans, sponsors in the academic, research, medical and cultural fields.

We have Cindy Hounsell, president of the Women's Institute for a Secure Retirement—"WISER", I think it's called. I was privileged to speak to your group just not too long ago. Ms. Hounsell has been working with women for years to equip them with the knowledge and tools they need to take charge of their finances and prepare for retirement.

Now I'd recognize Senator Warren for the purpose of introduction of two other witnesses that we have.

Senator Warren.

Senator WARREN. Thank you very much, Mr. Chairman. I want to introduce Julia McCarthy. She was born and raised in Massachusetts. She now lives in Southborough, MA, with her husband and her two sons. She is an executive vice president in the Workplace Investing Division of Fidelity Investments. Fidelity is a homegrown Massachusetts company that has become a worldwide leader, providing investment management, retirement planning and other financial services to more than 20 million individuals and institutions. Ms. McCarthy has been a leader in that company, developing a data base analysis of retirement strategies. I'm proud to have Ms. McCarthy here today representing Fidelity, and I know she will offer valuable insights to this committee.

I'm also very pleased to be able to introduce Dr. Brigitte Madrian, who is the Aetna Professor of Public Policy and Corporate Management at the Harvard Kennedy School. She has also taught at the University of Pennsylvania Wharton School, the University of Chicago Graduate School of Business, and the Harvard University economics department.

Dr. Madrian's research focuses on household savings and investment behavior. She received her Ph.D. in economics from the Massachusetts Institute of Technology and studied economics as an undergraduate at Brigham Young University. She is a recipient of the

National Academy of Social Insurance Dissertation prize, and a two-time recipient of the TIAA–CREF Paul A. Samuelson Award for Scholarly Research on Lifelong Financial Security.

She is one of the country's foremost experts on investment behavior, and I'm very pleased to have her here. I know that she will be very helpful to this committee.

Welcome.

The CHAIRMAN. Very good. Thank you very much, Senator, and thank you all again for being here. Your statements will be made a part of the record in their entirety. I read them over last evening. They are very good.

I would ask that we start with Mr. Moslander, and we'll just go down the line. If you could do a summary of your statement so that we can get into more of an exchange, I would appreciate that. If you'd take maybe 5 to 7 minutes to give us a summary of your statement, I would appreciate it.

Mr. Moslander.

STATEMENT OF EDWARD MOSLANDER, SENIOR MANAGING DIRECTOR, TIAA–CREF, NEW YORK, NY

Mr. MOSLANDER. Thank you, Chairman Harkin and Ranking Member Alexander and members of the committee. Thanks for the opportunity to appear today to discuss ways Americans can achieve a financially secure retirement. I am Ed Moslander. I'm senior managing director of TIAA–CREF's Institutional Client Services Organization.

TIAA–CREF was founded nearly a century ago to assist college professors with achieving financial security in retirement. Today, we manage over $500 billion in assets for 3.7 million individuals that we serve in the educational, research, medical and cultural communities.

We do believe the Nation is facing a retirement insecurity crisis. The traditional three-legged stool consisting of a pension, Social Security and personal savings has become increasingly unsteady. Retirement has become more of a do-it-yourself proposition, where a large part of an individual's retirement security depends on defined contribution retirement plans. As a result, achieving a comfortable retirement has become a source of increasing concern for Americans, eroding confidence in their ability to do so.

TIAA–CREF's experience has provided us with a unique perspective on the retirement challenges America faces. The higher education community, our core market, has never depended on defined benefit plans; and instead, since 1918, it has relied only on defined contribution plans to provide retirement security. Employers have funded those plans to ensure that participants have adequate retirement savings. As a result, we found that our clients generally are more confident about retirement prospects when compared to the rest of the U.S. population.

A survey conducted by our institute found that 75 percent of higher education employees are either very confident or somewhat confident in their retirement income prospects, compared with only 49 percent of U.S. workers in general. The same survey found that 88 percent of higher education employees are currently saving for retirement, and of these, 60 percent have tried to figure out just how much they need to save for a secure retirement.

I'd like to highlight a few things, practices that we encourage that we believe contributed to these results. First, the proliferation of the defined contribution plan model means that saving for retirement has become more of an individual responsibility. But for the model to be successful, it has to be, in our experience, a shared responsibility. While defined contribution plans enable workers to save for retirement, many eligible employees still don't participate, and those who do have a difficult time saving 10 to 15 percent of their annual income that most financial experts agree is necessary for a secure retirement.

For this reason, it is extremely important that employers recognize that attaining retirement savings goals is a shared responsibility between employers and employees, and accordingly, employer contributions should be a foundation of any retirement plan.

That said, employers cannot be expected fully to fund a retirement plan, and should also ensure that matching programs are in place to further incentivize individual participation in the plan.

Part of the success of our program is that there has always been an employer contribution, which is part of that shared responsibility. It's not uncommon for our plan sponsors to contribute a flat percentage to an individual's retirement plan over and above any match that they might offer. Employer contributions demonstrate to employees that the employer values saving for retirement and that they care about the employees' future, and it can also be a competitive advantage in the quest for workers and talent.

The next point I'd like to make is that while getting employees to contribute is an important step, we also have to recognize that workers have to make complex decisions about how much they should save and how to invest those savings. However, the pervasive lack of financial literacy across our Nation often means that a lot of people are not equipped for that task.

We believe it's important to offer clients tools that can assist them in making these decisions. Such tools include user-friendly online programs, advice, access to advisors and comprehensive, objective third-party advice programs. It's important that each of these tools ensure that the guidance they provide is holistic, taking into account all sources of a worker's savings; and second, is affordable and accessible to all employees, not only those with high balances; considers savings rates, retirement age, asset allocation, fund selection, and the probability of reaching goals; includes information on how to structure and invest retirement income; and is delivered by firms and advisors who take fiduciary responsibility for the advice that they provide.

Finally, while there has been a lot of attention paid to the savings, the accumulation phase, there has been less of a focus on the drawdown phase, when people are spending the money they have saved during retirement. Due to our increasing lifespans, as well as concerns surrounding Social Security and the movement away from traditional defined benefit plans, the drawdown phase will and should become a greater focus of the retirement security discussion. TIAA–CREF sees the issue of ensuring that people do not outlive their retirement savings as among the most pressing issues in retirement income security today.

A 2011 report by the Government Accountability Office encouraged annuitization as an important means of addressing the issue. It is crucial that those who are saving for retirement receive information not just about how much they have in savings, but also about how that accumulation translates into income at retirement. TIAA–CREF includes a retirement income projection on all of our clients' quarterly statements that provides an estimate of what their monthly income would be at retirement, while also providing information about how they could improve the prospects of this income projection by saving more. We believe that providing this key piece of additional information assists in reframing the conversation about retirement savings by putting the focus on income as opposed to strictly on accumulating assets.

Based on this experience, TIAA–CREF supported the Lifetime Income Disclosure Act, which was introduced in the last Congress. This proposal would have required all retirement plan participants to receive at least annually an illustration of how their current accumulation would translate into income at retirement.

To conclude, as the committee considers the issue of retirement security and improving retirement savings among Americans, we urge you to look at ways of strengthening the means by which Americans can achieve a secure retirement, some of which I have outlined here. We are confident that policymakers and the private sector can work together to address these challenges and find solutions that guarantee that all Americans can attain a financially secure retirement. TIAA–CREF is ready to assist in any way that we can as we work toward this shared goal.

Thank you again for providing the opportunity to testify. I look forward to your questions.

[The prepared statement of Mr. Moslander follows:]

Prepared Statement of Edward Moslander

summary

TIAA–CREF is a financial services organization committed to helping our 3.7 million clients in the research, medical, and cultural communities achieve a secure retirement. We believe the Nation is facing a retirement security crisis and that the traditional "three-legged stool" of retirement has become increasingly unsteady.

Achieving a secure retirement has become much more of a "do-it-yourself" proposition, where a large part of an individual's retirement security depends on his or her participation in defined contribution plans. Employers, therefore, need to encourage employee participation in such plans by taking steps that will incent employees to contribute, such as providing matching contributions.

While getting employees to contribute is an important step, we also need to recognize that workers often have to make complex decisions about how much they should be saving and how to invest these savings. We believe it is important to offer clients tools that can assist them with making these decisions while also ensuring such tools are objective, comprehensive, and affordable and accessible to all employees.

While there has been much attention paid to the accumulation phase of retirement, there has been less of a focus on the draw-down phase, when people are spending their retirement savings. The draw-down phase will and should become a greater focus of the retirement security discussion. TIAA–CREF sees the issue of ensuring one does not outlive their retirement savings as the most pressing issue in retirement security today and therefore believes it is crucial that those who are saving for retirement receive information not just about their accumulations, but also about how that accumulation translates into income at retirement. TIAA–CREF provides such information of our clients on their quarterly statements and supported the Lifetime Income Disclosure Act, a proposal introduced in the last Congress that would require all retirement plan participants receive, at least annually, information on the projected monthly income they could expect at retirement.

As the committee considers the issue of retirement security and improving retirement savings among Americans, we urge you to look at ways of strengthening the means by which Americans can achieve a secure retirement. TIAA–CREF stands ready to assist in any way we can as you work toward this goal.

I. INTRODUCTION

Chairman Harkin, Ranking Member Alexander, members of the committee, thank you for the opportunity to appear today to discuss ways Americans can achieve a financially secure retirement. My name is Ed Moslander and I am senior managing director for TIAA–CREF's Institutional Client Services organization. In this capacity, I am responsible for managing relationships with plan sponsors, the consultant community that supports them, and the national associations of which not-for-profit plan sponsors are members.

TIAA–CREF was founded nearly a century ago to assist college professors with achieving financial security in retirement. Today, we manage over $502 billion [1] in assets for the 3.7 million individuals we serve in the research, medical, and cultural communities. Our primary mission is to serve those who serve others by helping them achieve lifelong financial security.

We believe it is clear the Nation is facing a retirement security crisis due to a number of factors, including changes in the way retirement is funded. The traditional "three-legged stool," which consists of "defined benefit" pension plans, Social Security, and personal savings acquired through "defined contribution" 401(k)-type accounts, has become increasingly unsteady.

Retirement has become much more of a "do-it-yourself" proposition, where a large part of an individual's retirement security depends on defined contribution plans. As a result, achieving a comfortable retirement has become a source of increasing concern for Americans, eroding confidence in their ability to do so. Consider that:

- Only 14 percent of Americans say they are "very confident" they will have enough money for a comfortable retirement; [2]
- Sixty percent of workers say they have less than $25,000 in retirement savings; [3] and
- Sixty-six percent of respondents in a 2011 Gallup poll said their top financial concern is not having enough money for retirement.

TIAA–CREF's experience has provided us with a unique perspective on the retirement challenges Americans face, helping us better meet the financial needs of the individuals and institutions we serve. In fact, we have found that, in contrast to the above statistics, our clients generally are more confident about their retirement prospects. For example:

- A survey conducted by the TIAA–CREF Institute found that 75 percent of higher education employees are either "very confident" or "somewhat confident" in their retirement income prospects, compared with 49 percent of U.S. workers in general.[4]
- This same survey also found 88 percent of higher education employees are currently saving for retirement and of these, 60 percent have tried to determine how much they need to save by the time they retire.[5]

I would like to highlight some of the practices we encourage that we believe have resulted in these higher levels of confidence and savings rates among our clients.

II. SHARED RESPONSIBILITY

The proliferation of the defined contribution plan model means that saving for retirement has become much more of an individual responsibility. While defined contribution plans enable workers to save for retirement, many eligible workers still do not participate and those that do often have a difficult time saving the 10–15

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[1] As of December 31, 2012.

[2] The 2011 Retirement Confidence Survey: Confidence Drops to Record Lows, Reflecting "the New Normal," Ruth Helman, Mathew Greenwald & Associates, and Craig Copeland and Jack VanDerhei, Employee Benefit Research Institute. March 2011.

[3] *Ibid*.

[4] Retirement Confidence on Campus: The 2011 Higher Education Retirement Confidence Survey, Paul J. Yakaboski, TIAA–CREF Institute. June 2011.

[5] *Ibid*.

percent of their annual income that most financial experts agree is necessary to achieve a secure retirement. For this reason, it is extremely important that employers recognize that attaining retirement savings goals is a shared responsibility between employers and employees, and accordingly should offer matching contributions that encourage employees to contribute.

For example, an employer may provide a dollar-for-dollar match when an employee saves up to a certain percentage of his or her salary. In addition to providing a tangible incentive to contribute, matching contributions demonstrate to employees that their employer values saving for retirement and cares about their employees' financial future. At TIAA–CREF, we have found that it is not uncommon for our plan sponsors to offer their employees a matching contribution, while also contributing a flat percentage over and above the match to further incent individual participation in the retirement plan.

III. ADVICE AND PLANNING TOOLS

While getting employees to contribute is an important step, we also need to recognize that workers often have to make complex decisions about how much they should be saving and how to invest these savings. However, the pervasive lack of financial literacy across our Nation often means that most are not equipped for these tasks.

Therefore, we believe it is important to offer clients tools that can assist them with making these decisions. Such tools include user-friendly online programs, access to advisors either in-person or over the phone, and comprehensive objective third-party advice programs.

With respect to each of these tools, it is important to ensure that the guidance they provide:

1. Is holistic, taking into account all sources of a worker's savings;
2. Is affordable and accessible to all employees regardless of account size;
3. Takes into consideration asset allocation, fund selection, savings rates, retirement age, and probability of reaching goals; and
4. Includes information on how to structure and invest retirement income.

IV. IMPORTANCE OF LIFETIME INCOME

While there has been much attention paid to the accumulation phase, there has been less of a focus on the draw-down phase, when people are spending the money they have saved for retirement. Due to our increasing lifespans, as well as the aforementioned concerns surrounding Social Security and the movement away from traditional pension plans, the draw-down phase will and should become a greater focus of the retirement security discussion. TIAA–CREF sees the issue of ensuring one does not outlive their retirement savings as the most pressing issue in retirement security today.

A 2011 report by the Government Accountability Office encouraged annuitization as an important means of addressing the issue.[6] The report noted, however, that just 6 percent of those in a defined contribution plan chose or purchased an annuity at retirement. It is crucial that those who are saving for retirement receive information not just about their accumulations, but also about how that accumulation translates into income at retirement. TIAA–CREF includes a retirement income projection on all of our clients' quarterly statements that provides a projection of what their monthly income would be at retirement, while also providing information about how they could improve the prospects of this income projection by saving more. We believe providing this additional piece of information assists in reframing the conversation about retirement savings by putting some focus on income as opposed to strictly accumulated assets.

TIAA–CREF supported the Lifetime Income Disclosure Act, which was introduced in the last Congress. This proposal would have required all retirement plan participants receive, at least annually, an illustration of how their current accumulation would translate into income at retirement. However, we believe that retirement plan providers should take action now to institute this feature and not wait for policymakers to enact mandates.

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[6] Report to the Chairman, Senate Special Committee on Aging: Retirement Income—Ensuring Income throughout Retirement Requires Difficult Choices, U.S. Government Accountability Office. June 2011.

V. CONCLUSION

As the committee considers the issue of retirement security and improving retirement savings among Americans, we urge you to look at ways of strengthening the means by which Americans can achieve a secure retirement. A number of steps can be taken to accomplish this, some of which I have outlined today. We are confident that policymakers and the private sector can work together to address these challenges and find solutions that guarantee all Americans can attain a financially secure retirement. TIAA–CREF is ready to assist in any way we can as we work toward this goal.

Thank you again for providing me with the opportunity to testify. I look forward to taking your questions.

The CHAIRMAN. Thank you, Mr. Moslander. It was very good testimony.

Ms. McCarthy.

STATEMENT OF JULIA McCARTHY, EXECUTIVE VICE PRESIDENT, FIDELITY INVESTMENTS, BOSTON, MA

Ms. MCCARTHY. Chairman Harkin, Ranking Member Alexander, and members of the committee, thank you for the opportunity to be here today. My name is Julia McCarthy, and I am an executive vice president at Fidelity Investments within the Workplace Investing business. We have the privilege of serving more than 18 million American workers for more than 22,000 employers. Fidelity takes very seriously the responsibility to ensure that workers know how to save, how much to save, and how to invest for retirement.

I would like to thank you for bringing attention to the issue of retirement security and, more importantly, the issue of ensuring that American workers are saving enough for retirement. We share your concern that many Americans are not prepared for retirement. Yet we know from our data what savings behaviors work for a majority of workers.

The steps are straightforward: enroll in your workplace plan, the earlier the better; save at the highest levels possible; increase your contribution rate as your salary grows; invest in a diversified asset mix; and own your plan, stick with it, stay engaged, and avoid taking out loans or cashing out when you change jobs.

That said, we know that savings is not always simple. I would like to focus on three areas which help people increase their savings but can be improved to help Americans reap the full power of their benefits.

The first one is inertia. While the results of the Pension Protection Act have been impressive, more needs to be done to harness the power of automatic plan features and defaults. The default rate for many plans is too low. The current Safe Harbor Rules for 401(k) plans start at a 3 percent default rate. Starting at a 6 percent rate would give workers a significant leg up on savings. Our data show that 61 percent of workers who auto enroll do not change their default rate. Opt out rates are virtually identical regardless of the 3 percent or the 6 percent starting point. Let's give people the advantage of saving more and put the power of inertia to work for them.

No. 2 is maximizing savings through automated programs. Recognizing inertia and the need to save, there are programs to leverage the additional feature of the Pension Protection Act that automatically increase contribution levels. Annual increase programs are the primary way workers are increasing their contributions. Our data show that close to one-third of all contribution increases last year in the plans we administer were attributed to an annual increase program. Unfortunately, these programs are under-utilized. Only 11 percent of employers are offering them.

It may feel a bit onerous, but when aligned with an annual salary increase, these programs can increase savings while minimizing the impact to take-home pay.

No. 3 and critically important is education and guidance. More than ever, workers are responsible for saving and planning for their retirement. They need help understanding a range of financial topics, from the most basic information about how to enroll and how much they should save to the more complex topics such as proper asset allocation and retirement income planning. Workers who receive guidance take action and have better outcomes.

Our data show that workers who engage in a retirement planning session, as an example, either online or on the phone, increase their deferral rates on average by 5 to 6 percentage points. One theme that is a constant in all of our research is that the majority of workers want and need help.

Workers also need a simple way to gauge their savings process. Last fall, Fidelity released new research on age-based savings guidelines. These guidelines serve as a framework for establishing retirement savings goals. As workers progress through their careers, their salary times a factor of X can be one of the measures used to assess their retirement savings progress. We found that a simple to understand savings target is a framework that resonates with both workers and employers, and we believe this approach will be helpful for people who switch jobs frequently and who may have a number of retirement accounts, thus making it even more difficult to evaluate one's savings strategy.

In closing, there is a path to retirement security for most Americans, but the road is not always an easy one. Many key constituencies have a role in ensuring success.

First, workers need to take an active role in saving and managing for their financial future. Employers need more flexibility in the rules and regulations to design benefit plans which meet the diverse needs of their workforce without risk of fiduciary liability and increased coverage costs. Third, service providers like Fidelity need to continue to innovate around how to help plan sponsors optimize their benefit programs and service participants based on their needs.

And last, we ask policymakers to consider a variety of ideas to improve retirement savings outcomes. Some examples include increasing the default deferral rate, incentivizing more plans to adopt auto features, protecting and promoting the availability of education and guidance, modernizing and simplifying the current regulatory framework to allow for more innovation, exploring new ways to help incentivize younger workers to save for their retirement, and partnering with schools and other organizations to help ensure all students have access to quality financial literacy.

Fidelity is committed to partnering with you, Mr. Chairman, and Ranking Member Alexander, and members of your committee, to work toward solving these critically important issues. I sincerely thank you for the opportunity to be here today and share our perspective and experience in helping Americans save for retirement. I look forward to your questions.

[The prepared statement of Ms. McCarthy follows:]

PREPARED STATEMENT OF JULIA MCCARTHY

OVERVIEW

While Fidelity shares the concerns that many Americans are not adequately prepared for retirement, we know from analysis which savings behaviors work for a majority of 401(k) plan participants. The steps are straightforward, enroll in your workplace plan—the earlier, the better, save at the highest levels possible, increase your deferral rate periodically as your salary grows, invest in a diversified asset mix, and, finally, own your plan, stick with it, stay engaged, and avoid taking out loans or cashing out when you change jobs.

Yet, Fidelity also knows from its direct interactions with retirement plan participants that saving is not always simple. The testimony focuses on three specific areas which Fidelity knows works in helping people increase their savings outcomes—but which need additional improvements in order for more Americans to reap the full power of their benefits.

THREE KEY AREAS OF FOCUS

1. Increase the default deferral rate to 6 percent: Auto-enrollment has helped enroll many more participants in retirement savings plans but the default deferral rate for many plans is too low. Currently the safe harbor rules for 401(k) plans start at a 3 percent default deferral rate. Our experience is that participants who are auto-enrolled, regardless of the rate—3 percent, 6 percent or higher—are likely to take no additional action with regard to saving more for retirement. With opt-out rates virtually identical at each 3 percent and 6 percent respectively, steps should be taken to increase the default deferral rate to 6 percent.

2. Auto Annual Increase Programs simplify savings increases: Annual Increase Programs are the single most effective driver of deferral increases at Fidelity. Our data show that close to one-third of all deferral increases last year were attributed to an annual increase program. Unfortunately they are underutilized; only 11 percent of plans offer *automatic* annual increase programs—the rest requiring participants to pro-actively enroll in an *annual step* increase. More can be done to incent plans to adopt these important auto-features.

3. Financial education and guidance lead to better savings outcomes: More than ever, workers are expected to bear the burden of saving and planning for retirement income needs on their own. They need help understanding a range of financial topics—from the most basic information about how to enroll in their plan, and how much they should save to more complex topics such as proper asset allocation and retirement income planning. Our data shows participants who receive guidance take action and have better outcomes—increased participation, increased savings and improved asset allocation. Policymakers should look to protect and promote the availability of education and guidance by service providers and record-keepers.

Chairman Harkin, Ranking Member Alexander, and members of the committee, good morning, and thank you for this opportunity today.

My name is Julia McCarthy, and I am an executive vice president at Fidelity Investments, within our workplace investing business. We have the privilege of delivering Defined Contribution, Defined Benefit, Health & Welfare, Non Qualified and Health Savings plans to nearly 16 million plan participants from our more than 22,000 plan sponsor clients.

My area of responsibility is to understand participant needs and behaviors, and build solutions and engagement models to ensure that the participants we service receive the best experience in the industry, and that they are ready for retirement. Fidelity takes very seriously the responsibility to ensure that plan participants know how to save, how much to save and how to invest for retirement.

THE NEED TO SAVE

I would like to thank you, Mr. Chairman and Ranking Member Alexander, for bringing attention to the issue of retirement security and—more specifically—the importance of ensuring American workers are saving sufficiently for retirement. We share your concern that many Americans are not adequately prepared for retirement, and that reliance on Social Security alone, is not enough. Yet we know from analysis of our participant data what savings behaviors work for a majority of 401(k) plan participants. The steps are straightforward, enroll in your workplace plan—the earlier, the better, save at the highest levels possible, increase your deferral rate periodically as your salary grows, invest in a diversified asset mix, and, finally, own your plan, stick with it, stay engaged, and avoid taking out loans or cashing out when you change jobs.

We know that saving is not always simple. I'd like to focus on three areas which we know work in helping people increase their savings outcomes—but which need additional improvements in order for more Americans to reap the full power of their benefits.

1. Participant Inertia: A Simple Remedy

It has been more than 6 years since the Pension Protection Act of 2006 was enacted. While the results under this law have been impressive, more needs to be done to harness the power of automatic plan features and defaults. The default deferral rate for many plans is too low. Currently the safe harbor rules for 401(k) plans start at a 3 percent default deferral rate. Our experience is that participants who are auto-enrolled, regardless of the rate—3 percent, 6 percent or higher—are likely to take no additional action with regard to saving more for retirement. Our data show that 61 percent of participants who are auto-enrolled make no change from the default deferral amount, and opt-out rates are virtually identical at each 3 percent and 6 percent respectively.

2. Simplifying Savings Through Auto Annual Increase Programs

Annual Increase Programs are the single most effective driver of deferral increases at Fidelity. Our data show that close to one third of all deferral increases last year were attributed to an annual increase program. Unfortunately they are underutilized, only 11 percent of plans offer *automatic* annual increase programs—the rest requiring participants to pro-actively enroll in an *annual step* increase. Automatic annual increase programs that are linked to coincide with annual salary increases to minimize the impact to an employee's net take-home pay are most effective.

3. Participant Education and Guidance

More than ever, workers are expected to bear the burden of saving and planning for retirement income needs on their own. They need help understanding a range of financial topics—from the most basic information about how to enroll in their plan, and how much they should save to more complex topics such as proper asset allocation and retirement income planning. Participants who receive guidance take action and have better outcomes—increased participation, increased savings and improved asset allocation.

For example:

- Participants who engage in an online retirement planning session increase their deferrals by an average of 5 percentage points, raising them from 8 percent to 13 percent.
- After using an on-line retirement planning tool, 55 percent of participants who make under $30,000 increased their deferral rate by 4.3 percentage points.
- Participants who go through a retirement planning session with a telephone representative increase their deferral rate by an average of 6 percent percentage points. (3 percent to 9 percent)

One theme that is consistent in all of our research is that the majority of participants want and need help.

Participants are also in need of simple ways to gauge their savings progress. Last fall, Fidelity released new research on age-based savings guidelines. These guidelines serve as a framework for establishing retirement savings goals. As participants progress through their careers, their "salary times a factor of X" can be one of the measures used to assess their retirement savings progress. While Fidelity provides retirement guidance that allows participants to develop and evaluate their retirement plans using a variety of different measures, we have found that a simple way to understand savings target is a framework that resonates with both participants and plan sponsors. We believe this approach will be helpful to workers who switch jobs frequently, and who may have a number of retirement accounts thus making it even more difficult to evaluate one's savings strategy.

CLOSING STATEMENT

There is a path to retirement security for most Americans, but the road is not always an easy one. Many key constituencies have a role in ensuring success.

• First, **plan participants** need to take an active role in saving and managing their financial future;

• Second, **plan sponsors** need more flexibility in the rules and regulations to design benefit plans which meet the diverse needs of their workforce without risk of fiduciary liability and increased coverage cost;

• Third, **service providers, like Fidelity**, need to continue to innovate around how to help plan sponsors optimize their benefit programs and service participants based on their needs;

• And last, we ask **policymakers** to consider key areas to improve retirement savings outcomes:

  • increase the default deferral rate to 6 percent,
  • incent more plans to adopt auto-features currently available, such as automatic annual increase programs,
  • protect and promote the availability of education and guidance by service providers and recordkeepers,
  • modernize and simplify the current regulatory framework to allow innovation in plan design and participant communications,
  • explore new ways to help incent younger workers to build solid savings habits by enrolling earlier in their working careers, and
  • partner with school administrators, businesses and nonprofit organizations to help ensure all students have access to quality financial literacy.

As the leader in providing 401(k) recordkeeping services to the workplace, Fidelity is in a unique position to analyze savings and investment trends, recommend new products and services, and help millions of American workers save more in their retirement accounts. Fidelity is committed to partnering with you, Mr. Chairman, and Ranking Member Alexander, and members of your committee as you work toward solving these issues.

Again, I thank you for the opportunity to appear today and share our perspective and experience in helping Americans save for retirement. I am pleased to take your questions.

Appendix*

Fidelity Perspectives—September 2012

DO YOUR PARTICIPANTS HAVE WHAT IT TAKES TO RETIRE?

When helping employees plan for retirement, it's fair to say that the more money saved, the better. But how much savings is really enough? The truth is, a host of economic, demographic, and lifestyle variables make this seemingly straightforward question particularly difficult to answer.

Today's younger workers, for example, are likely to switch jobs more frequently than generations past. According to a recent survey, more than 90 percent of so-called Millennials (those born between 1977 and 1997, also known as Gen Y) expect to remain in any single job 3 or fewer years.[1] As a result, members of this generation could hold 15 to 20 separate jobs during their working lives. Multiple jobs lead to the accumulation of multiple retirement accounts and a fragmented, clouded picture of progress toward retirement readiness. Moreover, job switching presents workers with a number of unwelcomed opportunities to cash out, causing potentially significant setbacks in the pursuit of financial security after work.

This transient dynamic in the workplace, along with increasing life expectancy, escalating health care costs, and uncertainty about the future of Social Security all portend a looming retirement savings crisis for many. Indeed, an estimated 20 percent of retirees will exhaust their savings within 10 years of their retirement.[2]

Despite this sobering outlook, Fidelity believes it's critical to help participants determine if they are on track toward their retirement savings goals throughout the course of their careers.

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* Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.

[1] Future Workplace "*Multiple Generations @ Work*" survey of 1,189 employees and 150 managers, June 2012.

[2] The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects, July 2010.

GETTING ON TRACK AND STAYING THERE

Employees attempting to set a course toward a financially secure retirement are looking for help and asking for it explicitly.

Setting up stepwise savings goals for employees and linking it to salary simplifies the process of determining if they are on track. Fidelity advocates that as participants progress through their careers their target multiples, or X's, of their salaries can be used as the goal for retirement savings. For example, at age 35, this Fidelity guideline suggests a participant should have saved 1X their current salary. Using these multiples makes the concept of saving for retirement a bit easier to comprehend, and therefore, potentially more achievable.

While every individual's situation will differ greatly based on desired lifestyle in retirement, the average worker can expect to replace 85 percent of his pre-retirement income[3] by saving at least 8 times, or 8X, his ending salary.[4] In order to reach the 8X level by age 67,[5] Fidelity suggests workers should aim to save about 1X their salary by age 35, 3X by age 45, and 5X by age 55. The target amounts include all retirement savings vehicles.

What is important to note is the savings multiple in comparison to salary. Fidelity analysis suggests that for most individuals the best way of achieving the recommended 8X goal at retirement is to ensure that the multiple target goals are met along the way. These hypothetical guidelines can help employees to meet the suggested income replacement rate of 85 percent in retirement. Since the 85 percent or 8X may seem daunting as an end goal, Fidelity believes that breaking the retirement planning process down to an age-based goal—especially for younger workers—will help make the savings process seem more attainable.

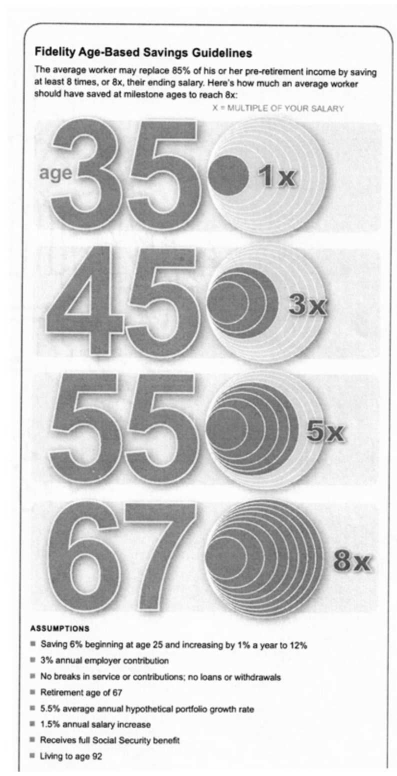
This example of targeted savings could be positively or negatively impacted by any number of variables including breaks in employment, working past age 67, changes to the Social Security model, or individual asset allocation decisions. There is no one-size-fits-all number; however, using this method as a guide should generate the necessary questions and conversations to get employees thinking and ultimately prompt them to take action.

To help employees assess their situation, education programs that explain the importance of debt reduction and the need to establish an emergency fund to avoid the negative impact of loans and hardship withdrawals as well as helping employees avoid interruptions in their savings history are critical to long-term success. Guidance and education via online tools, in-person sessions, or telephone consultations—can also play a critical role in engaging participants and bolstering their retirement readiness.

[3] Eighty-five percent replacement rate is for a hypothetical average employee and may not factor in all anticipated future living expenses or needs, such as long-term care costs.

[4] All dollars are today's dollars, not future value.

[5] The age when workers born 1960 or later are eligible for full Social Security benefits.



Source: Fidelity Investments.—This hypothetical chart is for illustrative purposes only. It is not intended to predict or project investment results. Your rate of return may be higher or lower than that shown in the hypothetical illustration above. Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917.

LEADING THE WAY

While the responsibility for preparing for retirement is clearly a shared one, plan sponsors can lead the way with innovative, automated, plan design features that get participants saving early, saving more, and—with the help of strategic goal-setting and ongoing guidance—saving enough. The three steps outlined below can help move participants in the right direction.

Step 1—Encourage employees to begin saving as early in their careers as possible. Early participation in a retirement savings plan can have an enormous impact on long-term wealth accumulation. This is especially critical as the DC savings plan will likely be the primary retirement funding vehicle for generations to come.

Step 2—Implement auto-enrollment (AE) with an automatic Annual Increase feature. Not only does AE support the goal of early savings for the youngest workers, it also boosts plan participation rates overall. According to Fidelity's latest data, the average participation rate in plans with AE is approximately 90 percent, far higher than the 67 percent rate in plans without it. Fidelity data also shows a marked increase in savings rates by employees when employers marry a higher default deferral rate with an automatic escalation provision such as an Automatic Increase Program (AIP). Only 6 percent of participants offered an AIP elect to enroll on their own.[6] Requiring employees to opt out of an AIP rather than opting in exposes a much larger number of participants to the benefits of higher deferral rates.

[6] Fidelity Investments record-kept data of corporate-defined contribution (DC) plans of nearly 20,000 plans and 11.8 million participants as of June 30, 2012.

Step 3—Promote the use of guidance and planning tools. Fidelity's MyPlan Snapshot® online savings tool allows participants to anticipate how much they need to save for retirement which can help set savings goals. From there, our Income Simulator tool can help them translate their savings into an estimated monthly income stream during retirement.

As we've noted, retirement planning is not an easy matter to tackle but plan sponsors can help move their participants in the right direction by following this simplified guideline of target multiples, optimizing plan design and encouraging their employees to seek guidance. For more information on helping participants reach retirement savings sufficiency, contact your Fidelity representative.

FIDELITY PERSPECTIVES—SUMMER 2011

REDUCING REGRET IN RETIREMENT

New Fidelity survey provides insight on participant sentiment and decisions relative to enrollment, savings and early withdrawals.

In this post-recession economy, many Americans are more focused on saving and are increasingly more prudent in their spending. As individuals consider their options, a recent Fidelity survey reveals that Defined Contribution (DC) plans such as 401(k)'s and IRAs play more prominently in their ability to save. A key finding is that more than half (55 percent) of current DC participants agree that they would not be saving for retirement if it weren't for their DC plan. In addition, employees of all ages view their DC plans as an effective way to save money for retirement. In fact, just under half of working participants indicated that the DC plan is critical to meeting their financial goals and is the only way they are saving for retirement.

With the DC plan becoming the foundation for so many as a means to retirement income, employers may be wondering why employees aren't doing more to grow and preserve their account for its intended purpose. Interestingly, one-third of retired and about half of working participants said they wished they had contributed more to their retirement savings. Many expressed regret at borrowing from their account.

The survey of 1,000 working and retired DC plan participants conducted in February 2011, underscores the role that DC plans have come to play in employees' retirement savings efforts. Among retirees, it also reiterated and reinforced how having some form of a financial plan can boost confidence and help reduce negative behaviors such as taking loans or cashing out.

Consider these highlights from the survey results:

- More than 95 percent of those surveyed cited DC plans are a good way to save money for retirement.
- Eighty-five percent of those currently working as well as 86 percent of retirees indicated they wouldn't have saved as much for retirement without a DC plan.
- Ninety percent of current workers surveyed said DC plans influence their choice of an employer.
- Thirty-nine percent of retirees and 29 percent of working participants who have taken a loan cited they would not take a loan if faced with the same decision again.
- IRAs are the most commonly held non-DC plan savings vehicle (37 percent) for current workers.

This paper delves into the results to better understand what drives employee retirement savings decisions. The study examines employees' rationale for participating, why they save as much as they do, and whether they regret any of their retirement savings decisions.

Company Match Drives Enrollment Decisions

Perhaps the most critical retirement savings decision an employee can make is their first decision—enrolling in their employer's DC plan. With that realization in mind, we surveyed DC plan participants about what factors helped to overcome any inertia or indecision and drove them to enroll in the first place.

The most common reason given by current workers across all age groups was the desire to take advantage of company matching contributions. The majority of working participants (92 percent) surveyed indicated this was an important factor. Employers seem to be cognizant of this preference, as 83 percent of working employees indicated they receive some type of employer contribution. In addition, only 13 percent of working employees said their employers reduced or suspended matching contributions during the past 3 years, an indication that many employers are hesitant to take this important benefit away from employees, even during a recession.

Tax benefits were another common driver of plan participation, with 9 out of 10 indicating they believe their DC plan offers a good way to save for retirement on a tax-deferred basis. This sentiment was even more pronounced among pre-retirees, who generally earn more and may be subject to higher tax rates.

There also seems to be widespread support for auto-enrollment, although this attitude is more prevalent among retired DC participants (perhaps due to their own experiences trying to save for retirement). Among retirees, nearly three quarters agree that all employees should be automatically enrolled in a workplace retirement savings plan.

Raise in Pay Leads to Increases in Deferral Rates

The majority of current DC plan participants (54 percent) feel that saving more will improve their financial outlook for retirement. This attitude is particularly prevalent among the youngest employees (those age 25 to 34). Of course, one way to contribute more is to spend less. Yet, only 14 percent of working DC plan participants indicated that spending less was the one thing they could do to improve their financial outlook for retirement.

Despite the challenging economic environment of the past 2 years, 17 percent of employees indicated they increased their deferral rates within the past year and an additional 12 percent did so within the past 12 to 24 months. Fidelity record-kept data echoes these findings—by the end of the first quarter of this year, nearly 10 percent of active plan participants increased their deferral rate—the largest portion to do so since Fidelity began tracking this figure in 2006.[7] Receiving a raise or having extra money available were the most common reasons given for increasing deferral rates. This seems to be an encouraging sign that some employees understand the importance of increasing deferral rates whenever possible.

As employees close in on retirement, their efforts to save through their DC plan take on additional urgency. Approximately one out of four pre-retirees ages 55+ indicated the need to save more to meet retirement goals was their reason for upping their contributions.

- While many employees made every effort to defer as much as possible over the past 5 years, 23 percent of those still working reported they had decreased their salary deferral rates. Of those that have ever decreased deferrals, 34 percent cited that the money was needed to cope with a spouse/partner's layoff, they needed the extra money for an emergency fund, or their employer suspended the company match.

Many Older Workers Save the Maximum Allowed; Younger Workers Saving What They Can Afford

Among retirees surveyed, one-third indicated they deferred the maximum allowable by law in the period prior to retirement. Another 29 percent of retirees deferred the amount necessary to receive a full company match and 27 percent deferred the most they could afford. Conversely, among employees who are still working, only 15 percent are deferring the maximum amount, 31 percent are deferring enough to earn the company match, and 43 percent are deferring all they can afford.

The youngest employees surveyed were least likely to defer the maximum amount allowed (12 percent). It's possible that this population is grappling with college loans, saving for a down payment on a home, or may simply not earn enough to defer more salary. Nevertheless, convincing younger employees to defer the maximum allowable amount could produce tremendous long-term benefits for them.

Regrets, they've had a few

Many DC participants indicated they made decisions that they later regretted. For example, among retirees, one-in-three said they wished they had contributed more to their retirement savings. Among those who decreased salary deferrals, 26 percent of current employees lamented that decision.

Taking a loan, hardship withdrawal, or full payout when changing jobs was another source of regret for retirees and current employees alike.

- Among retirees who had taken a loan, nearly 4 in 10 cited they would not make the same decision again, whereas roughly 30 percent of working participants felt the same way—many may not regret the decision until they're actually in retirement.
- Roughly 40 percent of both working and retired participants regretted their decision to withdraw money for an emergency.
- More than half of working participants cited that they regretted the decision to take a full payout when leaving a job. Many retirees may take full payouts to consolidate accounts and/or to purchase annuities.

[7] Based on our analysis of nearly 16,500 corporate DC plans and 11 million participants as of March 31, 2011.

Having A Financial Plan Leads To Better Decision Making

The existence of a complete financial retirement plan—or lack thereof—is another important factor impacting one's decision on how much to contribute to their DC plan. Three out of four working employees with a financial plan increased their salary deferral rate at some point in their careers, while only 59 percent of those without a plan reported doing so. Those without a plan were also somewhat more likely to increase salary deferrals out of a necessity to catch up later in life than those with a plan.

A consistent theme: having a plan can help—and the earlier the better. The existence of a complete financial retirement plan appears to play an important role in the level of regret experienced by participants. For example, those with a financial plan—and therefore more likely to have a better understanding of their financial situation—were more likely to regret their decision to decrease salary deferrals (34 percent versus 25 percent) than those participants without a complete plan and potentially in the dark on the ultimate impact of their decision.

The existence of a complete financial retirement plan also appears to produce better savings habits. Among retirees, those with a plan were significantly less likely to have:

- Taken a loan (18 percent vs. 30 percent)
- Taken a hardship withdrawal (16 percent vs. 34 percent)
- Taken a full payout (25 percent vs. 37 percent)

Current employees with a plan were also less likely to withdraw assets early than those without a plan (26 percent vs. 35 percent). Among working participants, the level of regret over decisions to take early withdrawals was for the most part similar, whether or not the employee had a financial plan. Only time will tell if these employees come to regret these decisions later in life.

Three steps employers can take to help employees minimize regret or leave employees with no regret.

These results demonstrate that better educated and prepared employees make better retirement savings decisions. They are less likely to withdraw assets prior to retirement and even if they do need to do so, they are less apt to regret their decisions if they have prepared a comprehensive retirement financial plan.

Of course, employees are unlikely to make any meaningful progress toward a financially secure retirement if they do not start participating in their DC plans as soon as possible. To motivate employees to get started and help increase their chances of success, employers must:

1. Communicate the benefits of contributing to a DC plan in simple terms to all employees—and the importance of maximizing every opportunity to save more.
2. Automatic enrollment for all eligible non-participating employees—not simply the newly hired—provides another, even more efficient way to overcome the dual challenges of employee enrollment and savings rates. Combining automatic enrollment with an Annual Increase Program (AIP) can help employees save more and put them on a path toward a secure retirement.
3. Most importantly, while automatic plan features can get employees started, they will need guidance along the way to avoid making decisions they may come to regret later. Promoting the benefits of having a plan and offering guidance through planning tools, workshops, and one-on-one consultations may produce better results for employees and employers alike.

BUILDING FUTURES—FALL 2012

WHAT CAN SAVING MORE REALLY GET YOU? (MORE THAN YOU MIGHT THINK.)—A BUILDING FUTURES REPORT: Q2 2012

AVERAGE ACCOUNT BALANCES REACH AN ALL-TIME HIGH

At the close of Q3, average defined contribution (DC) account balances had reached $75,900 [8]—an all-time high—while the average account balance among 10-year continuous DC participants totaled $198,800.[8]

While the news is good and the trend is clearly positive, a closer examination of participant data reveals that deferral rates are a key driver in accumulating savings. According to Fidelity's latest data, covering more than 20,000 DC plans and 12 million participants, total savings rates average 12 percent, composed of 8 per-

[8] Based on Fidelity analysis of 20,222 corporate DC plans (including advisor-sold DC) and 12M participants as of 9/30/2012.

cent from employee contributions and 4 percent from employers. This total rate falls within Fidelity's recommended range of 10 percent–15 percent and Fidelity analysis reveals that increases in employee deferral rates can have dramatic effects on participant account balances over time.

Fidelity recommends a 10 percent–15 percent total savings rate.

In this first in a series of studies of participant behavior and associated outcomes, Fidelity analysis quantifies the substantial benefits participants can reap from deferring more and identifies steps plan sponsors can take to help employees realize the advantages.

A LEADING LEVER IN DRIVING BETTER OUTCOMES: DEFERRAL RATES

It's intuitive that if you save more you should end up with more. But it begs the question: how much more? To quantify the difference between savings rates Fidelity profiled two DC plan participants—"Trisha" and "Thomas",[9] who have been proactive about saving for retirement. Trisha and Thomas are remarkably similar. Both are in their mid-forties, earn roughly $45,000[9] annually, and had exactly the same balanced asset allocation over the past 12 years; they each currently are invested approximately 70 percent in equities. Both had less than $6,000 for plan DC account balances 12 years ago, and both make pre-tax contributions to their plan and receive company contributions each year. Neither has ever taken a loan or a hardship withdrawal.

Similarities aside, Trisha's and Thomas's investor profiles diverge in one critical area—their deferral rates. And that has made a big difference.

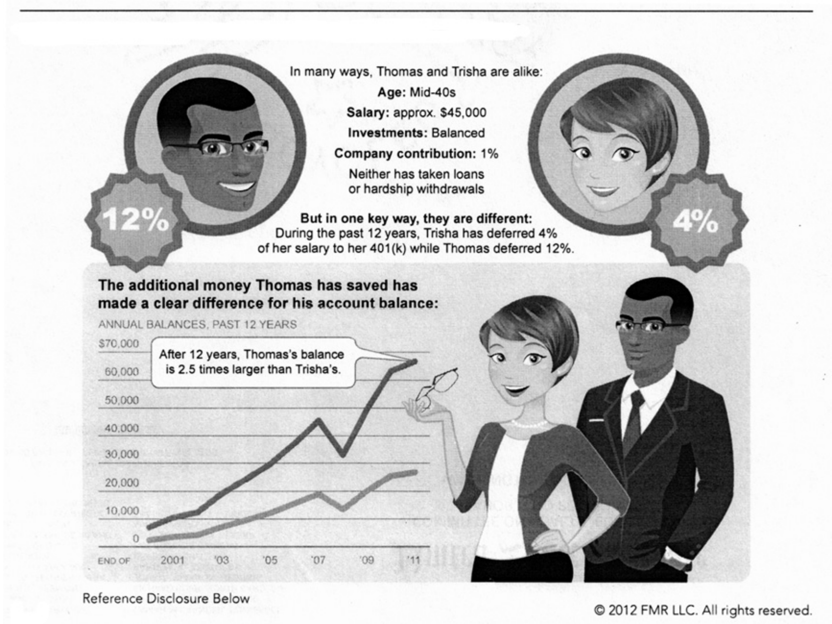
Trisha's Account Balance Grows

Trisha contributes 4 percent of her salary annually and receives a 1 percent core contribution from her employer. As shown in our illustration, Trisha's account balance has increased over the past 12 years to its current total of $27,000.

In reviewing Trisha's account, we can see that her DC account balance has grown, and she still has approximately 20 years in the workforce during which she can continue to save. But how does Trisha's situation compare with Thomas'?

[9] While the information provided herein is based on actual Fidelity workplace savings plan participant behavior, "Thomas" and "Trisha" are fictitious names and the examples provided are for illustrative purposes. Trisha started with a beginning balance in 2001 of $1,869 while Thomas's beginning balance in 2001 was $5,544. Approximately 20 percent of the end account balance growth is contributed to market return/conditions. Both participants were allocated 70 percent to equities. Actual salaries used were $44,944 and $45,098. The data is based on Fidelity research from 6/30/2000 through 6/30/2012.

Figure 1: Deferrals Drive Outcomes for "Thomas" and "Trisha"[9]



Thomas Makes Bigger Strides

Like Trisha, Thomas benefits from a core employer contribution of 1 percent. However, Thomas has consistently saved two to three times as much as Trisha. He deferred 12 percent of his salary for the past 5 years and 8 percent annually prior to that. Thomas's current total savings rate is 13 percent versus Trisha's total savings rate of 5 percent. The additional money Thomas saved has produced impressive results.

While Trisha's account balance grew to over $27,000 during the past 12 years, Thomas's grew to a balance of over $68,000. In this case, the additional 8 percent Thomas contributed over Trisha has resulted in a retirement savings balance that is 2½ times larger than Trisha's. Clearly, Thomas's higher deferral rate over the last 12 years has left him better prepared for retirement. Despite the fact that they had the same savings potential, Thomas is more on target demonstrating that higher deferral rates are critical to successful retirement planning.

HOW CAN PLAN SPONSORS HELP?

As the participant case study of Thomas and Trisha depicts, the effects of participant choices relative to their retirement savings are magnified over time. Thus, it's critical that plan sponsors work with plan providers, their advisors and consultants to not only educate employees early and often about the impact their decisions can have over time on their outcomes but also structure their plan design to promote optimal behaviors.

Accelerating Savings

For workers facing the economic realities of the here and now, retirement planning can be a daunting proposition. As a result, many are subject to inertia by either not participating in their DC plan or they set it and forget it once enrolled and very infrequently, if at all, increase their deferral rate. In fact, according to Fidelity data, 61 percent of participants who are auto-enrolled make no change from the default deferral amount.[8]

Auto-escalation drives ⅓ of all deferral increases.[8]

To combat such participant inertia, sponsors can implement the automatic annual increase programs (AIPs) to boost deferral rates. AIP can be linked to coincide with annual salary increases to minimize the impact to an employee's net take home pay. AIP is the single most effective driver of deferral increases, as 33 percent of all deferral increases during the past 12 months were due to AIP and for young workers (age 20–30) 52 percent of all deferral increases are due to AIP.[8] In addition, Fidelity data reveals that very few employees decline to participate; 93 percent of those enrolled by their employer remain within the program.[8]

Putting Employees on a Better Path

Fidelity data shows that the opt-out rates in plans with a 3 percent automatic enrollment default rate are virtually identical to those in plans with a default rate of 6 percent.[8] Automatically enrolling employees at a savings rate that will set them down the right path—such as 6 percent combined with an annual increase at 1 percent a year up to 10 percent or 12 percent—can help drive better outcomes without adversely affecting participation. In addition, 16 percent of auto-enrolled employees who received an e-mail and telephone call from a Fidelity representative to orient them to their plan increased contributions, and on average their deferral rates nearly doubled (3.5 percent to 6.7 percent).[10]

Know Where Your Opportunities Lie

Plan sponsors should look beyond the averages to examine participant behaviors. Learn which employees aren't participating and why. Identify participants missing out on a full company match and those who have never increased their deferral rates. By understanding these participants more fully, sponsors are better able to respond with timely information, targeted communications, and appropriate guidance.

Thomas and Trisha are saving, which is the first step on the road to retirement readiness; however, there is more that may help them and others to be fully prepared for retirement. Identifying where your participants stand and targeting populations that may be lagging is critical to helping participants prepare for retirement.

Guidance can lead to higher deferral rates.[10]

A BUILDING FUTURES REPORT: Q4 2012 TRENDS

FIDELITY INVESTMENTS: AN INDUSTRY LEADING RETIREMENT PROVIDER

Fidelity's record-kept database is one of the industry's most comprehensive proprietary collections of defined contribution plan and participant information.

- Based on record-kept data of corporate-defined contribution (DC) plans:
  - Over 20,000 plans
  - 11.9 million participants
- Data as of December 31, 2012 unless otherwise noted[11]

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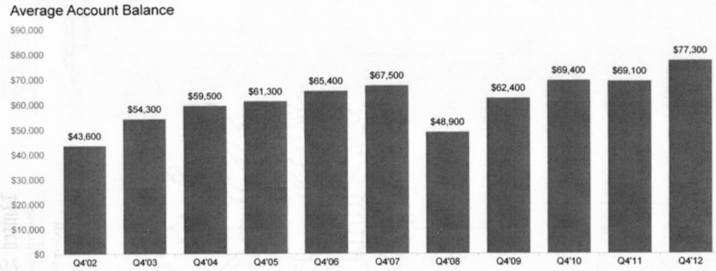
[10] Fidelity Investments, CKC Onboarding Results from January–July 2011; based on 192,000 auto-enrolled participants.

[11] Data in this presentation exclude tax-exempt plans, nonqualified plans, and the FMR Co. plan. This analysis includes data from the Fidelity Advisor 401(k) Program.

Account Balance

Average Account Balance



Key Insights

- Currently, the average account balance is $77,300, an increase of 11.9% from one year prior.
- The median participant account balance is $23,600.
- Account balances are impacted by both participant actions (contributions, withdrawals, etc.) and market action.
- Account balances are also impacted by new participants having *lower* account balances than departing participants who may roll out their assets.

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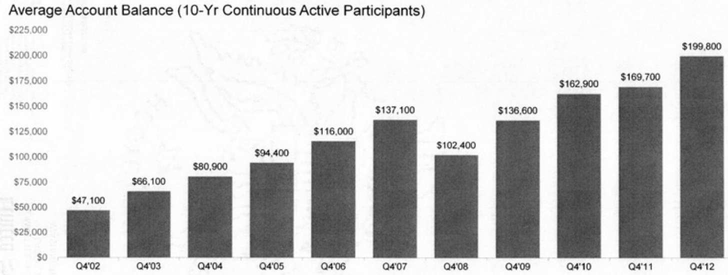
Account Balance (10-Yr Continuous Active Participants)

Average Account Balance (10-Yr Continuous Active Participants)



Key Insights

- The 10-Year Continuous Active Account Balance follows the *same participants* over time to show what they experienced during the last ten years.
- These participants had a $199,800 average account balance, up from $47,100 ten years prior (15.5% annual increase).
- This account balance increase was 53% due to participant action (net contributions) and 47% due to market increases.

Continuous Active Participants are actively employed with a balance for each year endpoint during the 10-year period.

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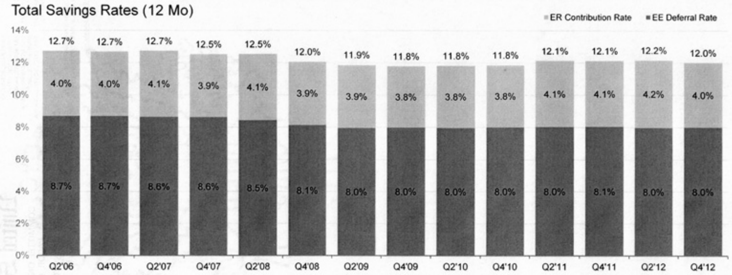
Deferral Rates

Total Savings Rates (12 Mo)



Key Insights

- ► The average deferral rate has remained steady for three years.
- ► Currently, the average deferral rate is 8.0%.
- ► Other than participant actions of increasing/decreasing deferrals (next slide), this figure is impacted by new participants joining the plan having *lower* deferral rates than departing participants leaving the plan.

Active Participants Only. Mean elective total deferral rates (point-in-time).

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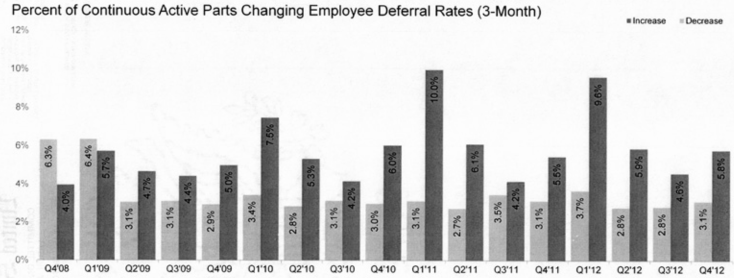
Changes to Employee Deferral Rates

Percent of Continuous Active Parts Changing Employee Deferral Rates (3-Month)



Key Insights

- ► In the prior 3-months, 5.8% of participants made an employee deferral increase.
- ► In plans that offer Auto-AIP, 8.4% of participants had employee deferral increases in the prior 3-months.
- ► The long-term trend of more employee deferral increases than decreases was interrupted during Q3'08 - Q1'09, but has resumed since (15 consecutive quarters).
- ► Annual Increase Program (AIP) is a big driver of this trend, see "Deferral Increases due to AIP" slide.

Continuous Active Participants Only (3-month). Mean elective total deferral rates (point-in-time).

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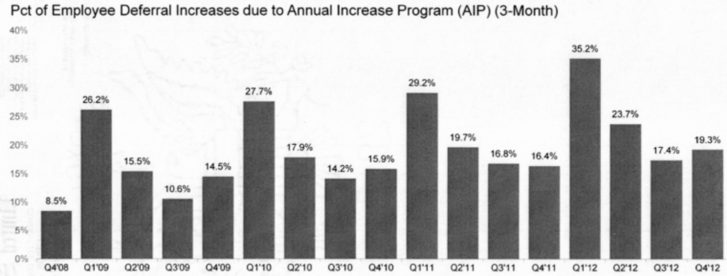
Employee Deferral Increases due to AIP

Pct of Employee Deferral Increases due to Annual Increase Program (AIP) (3-Month)



Key Insights

- Annual Increase Program (AIP) was responsible for 19.3% of deferral increases made in the prior quarter.
- AIP represented nearly one-in-three (32.7%) of all deferral increases in prior 12-months.
- The seasonality is due to the majority of AIP increases occurring in Q1.

Continuous Active Participants Only (3-month).

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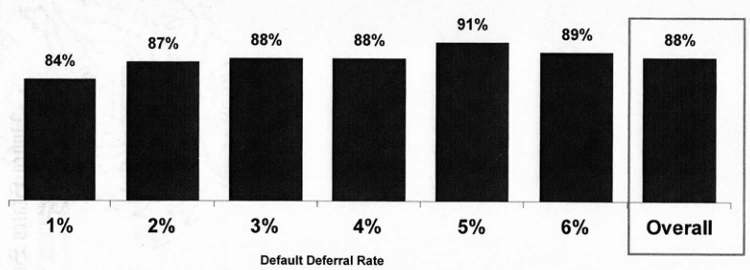
Regardless of the default deferral rate very few participants opt out

AE Participation Rate by Default Deferral Rate



Based on Fidelity recordkept data of 20k corporate defined contribution (DC) plans and 11.9 million participants as of December 31, 2012

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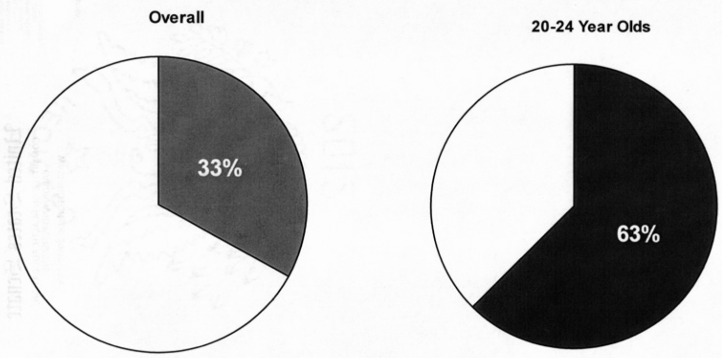
The annual increase program drives 63% of all deferral increases for the youngest participants

Percentage of deferral increases due to Annual Increase Program

(12 month period)



Based on Fidelity recordkept data of 20k corporate defined contribution (DC) plans and 11.9 million participants as of December 31, 2012

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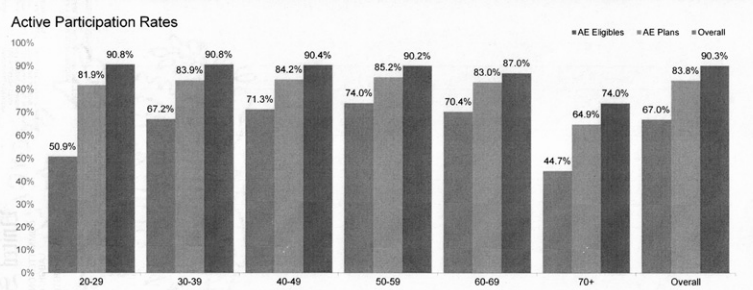
Auto-Enrollment (AE) Impact to Participation Rate



Key Insights

- Younger, less well-compensated employees benefit from Auto-Enrollment (AE).
- The overall active participation rate is 67.0%, up from 64.1% four years prior due to impact of AE.
- In plans who offer AE, the participation rate is 83.8%, which has also increased as more employees become eligible for AE within those plans.
- Further, those employees who are eligible for Auto-Enrollment in AE Plans have a participation rate of 90.3% (i.e. only 9.7% opt-out).

Data as of 12/31/2011. Active Eligible Employees Only.

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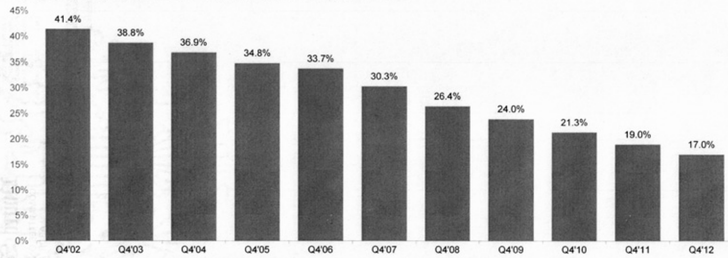
100% or 0% Equity Allocations

Percent of Participants with 100% or 0% of Assets in Equities

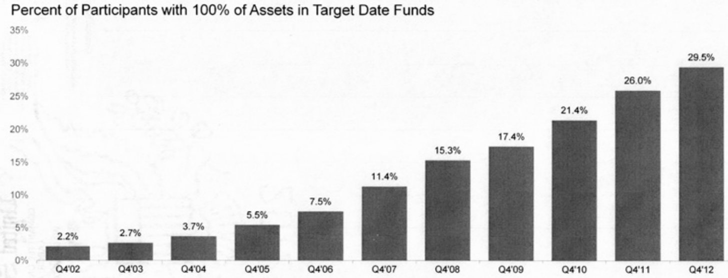


Key Insights

- For many participants, equity allocation was an "all-or-nothing" decision.
- Mainly through the increased use of Target Date Funds, fewer participants now hold such extreme portfolios.
- Only one-in-six participants (17.0%) hold 100% or 0% equity allocations.
- For more on this topic, see the Equity Allocation 3D Graph.

Target Date Fund Adoption

Percent of Participants with 100% of Assets in Target Date Funds

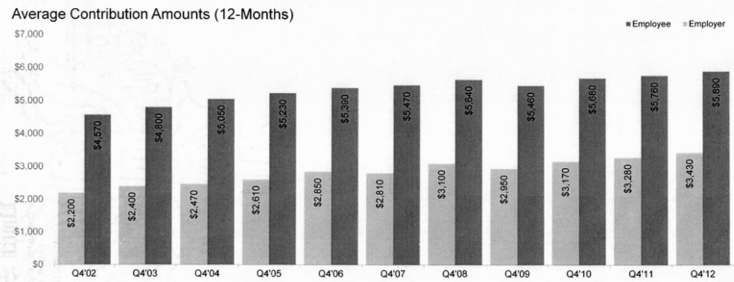


Key Insights

- Nearly one-in-three total participants (29.5%) holds 100% of their assets in Target Date Funds.
- For Generation Y, this figure is 50.4%.
- This trend has been chiefly driven by the use of Target Date Fund (TDF) Default.
- Default options have a sizeable impact on aggregate participant behavior.

Generation Y was born between 1979 – 1991.

Average Contribution Amounts



Key Insights

- The average 12-month employee contribution was $5,890, up from $4,570 ten years prior (per participant making >$0 employee contributions).
- This represents a 2.6% annual increase in employee contribution amounts.
- The average 12-month employer contribution was $3,430, up from $2,200 ten years prior (per participant receiving >$0 employer contributions).
- This represents a 4.5% annual increase in employer contribution amounts.

Active Participants Only.

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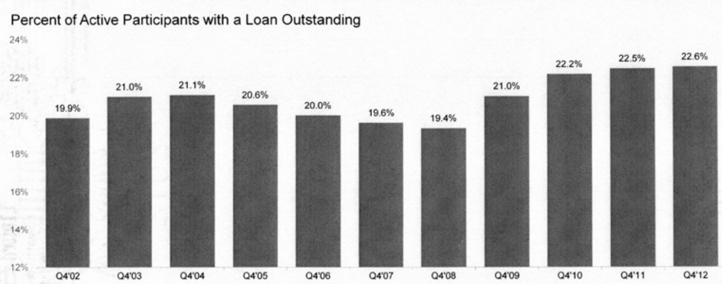
Loans Outstanding

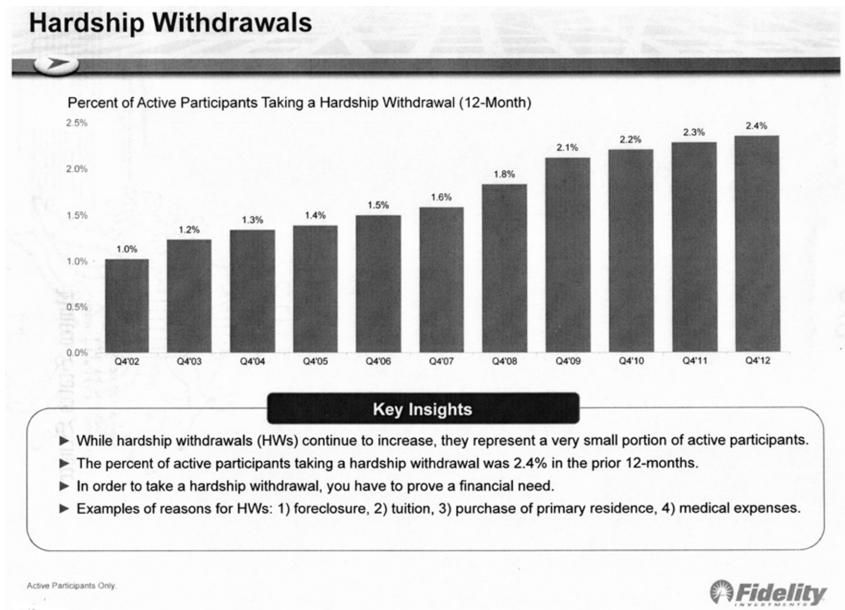


Key Insights

- The percent of active participants with a loan outstanding is 22.6%.
- The percent of active participants initiating a loan in the prior 12-months is 10.8%.

Active Participants Only.

Fidelity INVESTMENTS



IMPORTANT ADDITIONAL INFORMATION

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.

As with all your investments through Fidelity, you must make your own determination whether an investment in any particular security or securities is consistent with your investment objectives, risk tolerance, financial situation and your evaluation of the security.

Personal Rate of Return (PRR): A measure of portfolio performance that indicates the return earned over a given time period. Personal rate of return used in our analyses (unless otherwise noted) is time weighted, which means it was calculated by subtracting beginning market value from ending market value and dividing by beginning market value for each sub-period. A new sub-period began each time there was cash-flow. The sub-period returns were then geometrically linked together to calculate the return for the entire period. All returns shown are historical and include change in share value and reinvestment of dividends and capital gains, if any. Risk is defined as the volatility of historical portfolio returns; it measures the average deviation of a series of historical returns from its mean. Large values of risk indicate large volatility in the historical return series, and small values indicate low volatility.

Keep in mind investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

Past performance is no guarantee of future results.

Important Additional Information about Charts Showing Participant Equity Holding versus Freedom Funds' Equity Rolldown

For the equity rolldown chart, "Equities" are defined as domestic equity, international equity, company stock, and the equity portion of blended investment options. A random sample of 5,000 participant data points are plotted on the related charts. Percentage of assets invested in equities is based on data for participants in the defined contribution plans record-kept by Fidelity with a balance as of quarter end. These plans included both qualified and assetized nonqualified plans (i.e., nonqualified plans informally funded with mutual funds and other securities), as well as single-fund plans, which include Employee Stock Ownership Plans (ESOPs). Plans sponsored by Fidelity Investments for the benefit of its own employees are excluded. The Fidelity Freedom Funds® rolldown schedule on both Exhibits illustrate the Freedom Funds' target asset allocations among equities and was created by Strategic Advisers, Inc. This rolldown schedule also illustrates how these allocations may change over time. The Freedom fund future target asset allocations may differ from this approximate illustration.

Fidelity Freedom Funds® are designed for investors expecting to retire around the year indicated in each fund's name. Except for the Freedom Income Fund the funds' asset allocation strategy becomes increasingly conservative as it approaches the target date and beyond. Ultimately, they are expected to merge with the Freedom Income Fund. The investment risks of each Fidelity Freedom Funds® change over time as its asset allocation changes. They are subject to the volatility of the financial markets, including equity and fixed income investments in the United States and abroad and may be subject to risks associated with investing in high yield, small cap and, commodity-related, foreign securities. Principal invested is not guaranteed at any time, including at or after their target dates.

The CHAIRMAN. Thank you very much, Ms. McCarthy.

And now, Ms. Hounsell.

STATEMENT OF M. CINDY HOUNSELL, PRESIDENT, WOMEN'S INSTITUTE FOR A SECURE RETIREMENT, WASHINGTON, DC

Ms. HOUNSELL. Good morning, Chairman Harkin, Senator Alexander, and the other distinguished members of the committee. We appreciate the opportunity to be here today to discuss retirement saving by American workers and to ensure that committee members recognize the significant retirement risks that women face, particularly the millions of women who are on the cusp of retirement.

My name is Cindy Hounsell. I am president of the Women's Institute for a Secure Retirement. For 17 years, we have been trying to help women, educators and policymakers understand the important issues surrounding women's retirement income. Our primary mission is financial education and capability, providing women with the crucial skills and information they need to avoid poverty in retirement.

WISER and the U.S. Administration on Aging also operate the National Education and Resource Center on Women and Retirement Planning.

We commend the committee for examining the adequacy of retirement savings because this comes at a time when 61 percent of Americans age 44 to 75 fear running out of retirement assets more than they fear death. Women are among the most worried about savings and their financial security in retirement, and rightly so. They live longer, they have less retirement income. Divorce and widowhood have significant negative consequences for their financial well-being. Current discussions about tax reform would lead us to expect that policymakers would use the process as an opportunity to strengthen the retirement system and improve its effectiveness.

We believe that much can be accomplished by strengthening and building on our existing retirement programs such as Social Security, employer-sponsored plans, financially innovative products, incentives for longer work, and increased financial education and planning.

Every year there is new research and literature showing that American workers are not saving enough. The Employee Benefit Research Institute's retirement security projection model for 2012 shows that 44 percent of Baby Boomers and Gen-Xers won't have enough retirement income to cover even basic retirement expenses and uninsured health costs. When looking just at the Gen-Xers, the shortfall, the average savings deficit for a single female is a little over $133,000. That's the additional amount that a single female would, on average, need to save by age 65 to eliminate her shortfall.

The recent economic crisis has made it even more difficult. The low contribution rates and the lack of understanding of the need for a comprehensive retirement strategy means inadequate income for the rest of your life. These issues are compounded for women. In addition to living longer, older women are more likely to have costly chronic medical conditions and need long-term institutional care. Further, older women are more likely to be single at some point in their lives, which puts them at a higher risk for poverty, and it's a cruel irony at the latest stage of life that many women become poor for the first time in their lives.

Today, the rate of poverty for women aged 65 and over is close to 11 percent. In my testimony I have a lot more numbers, but what I'd like to just point out is that of those numbers, once you get to single women, for African-American women, almost a third are poor, and for Hispanic women it's 44 percent, which is just enormous.

Another twist on this is that women also work fewer years because they are the family primary caregivers, and caregiving can have serious financial consequences. A recent study shows that caregivers lost about $304,000 in wages, Social Security and private pension losses. And another problem is older women taking in their grown children and their grandchildren. Almost 20 percent of the grandparents responsible for grandchildren who live with them are living in poverty.

In the workplace there is better news, but it still varies by ethnicity and racial groups, and black women were the most likely to work for an employer with a plan, while Latinos were the least likely. However, the gender gap is a continuing factor, and another EBRI report suggests that while women in the aggregate have been closing the retirement participation rate over the last decade, they slipped a little because of the recession.

The reality of today's retirement landscape, as already mentioned, is do it yourself, do it right, or live at or below the edge of poverty for the rest of your life. That's the reality for a lot of people. And that slice of the pie keeps getting bigger and bigger. The nature of today's system of individual responsibility demands financial capability. We need to help people with these issues, and a lot of the suggestions that are made are helpful for people if you work in a large company, but for those who are in smaller companies like what you are talking about, Senator Alexander, people just don't have that level of education and literacy.

Women, along with their male counterparts, tend to lack basic retirement financial knowledge. That is often the reason why they make serious financial mistakes. Women need the best information and opportunity to access information to ensure that they don't make these mistakes. Experience and research shows that relevant financial information from trusted resources can dramatically increase your total net worth by nearly a third for those even with the lowest incomes, and up to 18 percent for those with moderate incomes.

So, what can we do? One of our key initiatives, as I mentioned, is the National Resource Center that we operate with the U.S. Administration on Aging that provides programs in communities, and these interventions leverage strategic partnerships not only with other nonprofit aging organizations but business, Federal agencies, and financial services groups.

First of all, before I get into my long list which is in my testimony, and I won't read that to you at this point, one of the most important things that we think needs to be done to support increased economic and financial security for women of all ages would be to strengthen the Social Security system, and we are happy to see that the white paper that the Chairman has issued has a plan to strengthen Social Security.

Another one of my favorite provisions which has been talked about in this city for about 20 years is to help caregivers by including a provision in Social Security for caregiving credits.

There are many programs around that help at-risk populations. What we need to do is start working with these models that we really know work and promote them on a larger scale. Many of these programs help people avoid dependence on government programs.

In conclusion, I'd like to say thank you for letting me hammer home the risks for women in retirement. I would like to just say finally that there is no single solution. I have been hearing, "Everybody wait until we get the perfect plan." There is no perfect plan. We already know where the problems are, what the challenges are. We need to target those segments of the population. There are a range of solutions. Most of all, we need to continue to build on what is working, make it better, and just realize that there are a lot of Americans out there who are just trying to achieve basic financial stability. Thank you.

[The prepared statement of Ms. Hounsell follows:]

Prepared Statement of M. Cindy Hounsell

SUMMARY

American workers are not saving enough for retirement. The recent economic crisis has made it even more difficult and low contribution rates and lack of understanding of the need for a comprehensive strategy means inadequate income for the rest of your life. The topic of retirement income insecurity, however, is not new. We all know the themes: people are not saving enough, they are not investing intelligently, and they are not going to have enough money to live 20–30 years in retirement. When it comes to women, we know that they live longer, earn less, take time out of the workforce to provide family care, are more likely to work part-time and are likely to live alone at some point in retirement. While women are equally likely to have access to retirement savings plans through work, they are hampered by a significant pay gap and millions are unable to contribute at the levels needed. All of these factors make it that much harder for women to experience a financially secure retirement.

The reality of today's retirement landscape is do-it-yourself, and do it right, or live at or below the edge of poverty in what are supposed to be the golden years. The nature of today's system of individual responsibility demands financial capability. This is WISER's primary area of focus. Women face unique challenges, and they are in the difficult position of making big decisions while being unable to afford even a small mistake. Women, along with their male counterparts, also tend to lack basic financial knowledge, which is often the reason for making serious financial mistakes. Women need the best information and opportunity to access information; this

information should be targeted to women as spouses and caregivers, as well as to women as employees.

WISER's mission is to provide reliable, actionable and culturally relevant resources. WISER's interventions leverage strategic partnerships to maximize our reach; from highly educated professionals to the most vulnerable populations. Through these partnerships, WISER educates women and inspires them to take action to improve their financial situation and outlook. WISER's approach is to bring financial planning back to the basics. Our goal is to help women make the best decisions they can with the limited resources they may have available.

There is no single solution to these issues. We need to start understanding what the specific challenges are to certain segments and target those segments with a wide range of solutions from financial education, to product design, policy changes and other innovations. WISER's recommendations include: Protect, preserve and strengthen Social Security—a program critical to the financial well-being of women; support employer plans, make adjustments in education initiatives to recognize the difference in men's and women's employment experience and promote individual saving behavior; enable later retirement and support better work options at later ages; encourage financial product innovation that help older Americans preserve and protect their retirement incomes and assets; and educate women of all ages about longevity and how financial products, financial planning and saving can improve their financial prospects.

Good morning, Chairman Harkin, Senator Alexander and distinguished members of the committee. I appreciate the opportunity to appear before you today to discuss retirement saving by American workers and to ensure that committee members recognize the significant retirement risks women face—particularly the millions of women who are on the cusp of retirement.

INTRODUCTION

My name is Cindy Hounsell, and I am president of the Women's Institute for a Secure Retirement (WISER). WISER is a nonprofit organization that works to help women, educators and policymakers understand the important issues surrounding women's retirement income. Our primary mission is financial education and capability—providing women with the crucial skills and information they need to avoid poverty in retirement. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure adequate retirement income through research, training workshops, educational materials and outreach. WISER and the U.S. Administration on Aging operate the National Education and Resource Center on Women and Retirement Planning.

WISER commends the committee for examining the adequacy of retirement saving by American workers. This focus comes at a time when 61 percent of Americans age 44 to 75 fear running out of retirement assets more than they fear death.[1] Our testimony will focus primarily on women's retirement savings—highlighting the challenges women face. We will summarize some of the activities WISER continues to undertake to help women deal with these challenges. We will also detail the outreach efforts of WISER and its partners to improve financial literacy and thereby improve savings. Finally, we believe that there needs to be a range of solutions that will help people today, and help various segments of the workforce who are facing differing challenges.

INADEQUATE RETIREMENT SAVINGS

Women are worried about saving enough and about their financial security in retirement, and rightly so. They live longer than men, and they have less retirement income. Divorce and widowhood have significant negative consequences for their financial well-being. Current discussions about tax reform in 2013–14 would lead us to expect that policymakers would use the process as an opportunity to strengthen the retirement system and improve its effectiveness by including policies to improve the financial security of women (and men) and their families. We believe that much can be accomplished by strengthening and building on our existing retirement programs, such as Social Security, employer-sponsored plans, financially innovative products, incentives for longer work, and increased financial education and planning to improve the financial security of older women.

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[1] *Outliving Your Money Feared More Than Death*, Allianz Life Insurance Company of North America press release, June 17, 2010.

Every year there is new research and literature showing that American workers are not saving enough for retirement. The Employee Benefit Research Institute's Retirement Security Projection Model 2012 shows that 44 percent of Baby Boomers and Generation Xers won't have enough retirement income to cover basic retirement expenses and uninsured health costs.[2] When looking just at Generation Xers that will have a shortfall, the average savings deficit for single females is $133,349. This is the additional amount that a single female would, on average, need to save by age 65, to eliminate her projected retirement shortfall.[3]

CHALLENGES WOMEN FACE

It's clear from the data that, no matter how you slice it, American workers are not saving enough for retirement. The recent economic crisis has made it even more difficult and low contribution rates and lack of understanding of the need for a comprehensive strategy means inadequate income for the rest of your life. These issues are compounded for women. For one, women live longer, which means women need more income and their retirement assets have to last longer. Older women are also more likely to have chronic (read: costly) medical conditions and need long-term institutional care. Further, older women are more likely to be single, which puts them at higher risk for poverty. It is at this later stage of life that many women become poor or in the near poor category for the first time in their lives.

Despite needing more retirement assets, women end up having less. In the case of single women over 65 today, fully half receive less than $750 a year in income from assets.[4] Factors that play into this include pay inequity, uneven work histories due to caregiving responsibilities, and a greater likelihood of working part-time where retirement benefits are not offered.

The result of these issues are included in a recent report by the GAO which identified that women age 65 and over have 25 percent less retirement income and twice the poverty rate of men.[5] When widowhood or divorce occurs, the effects are even more harmful. The report found that the income of women near or in retirement dropped 37 percent as a result of widowhood, while men's fell 22 percent. Divorce or separation reduced women's income by 41 percent—almost twice the decline of men's income.[6] Today, the rate of poverty for women age 65 and over is 10.7 percent, compared to 6.2 per cent for men.[7] When looking at single women over age 65, the poverty rate jumps to 17.4 percent.[8] In this mix is a poverty rate for white single women of 15.3 percent; 32.5 percent for single African-American women; and 43.7 percent for single Hispanic women.[9]

CAREGIVING HURTS WOMEN'S SAVINGS OPPORTUNITIES

As noted above, while women earn less, live longer and are likely to live alone in old age, women also work fewer years by taking time out of the workforce for caregiving as their families' primary caregivers for both children and older parents. As caregivers, women are also more likely to work part-time in jobs without benefits. The Social Security Administration finds that among new retired-worker beneficiaries, women average 12 years of zero earnings. This is 12 fewer years to put money away through a defined contribution plan or IRA. Since caring for the family is not recognized as an economic contribution, women lose out by bearing the main share of this responsibility and the corresponding economic consequences. Caregiving can have serious financial consequences, especially for adults nearing retirement. Reduced wages and benefits result in missed opportunities for compounded returns on 401(k) matching contributions and less in savings and investments. Caregivers' also pay an estimate of $5,531 annually in out-of-pocket costs for

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[2] Employee Benefit Research Institute. *Retirement Income Adequacy for Boomers and Gen Xers: Evidence from the EBRI 2012 Retirement Security Projection Model*. EBRI Notes, May 2012.

[3] *Ibid*.

[4] Women's Institute for a Secure Retirement. *Fact Sheet*: *Single Older African American Women and Poverty*.

[5] GAO. *Retirement Security: Women Still Face Challenges*. GAO–12–699. July 19, 2012.

[6] GAO. *Retirement Security: Women Still Face Challenges*. GAO–12–699. July 19, 2012.

[7] Current Population Reports. Income, Poverty and Health Insurance Coverage in the United States, 2011. September 2012.

[8] Women's Institute for a Secure Retirement. *Fact Sheet*: *Single Older African American Women and Poverty*. 2012.

[9] *Ibid*.

caregiving.[10] A 2011 study showed that caregivers lost $303,880 in wages, Social Security, and private pension losses as a result of caregiving responsibilities. [11]

Another problem for women in or near retirement is that almost 20 percent of the 2.5 million grandparents responsible for grandchildren who live with them, were living in poverty. Half of the caregivers had been in this role more than 5 years. Many lose or quit jobs to care for children and incur more expenses that result in spending down retirement savings.[12]

Women must plan for a longer retirement with less income—the median income for women age 65 and older is only 60 percent of men's income in that same age group.[13] This should not come as a surprise—since the retirement system is based on what workers earn—so women are left with inadequate pensions and savings. The result is that women must rely too heavily on Social Security as an income source in retirement.

In the workplace, women were more likely to work for employers that offered 401(k) plans than were men. This varies by racial groups and black women were the most likely to work for an employer with a plan while Latinas were the least likely. However, the gender pay gap is the major issue preventing women from contributing more to their defined contribution plans. A recent EBRI report suggests that while women in the aggregate had been closing the retirement participation rate over the last decade—down to less than 1 percentage point by 2009—the recession caused women to fall slightly behind again in 2010 and 2011.[14]

FINANCIAL CAPABILITY

The reality of today's retirement landscape is do-it-yourself, and do it right, or live at or below the edge of poverty in what are supposed to be the golden years. The nature of today's system of individual responsibility demands financial capability. This is WISER's primary area of focus. We focus on women because of the challenges we set forth earlier. Women are in the difficult position of making big decisions while being unable to afford even a small mistake.

Women, along with their male counterparts, tend also to lack basic financial knowledge, which is often the reason for making serious financial mistakes. Women need the best information and opportunity to access information to ensure that they do not make costly decisions; this information should be targeted to women as spouses and caregivers, as well as to women as employees. Experience and research shows that relevant financial information can dramatically increase total net worth by nearly one-third for those with the lowest income and 18 percent for those with moderate income.[15]

One of WISER's key initiatives is a program administered cooperatively and funded by the Administration on Aging—the **National Education and Resource Center on Women and Retirement Planning.** The AOA/WISER Resource Center's primary goal is to educate the most women we can possibly reach with information that can assist them in their retirement planning. We seek to provide average and low-income women the opportunity to take the first step toward controlling their financial futures.

WISER's approach is to bring financial planning back to the basics. Our goal is to help women make the best decisions they can with the limited resources they may have. We train trainers who assist women in their communities. We explain the hard reality of having to adjust living standards to live within their means and to find resources in their communities that they may not be aware of.

The Center has directly reached tens of thousands of women through our own and our partners' workshops, and we've reached millions with our publications and Web site. The Center's strength is providing women with core financial knowledge that encourages them to make financial and retirement planning a priority in their lives. We focus on such issues as health and retirement benefits at work (or the implication of the lack of such benefits), the financial implications of providing care for children, parents and spouses, and the risks of inflation and longevity.

The Center's Business Advisory Council helps in disseminating education and information through the Community Partnership Program with the Financial Services

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[10] National Alliance for Caregiving, *Caregiving in the U.S.*, 2009.

[11] The *MetLife Study of Caregiving Costs to Working Caregivers*, June 2011.

[12] *Growth in Grandfamilies Leads to Food Insecurity*. May/June 2012, Aging Today.

[13] Women's Institute for a Secure Retirement, *Fact Sheet*: *Women's Retirement Income*, 2012.

[14] Employee Benefit Research Institute, *Employment-Based Retirement Plan Participation*, November 2012 EBRI Issue Brief.

[15] Lusardi, Annamaria, *Saving and the Effectiveness of Financial Education*. Published in "Pension Design and Structure: New Lessons from Behavioral Finance," edited by O. Mitchell and S. Utkus. Oxford University press, 2005.

Roundtable, as well as a long-standing partnership with the American Council of Life Insurers and several individual companies who help us further our education effort. Many other partners—employers, business and trade organizations, aging and women's organizations and community-based groups help spread the message and disseminate the Center's materials.

We also work with Federal agencies, including the Department of Agriculture's Cooperative Extension Service, the Department of Labor, the Consumer Financial Protection Bureau and the U.S. Social Security Administration. Recently, both Money magazine and *ForbesWoman* have commended WISER, with *ForbesWoman* naming WISER's Web site, *www.wiserwomen.org*, one of the Top 100 Web sites for Women in 2012.

Among the population we have reached are highly educated nurses, executive women, childcare workers and low-income entrepreneurs. The common thread we found among these varying groups of women was that there was an additional obstacle for many women. That obstacle is putting everyone's needs ahead of their own. Many women were taken aback when the trainers encouraged them to fund their own retirement before spending money on their children and grandchildren.[16]

There is increasing evidence that planning for retirement is effective and work place seminars are helpful, but there is a need for more basic resources to help people figure out how much they need to increase their savings by in order to retire with security. We have included below a list of several issues that women are in particular need of learning about or better understanding.[17] For example, we find that the following are key areas of retirement illiteracy:

- Asset to income ratio is not understood and how much is needed for a secure retirement.
- Longevity risk is poorly understood and not widely planned for.
- Value of guaranteed lifetime income or how to draw down assets.
- The impact of future inflation and taxes is not included in planning for retirement.
- Many women assume they will just keep working beyond normal retirement age, but more than 40 percent of Americans end up retiring earlier than they planned to, usually due to job loss, family needs including health issues, or personal poor health.

Agenda for Near Retirees:

- Educate near retirees on the value of claiming Social Security later to attain higher Social Security benefits.[18]
- Obtain a benchmark measure of retirement literacy and target the most important area of insufficient literacy.
- Provide benchmarks on determining retirement readiness or when retirement can be afforded.

Finally, we need to strengthen our existing programs wherever possible. That means focusing in particular on Social Security, employer-sponsored retirement programs, individual saving initiatives, financial products that promote increased economic security in old age and longer work incentives for women. The following are suggested actions for building and supporting increased economic and financial security for women of all ages.

- Protect, preserve and strengthen Social Security—a program critical to the financial well-being of women:
  - Preserve Social Security as an income-based social insurance system.
  - Improve benefits for low-wage workers—those with very low benefits are primarily low-wage, unmarried and widowed women.
  - Study ways to offer retirement protection to women with significant time spent as caregivers, including the provision of Social Security credits.
- Support employer plans, recognize the difference in men's and women's employment experience and promote individual saving behavior:
  - Encourage more employers to offer a retirement program and make it easy for employers to do so.

[16] Women's Institute for a Secure Retirement, *Changing Investment and Savings Behavior of Nurses*, 2012.

[17] *Retirement Literacy: A Key to Financial Security for Women*. Mathew Greenwald & Associates, Inc., WISER Symposium, Washington, DC. December 7, 2012.

[18] *Innovative Strategies to Help Maximize Social Security*. James Mahaney, Strategic Initiatives, Prudential Financial. Updated Edition, 2012.

- Encourage plan sponsors offering 401(k) and similar plans with better default investment options to enable more savers to accumulate more assets for retirement.
- Extend retirement savings opportunities so that part-time and temporary workers have a way to save.

• Enable later retirement and support better work options at later ages:

- Study the interaction of increasing longevity and retirement ages, and develop a dynamic system to keep retirement ages in step with greater longevity.
- Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers.

• Encourage financial product innovation that help older Americans preserve and protect their retirement incomes and assets:

- Support and encourage the continued sponsorship of retirement plans with risk-protection features, such as lifetime income options.
- Support development of more products that include combining income and long term care.
- Support development of longevity insurance.

• Educate women of all ages about financial products, financial planning and saving:

- Encourage employers to offer meaningful and appropriate financial education programs and assistance.
- Government and foundations should act together to support community efforts of non-profit aging organizations to offer financial education, particularly those programs that target at-risk populations. WISER works with n4a, the National Association of Area Agencies on Aging as well as the National Council on Aging's Economic Security Initiative model that works well. We need to promote these programs that are successful on a larger scale. [19]
- We know Americans are not saving enough; now we need to direct more resources to getting them the information, tools, and services we know can help and that can make a real difference in their retirement savings.

CONCLUSION

Mr. Chairman, thank you for including women's retirement issues as part of the broader discussion on retirement savings adequacy. As we hope our testimony has pointed out, women are at a particularly high risk for poverty in retirement, and there are a series of policy options that can help greatly avoid this outcome. We need to make it easier for people and give them some level of confidence that they can do this or they just throw their hands in the air and say I will never have $2 million so what is the point. The point is that a little can go a long way and we know that women need confidence to build on their financial knowledge and make better decisions.

Finally, there is no single solution to these issues. We need to start understanding what the specific challenges are to certain segments and target those segments with a wide range of solutions from financial education, to guaranteed income product design, policy changes and other innovations. There are millions of workers who want to save and do not have access to any plan and do not know how to set up an IRA on their own—it is a very complicated process when you don't speak the financial jargon.

Most of all, we need to continue to build on what is working and make it better. While there are endless discussions in Washington about what the correct solution is, millions of Americans are just trying to achieve financial stability.

The CHAIRMAN. Thank you very much, Ms. Hounsell.

Now, Dr. Madrian.

STATEMENT OF BRIGITTE C. MADRIAN, AETNA PROFESSOR OF PUBLIC POLICY AND CORPORATE MANAGEMENT, HARVARD KENNEDY SCHOOL, CAMBRIDGE, MA

Ms. MADRIAN. Thank you for the opportunity to speak to you today and share my thoughts on how we can strengthen America's retirement savings system. I am Brigitte Madrian, the Aetna Pro-

[19] Economic Security Initiative Fact Sheet 2012, National Council on Aging.

fessor of Public Policy and Corporate Management at the Harvard University John F. Kennedy School of Government, and I have spent the last 15 years studying employer-sponsored savings plans and the types of policy interventions and plan design features that can improve savings outcomes.

There is much concern in both academic and policy circles about whether our current private defined contribution retirement savings system can adequately meet the retirement income needs of individuals. Although the current system has several shortcomings, there are several sensible steps that can be taken to improve outcomes for individuals without substantially increasing the costs or risks to employers.

My early research on automatic enrollment documented how small changes in plan design can have a large impact on savings outcomes. This research provided the impetus for the measures incorporated in the Pension Protection Act of 2006 that encourage employers to adopt automatic enrollment as part of their employer-sponsored savings plans. There are many other measures that can further strengthen the private defined contribution saving system in the United States. In my remarks, I will highlight four shortcomings of the current system and suggest potential avenues for change.

The first shortcoming of the current system is participation. Less than half of private-sector workers participate in an employer-sponsored retirement plan. Low participation is a particular problem for employees in small firms, many of which do not even offer a savings plan. Policy initiatives that encourage and facilitate the automatic savings of employees in small firms are a key step to improving outcomes in a defined contribution retirement system.

Two such proposals are the widely endorsed automatic IRA and the U.S. Senate HELP Committee's USA Retirement Funds. Both would create a simple and low-cost mechanism for small employers to make contributions to retirement savings accounts for their employees through a payroll deduction.

The second shortcoming of the current system is that those workers who do participate in a defined contribution retirement savings plan too often have contribution rates that are too low. Savings plans need to be structured to encourage higher participant contributions. Let me suggest three easy ways to do so.

No. 1, change the structure of the employer match. A typical savings plan employer match is 50 percent, up to 6 percent of pay. Such a match costs the employer 3 percent of pay for employees contributing 6 percent or more to the plan, and gives employees an incentive to save 6 percent of pay. Consider instead a match of 30 percent, up to 10 percent of pay. This would cost the employer 3 percent of pay for every employee contributing at or above 10 percent to the plan, but this match gives employees a financial incentive to save at least 10 percent of pay but at no increased cost to the employer.

No. 2, encourage employers to adopt a higher default contribution rate under automatic enrollment. The widespread adoption of automatic enrollment following the Pension Protection Act of 2006 has been a clear victory for public policy. But the typical default contribution rate is 3 percent, a rate that falls well short of what most need to save for retirement. Yet we know from extensive research that many employees will persist at the default. The solution is easy. Set a higher default contribution rate.

One concern is that a higher default contribution rate will encourage more employees to opt out of savings plan participation altogether. In my own research, I have found that few employees object to higher automatic enrollment default contribution rates of 5 or 6 percent in companies that match at least to that level.

No. 3, more aggressive automatic contribution escalation. Even though the Pension Protection Act automatic contribution increase baseline calls for a 1 percent increase in contribution rates each year, there is no reason that employers could not escalate employee contribution rates more quickly, say at 2 percent or even 3 percent a year. Research shows that few employees opt out of contribution escalation even with more aggressive annual increases.

Note that these three approaches to increasing employee contributions are not mutually exclusive, and indeed a combination of these approaches could be particularly powerful.

A third shortcoming of the current system is leakage. Many individuals take money out of their account before retirement for other purposes. This is a serious problem and one that has been largely under the radar screen. Recent studies by the GAO, the employees at the Federal Reserve and the IRS, and by the private company Hello Wallet, all estimate that there is a sizable amount of leakage from the retirement savings system most significantly due to pre-retirement cash distributions after employees change jobs. Moreover, survey results from Fidelity Investments and the Boston Research Group find that 55 percent of employees who have taken a pre-retirement cash distribution from their defined contribution savings plan later regret having done so.

The reality is that defined contribution savings plans are not used solely to fund retirement. For many, they serve as an all-purpose savings vehicle. Because of this, the recommended contribution rate to these accounts should reflect not only what is needed to successfully fund retirement but what will in all likelihood be withdrawn from the plan before retirement as well. This suggests that policy should either encourage contribution rates that are above those needed solely to fund retirement, or policy should limit the extent to which individuals can take pre-retirement distributions from these accounts.

A final shortcoming of the current system is that most employer savings plans do not offer employees an easy way to transform their retirement wealth into retirement income through an annuitization option. If retirees want an annuitized income stream, above and beyond Social Security, they are left to contend with the private market on their own, trying to evaluate a product with which they have little experience and whose purchase will consume a substantial fraction of their wealth. The end result is that annuitization rates are very low.

Employers provide several valuable services to their employees when it comes to the investment options in their savings plans. They evaluate the many available alternatives and select a few options that are best suited to their employees' needs, and they are able to offer employees lower-cost investment options than the employees would have access to individually through economies of scale. Having employers perform the same function for retirement income options would be a valuable service to many current and former employees, but employers currently have little incentive to do so.

Our defined contribution retirement system is not perfect, but there are several things we can do to make it substantively better. In conclusion, first we can increase coverage by creating an easy and low-cost mechanism for small employers to use so that employees at these firms can benefit from the ease of payroll deductions to fund their retirement savings account. Second, we can encourage employers to structure their savings plans in ways that promote higher employee contribution rates. Third, we can limit leakage from retirement savings plans. And fourth, we can encourage the adoption of in-plan annuity options. Thank you.

[The prepared statement of Ms. Madrian follows:]

PREPARED STATEMENT OF BRIGITTE C. MADRIAN

IMPROVING INDIVIDUAL RETIREMENT SAVINGS OUTCOMES IN DEFINED CONTRIBUTION SAVINGS PLANS

SUMMARY

There is much concern in both academic and policy circles about whether our current private defined contribution retirement savings system can adequately meet the retirement income needs of individuals. Although the current system has several shortcomings, there are sensible steps that can be taken to improve outcomes for individuals without increasing the costs or risks to employers.

1. Increase the Coverage of Employer-Sponsored Retirement Savings Plans. Policy initiatives that encourage and facilitate the automatic savings of employees in small firms are a key step to increasing participation and improving outcomes in a defined contribution retirement savings system. Two such proposals are the widely endorsed Automatic IRA and the U.S. Senate HELP committee's USA Retirement Funds. Both would create a simple and low-cost mechanism for small employers to make contributions to retirement savings accounts for their employees through payroll deduction.

2. Increase Employee Retirement Savings Contributions. There are three easy ways to increase employee retirement savings contributions. First, encourage employers to structure their match to reward higher employee contribution rates, e.g., with a match of 30 percent up to 10 percent of pay rather than 50 percent up to 6 percent of pay. The cost to the employer is the same for employees who contribute at or above the match threshold, but the former gives employees an incentive to save 10 percent, while the latter only gives them an incentive to save 6 percent. Second, encourage employers with automatic enrollment to adopt a higher automatic enrollment default contribution rate (e.g., a 6 percent default rather than a 3 percent default). Third, encourage employers to be more aggressive in using automatic contribution increases. These are not mutually exclusive options, and in fact are likely to be quite effective when used together.

3. Reduce the Impact of Leakage from the Retirement Savings System. Defined contribution savings plans are not used solely to fund retirement; for many, they serve as an all-purpose savings vehicle that is frequently tapped before retirement for other reasons. Policy should either encourage contribution rates that are above those needed solely to fund retirement, or policy should limit the extent to which individuals can take pre-retirement distributions from these accounts.

4. Turning Retirement Wealth into Retirement Income. A defined contribution retirement savings system should include mechanisms that make it easy for employees to convert at least some of their retirement wealth into a secure lifetime income stream.

There is much concern in both academic and policy circles about whether our current private defined contribution retirement savings system can adequately meet the retirement income needs of individuals. Although the current system has several shortcomings, there are sensible steps that can be taken to improve outcomes for individuals without increasing the costs or risks to employers.

INCREASING THE COVERAGE OF EMPLOYER-SPONSORED RETIREMENT SAVINGS PLANS

The first shortcoming of the current system is participation: less than half of private sector workers participate in an employer-sponsored retirement plan.[1] This is not such a big problem in medium and large firms. Most such firms offer a retirement savings plan and have been quick to adopt automatic enrollment so that participation rates are relatively high. It is a much bigger problem in small firms which are less likely to offer a retirement savings plan and, if they do, are much less likely to use automatic enrollment.

Policy initiatives that encourage and facilitate the automatic savings of employees in small firms are a key step to increasing participation and improving outcomes in a defined contribution retirement savings system. Two such proposals are the widely endorsed Automatic IRA and the U.S. Senate HELP committee's USA Retirement Funds.[2] Both would create a simple and low-cost mechanism for small employers to make contributions to retirement savings accounts for their employees through payroll deduction.

INCREASING EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS

The second shortcoming of the current system is that those workers who do participate in a defined contribution retirement savings plan too often have contribution rates that are too low. Savings plans need to be structured to encourage higher participant contributions. Let me suggest three easy ways to do so.

(1) In most defined contribution savings plans, employees designate their contributions as a percent of pay. In these plans, the contribution rates that employees choose tend to be either multiples of 5 (e.g., 5 percent, 10 percent or 15 percent), the rate that maxes out the employer match, or the maximum rate allowed by the plan. In most plans, the most popular contribution rate is the match threshold, the rate that maxes out the employer match. This makes the match threshold an important lever in determining how much employees save.

A typical savings plan employer match is 50 percent up to 6 percent of pay. Such a match costs the employer 3 percent of pay for every employee contributing at or above the 6 percent match threshold and gives employees a financial incentive to save at least 6 percent of pay.

Consider now a match of 30 percent up to 10 percent of pay. Such a match would cost the employer 3 percent of pay for every employee contributing at or above the 10 percent match threshold. This match gives employees a financial incentive to save at least 10 percent of pay but at no increased cost to the employer.

Encouraging employers to change the structure of their employer match to provide a financial incentive for employees to save more is an easy way to increase employee retirement savings plan contributions.

(2) Encourage employers to adopt a higher default contribution rate under automatic enrollment. The typical automatic enrollment default contribution rate is 3 percent. For most people, this falls well short of what they need to save to fund their retirement, yet we know from extensive research that many employees will persist at the default. The solution is easy—set a higher default contribution rate. One concern that employers voice about doing so is that a higher default contribution rate will encourage more employees to opt-out of savings plan participation altogether which would circumvent the primary goal of automatic enrollment which is high participation. In my own research, I have found that few employees object to higher automatic enrollment default contributions rates of 5 percent or 6 percent in companies that match at least to that level.

(3) More aggressive automatic contribution escalation. The Pension Protection Act of 2006 provides a non-discrimination testing safe harbor for plans that adopt automatic enrollment with a 3 percent default contribution rate in conjunction with automatic contribution escalation of 1 percent a year until employees are saving at

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[1] Alica Munnell (2012). "401(k) Plans in 2010: An Update from the SCF." Center for Retirement Research Working Paper Number 12–13 (July 2012). *http://crr.bc.edu/wp-content/uploads/2012/07/IB_12–13.pdf*, accessed January 29, 2013.

[2] See J. Mark Iwry and David John (2009), "Pursuing Universal Retirement Security through Automatic IRAs." Retirement Security Project Working Paper 2009–3, *http://www.brookings.edu//media/research/files/papers/2009/7/automatic%20ira%20iwry/07_automatic_ira_iwry.pdf*, accessed January 29 2013, and U.S. Senate Committee on Health, Education, Labor, and Pensions (2012), "The Retirement Crisis and a Plan to Solve It," *http://www.harkin.senate.gov/documents/pdf/5011b69191eb4.pdf*, accessed January 29, 2013.

least 6 percent of pay. A more aggressive approach would be an initial default of 5 percent or 6 percent of pay coupled with automatic contribution escalation of 1 percent a year until employees are saving 10 percent. If employees don't opt out of these defaults, the latter approach would generate 67 percent more in retirement wealth accumulation than the Pension Protection Act baseline. Even though the Pension Protection Act automatic contribution increase baseline calls for a 1 percent increase each year, there is no reason that employers could not escalate employee contributions more quickly, say, at 2 percent or even 3 percent a year, always allowing employees to opt out to a slower rate of escalation or none at all if a 2 percent of 3 percent increase seems beyond their reach. Research shows that few employees opt out of contribution escalation even with more aggressive annual increases, and this can be a very effective way to quickly move employees to a contribution rate that could reasonably be expected to meet their retirement income needs.

Note that the combination of these approaches could be particularly powerful. Suppose that a company adopted a match of 30 percent of contributions up to 10 percent of pay in combination with automatic enrollment with a default contribution rate of 6 percent along with automatic contribution increases of 2 percent a year up to 10 percent of pay. In their first 2 years on the job, new employees who persist at the default would move from saving 6 percent to 8 percent to 10 percent of their own pay; moreover, they would have a financial incentive through the employer match to want to reach a savings rate of at least 10 percent of pay; if you layer the employer match on top of this, their total savings, including the employer match, would increase from 7.8 percent to 10.4 percent to 13 percent of pay in their first 2 years. In contrast, an employee at a firm with a typical match of 50 percent up to 6 percent of pay and with automatic enrollment and automatic contribution increases that comply with the Pension Protection Act minimum standards would only reach a much lower maximum combined employee/employer contribution rate of 9 percent of pay after 3 years on the job.

REDUCING THE IMPACT OF LEAKAGE FROM THE RETIREMENT SAVINGS SYSTEM

A third shortcoming of the current system is leakage: many individuals take money out of their account before retirement for other purposes, and that money is subsequently not available to fund retirement. This is a serious problem and one that has largely been under the radar screen. Recent studies by the GAO, by employees at the Federal Reserve and the IRS, and by the private company Hello Wallet, all estimate that there is a sizable amount of leakage from the retirement savings system, most significantly due to pre-retirement cash distributions after employees change jobs. Moreover, survey results from Fidelity Investments and the Boston Research Group find that 55 percent of employees who have taken a pre-retirement cash distribution from their defined contribution savings plan later regret having done so.

The reality is that defined contribution savings plans are not used solely to fund retirement; for many, they serve as an all-purpose savings vehicle that is frequently tapped before retirement for other reasons. Because of this, the "recommended" contribution rate to these accounts should reflect not only what is needed to successfully fund retirement, but what will in all likelihood be withdrawn from the plan before retirement as well. Retirement savings calculators designed to help individuals determine how much they need to save for retirement will understate how much actually needs to be saved if the calculators don't account for the fact that some portion of the money that is contributed will in fact be withdrawn and unavailable at the time of retirement.

This suggests that policy should either encourage contribution rates that are above those needed solely to fund retirement, or policy should limit the extent to which individuals can take pre-retirement distributions from these accounts.

TURNING RETIREMENT WEALTH INTO RETIREMENT INCOME

A final shortcoming of the current system is that most employer savings plans do not offer employees an easy way to transform their retirement wealth into retirement income through an annuitization option. If retirees want an annuitized income stream, they are left to contend with the private market on their own, trying to evaluate a product with which they have little experience and whose purchase will consume a substantial fraction of their wealth. The end result is that annuitization rates are very low. Employers provide several valuable services to their employees which it comes to the investment options in their savings plans: they evaluate the many available alternatives and select the few options that are best suited to their employees' needs, and they are able to offer employees lower cost investment options than the employees would have access to individually through economies of scale.

Having employers perform the same function for retirement income options would be a valuable service to many current and former employees, but employers currently have little incentive to do so.

CONCLUSION

Our defined contribution retirement savings system is not perfect, but there are several things we can do to make it substantively better. First, we can increase coverage by creating an easy and low-cost mechanism for small employers to use so that employees at these firms can benefit from payroll deductions that go straight into a retirement savings account. Second, we can encourage employers to structure their savings plans in ways that promote higher employee contribution rates. Third, we can limit leakage from retirement savings plans. And fourth, we can encourage the adoption of in plan annuitization options.

The CHAIRMAN. Thank you, Dr. Madrian.

I'll start a round of 5-minute questions.

Dr. Madrian, I just want you to know that we are looking at the whole leakage problem, and this is something that I have become more and more aware of, and hopefully this committee will be looking at this shortly.

Let me just ask you, though, in this plan that we rolled out last year, this USA Retirement plan, a key open issue is what the contribution rate should be. Those who have been working and developing this plan thought about it not like a Social Security, where it's an even match between employer and employee. This is mostly on employees to put in a contribution with some very low threshold employer match, and then allowing an employer to raise that match if they want to as an employment incentive.

One employer might provide 1.5 percent, and another employer might say, "Well, if you come to work for me, we will do 2.5 percent." You could use that as an employment incentive for employers.

But have you ever thought about what, if we move ahead in this area, what should the contribution rate be when we default people into the plan?

Ms. MADRIAN. That's an excellent question, and I would encourage the committee to think not in terms of a single default contribution rate but perhaps differentiated alternatives. When Senator Alexander was talking about the small restaurant chain, my guess is that a lot of the employees working at companies like that are younger. They are teenagers. It's their first job. And for them a lower contribution rate might make sense, 3 percent of pay, 5 percent of pay. Whereas if you are looking at someone who is a bit older and this is their full-time job and they are going to be working there for a while, the appropriate default contribution rate for them might be substantially higher.

We know from investor psychology that individuals, when they think about saving, think in terms of round numbers, multiples of five, 5 percent of pay, 10 percent of pay, 15 percent of pay. I think those are benchmarks that individuals can easily get their hands around. It might be worth thinking about something lower, 5 percent for younger workers; something higher, maybe 10 percent, for older workers.

The CHAIRMAN. I understand, but keep in mind we are trying to make this as simple as possible.

[Laughter.]

Ms. MADRIAN. And I am a big fan of simplicity.

The CHAIRMAN. OK. I hear you. I understand that.

A question for you, and I will just ask everyone else here, we sometimes hear the argument that automatic enrollment doesn't really boost savings because people make up for the lost disposable income by reducing other forms of savings. Have any of you looked at whether or not automatic enrollment crowds out other forms of savings?

Ms. MADRIAN. I have been trying to do a study that would answer this question for years, and it's really hard to get the data to do that well. The little evidence that we have suggests that to the extent there is crowd out, it probably isn't that big. I have a former graduate student who has done some research on savings behavior by members of the military and the Thrift Savings Plan, and he finds that financial education programs that have substantially increased savings in the TSP have had no adverse impact, for example, on the amount of credit that military members have outstanding. He is finding no crowd out there.

There is a study by my colleagues John Friedman and Raj Chetty at Harvard looking at Denmark, where you can get much better data. The Scandinavians aren't so concerned about privacy. When they look at automatic savings programs, they find very little crowd out on other parts of the balance sheet either.

I think it is a legitimate concern, but I think most of the evidence out there suggests that certainly it's not a one-for-one offset.

The CHAIRMAN. Any other thoughts on the crowd out at all, Ms. McCarthy?

Ms. MCCARTHY. Yes. We don't have research to support it because I think the complexity of getting at that, what's happening outside the plan, is difficult. But I think what is really important on the automatic enrollment is recognition of the significant impact it has in getting participants actually into the plan.

Our enrollment rate, participation rate across our customers is 67 percent. With automatic enrollment, it is 88 percent. It is a very, very powerful distinction that in and of itself is so dramatic that it's hard for me to think it is creating a big distraction with other savings vehicles.

The CHAIRMAN. Ms. Hounsell, before my time is up, quickly, a lot of people who don't have traditional 40-hour-per-week jobs, part-time workers, temporary workers, caregivers, what do we need to do to make sure that people with non-traditional employment arrangements have access, easy access to a retirement plan?

Ms. HOUNSELL. I think we need options and opportunities for people to save at work. A lot of part-time workers are just not eligible for benefits, and it has been true—I don't know that that is ever going to change. I don't think requiring employers to do that—tax lawyers tell me all the ways you can fudge those rules. I just think we need ways for people wherever they work to save, and we don't have that for half the workforce.

The CHAIRMAN. OK. Again, that is something we are looking at in developing this USA Retirement Fund, make it simple, make it easy so that there is not a burden on employers for part-time employees or employees that come in and out of the system all the time, where the employer would not have a fiduciary responsibility, would not have to operate a plan or anything like that. Any other advice you have on that, please let us know.

Ms. HOUNSELL. We look forward to seeing the plan.

The CHAIRMAN. Senator Alexander.

Senator ALEXANDER. Mr. Chairman, since Senator Enzi has been working on this with you for a while, I would like for him to have the first questions.

The CHAIRMAN. Sure.

STATEMENT OF SENATOR ENZI

Senator ENZI. Thank you, Mr. Chairman, and thank you for working on this. It really is important. I want to thank the panel for their tremendous suggestions. Your testimony is just packed with ideas, and that has led to a lot of questions which are of a more technical nature than I will attempt while doing my questions.

I appreciate the emphasis on auto enrollment versus perhaps a mandate, and I appreciate the comments too about the schools needing to do financial literacy. I have looked at a number of schools to see what they are doing, and I am very disturbed that when they provide them with the money that they are going to learn to budget, they leave out the fact that their Social Security and Medicare are taken out and the possibility of any kind of savings that they might add to that. So I am hopeful that that will change.

For Dr. Madrian and Ms. McCarthy, have you done anything on the plans whether it would make a difference if the deferred amount was a 401(k) versus a Roth? Would that make a difference in this auto enrollment and contribution?

Ms. MADRIAN. The limited research that I have done on regular versus Roth savings accounts suggests that people behave very similarly in both types of savings plans, which suggests that the Roth option might actually lead to higher levels of long-run wealth accumulation because the taxes have been taken out on the front end.

But truthfully, we need much more research into that question.

Senator ENZI. Ms. McCarthy.

Ms. MCCARTHY. I would agree with that, Senator Enzi. It is a very good question. We haven't done extensive research. We are seeing powerful results with both the Roth IRA, the Roth plan and the ability that that provides for incremental savings coupled with auto, but I don't have distinctive research at this point.

Senator ENZI. OK. Well, I am hoping both stay in effect as possibilities.

One of the things I really am concerned about is the amount of regulation that we have and the possibility for liability when they are doing that. Those are the two things that small businessmen tell me are the things that keep them from going into this.

I am an accountant. I used to do the accounting for primarily 401(k), and then do the fairness testing, and that gets into whether the top executives are getting paid more and saving more versus the other people.

Do you have any suggestions for ways that the regulations could be made simpler perhaps for particularly small business? Mr. Moslander, I think you were relating to some of that.

Mr. MOSLANDER. Certainly, regulation is a difficult thing for employers to deal with, especially around fiduciary responsibility. I think one of the more creative and perhaps—it could have unintended positive consequences, lifting the fiduciary burden from the employer and putting it elsewhere. I think it might lead to portability possibilities that are difficult today for people to manage who change jobs. But the fiduciary responsibility, if we could somehow ease that, simplify it, even lift it from the employer, that would go a long way toward simplifying the ability of employers to provide for the plans, and also simplifying portability by participants. They might not cash out those benefits the way they do today when they terminate employment if it were easier for those benefits to be portable.

Senator ENZI. I really appreciate the portability.

Does anybody else want to comment on the regulations?

Ms. MCCARTHY. If I could just add, simplification is key in every aspect of this conversation from a regulatory perspective. Our experience shows that in smaller plans, as you are pointing out, their adoption is very often avoided as a result of the regulatory requirements. So I think look at safe harbors and how to simplify those, and look at the fiduciary responsibilities. The disclosures are often very onerous, and it all drives costs for the employer, which will cause them to step back and not offer the benefit.

Simplicity, there is a very real opportunity there, I think, without walking away from the importance of the goals looking to be achieved with the regulations.

Senator ENZI. Anyone else?

[No response.]

I also have a bill that would allow pooling of small businesses so they can have one administrator for a number of them. I mean, it is still individual accounts, and that's what allows the portability if they move to a different job, which improves the enhancement of this. Senator Kohl and I also have a bill that deals with some of the leakage problems so that people have an opportunity to put it back in, particularly if they leave one business.

My time has expired. I thank the Chair.

The CHAIRMAN. Thank you very much, Senator Enzi.

I'm sure I needn't tell you all this but Senator Enzi was chair of this committee and shepherded through the Pension Protection Act. He is one of our resident experts on this whole issue. I'm delighted to have him as a partner in this effort.

As you know, we recognize people in order of appearance here. So it will be Senator Warren, and then back to Senator Alexander, Senator Murphy, Senator Isakson, Senator Baldwin, Senator Burr, Senator Franken, and then Senator Casey, in that order.

I recognize Senator Warren.

STATEMENT OF SENATOR WARREN

Senator WARREN. Thank you very much, Mr. Chairman. I want to offer my thanks to the panel. Thank you very much, Ms. Hounsell, for the work you are doing in education, for all of you, the commitment that the companies have made in trying to educate clients, and the work you have done in research.

I read your testimony. I agree with Senator Enzi. It is full of good ideas, good thoughts, primarily based around how we might do better with employer-sponsored plans and pulling people in. I went through all of them, the notion of changing opt out, increasing the default amount, the pre-commitments to growth, and your very creative plan, Dr. Madrian, of changing how the employer calculates the incentive to get people to stay in.

But I also notice in your testimony that you all, to one extent or another, talk about incentivizing the employers or encouraging the employers. I notice the different verbs we use. I am mindful of Senator Alexander's point that, on the one hand, we could require the employers to participate. Senator Alexander says that this creates complications for small businesses.

So the question I really have is can you fill in that part of what you are talking about in your testimony? We don't have employees who will participate in these plans if we don't have employers who are offering these plans. How do we get more employers to offer these plans? What are the options available to us, and how effective will they be?

Ms. McCarthy, would you like to start?

Ms. MCCARTHY. Yes, thank you. I think it comes down to the discussion we had around simplification, because for smaller employers, one of the biggest inhibitors is the cost of administration and the fiduciary responsibility and complexity that goes along with administering the plans. If we can streamline some of the requirements and accountability of them, I think we would naturally have better adoption. Then when you get into the actual experience, there are ways to offer very simple plans that reduce the administrative costs as well.

Senator WARREN. Dr. Madrian.

Ms. MADRIAN. Yes, let me completely agree with that. I think there needs to be a very simple option for employers that needs to have no regulatory requirements, very minimal regulatory requirements, limited fiduciary responsibility, something simple and straightforward. Then to the extent that you can piggyback that with something else that employers are already doing so it doesn't add an administrative burden, that would also help.

For example, if small employers are filing their tax payments on behalf of their employees quarterly, couple the contributions to the savings plan with what they are already doing to pay their quarterly taxes instead of instituting another regulatory requirement that they need to do these contributions in some other way, shape, or form at some other point in time. Anything to minimize the administrative burden and the regulatory burden will be extremely helpful.

You could also think about providing a modest tax incentive to companies if they offer savings plans, or if you offer the savings plan, we will give you a break on your employer taxes.

Senator WARREN. Very valuable.

Mr. Moslander.

Mr. MOSLANDER. I would agree with everything that Julia and Brigitte said. The art of regulation, if you would, I think is important. Out of the Pension Protection Act, I just saw the auditing and reporting requirements, which are probably very good things. But we also added fee disclosure which, at the plan sponsor level, was malleable, at the participant level was the opposite of that. We all spent a lot of money and a lot of time and a lot of energy to mail out and send out fee disclosure information to participants who, in the first place, are minimally engaged in the plan. They are not going to be interested in the expense ratio of every fund that is offered under that plan.

That was the kind of regulation well intended, but in the end it really didn't have the impact that it was designed to have. Trying to manage necessary regulation, regulation that is really not going to have a big impact, just echoing what Julia and Brigitte said, is an important part.

Senator WARREN. Ms. Hounsell, is this going to get us there, by making the plans simpler?

Ms. HOUNSELL. I think so. I think it will make a big difference for people.

Senator WARREN. Very valuable. Thank you very much. I appreciate it.

The CHAIRMAN. Senator Alexander.

Senator ALEXANDER. I would like to continue with Senator Warren's line of questioning because I think it is very, very helpful. I remember, when I ran for office to be the Governor of Tennessee, I walked across the State many years ago. When I was out there with nobody to talk to but cows that were along the road, I was thinking that if I got elected, what if I could make a tax form or some sort of list that I could hand to somebody who wanted to start a business and say, from the State's point of view, this is everything we care about. These are all the taxes, all the regulations, all the rules, a complete list of them. If you do all these things, you don't have to worry about the State anymore. Of course, when I got into office, I never was able to do that.

Simplicity I think is pretty big here. We have seen that a law that was passed a few years ago taught us some things about the value of a default position—about auto enrollment, about automatic escalations, and we know that financial literacy is not at a high level among a lot of us. These things can get very confusing. We don't want to take anyone's freedom away to make his or her own decision about this, but the automatic enrollment or automatic changes or default positions that better reflect the reality of what an individual needs to be saving seems to me to be one very promising further step we could take. We could use your advice about what that one step should be.

I am very intrigued by this simple form, because that is exactly what I am thinking is needed, and I wonder what would happen if I invited you to write it for us and submit it to us. I mean, let's say you are about to go into business and you are looking at what you need to do. Dr. Madrian, this is what you do. You study all this stuff. You have done it for 20 years. You know what's going on better than we do. Why don't you write for us a simple plan that we could put into law? So if I'm starting a business or I have a small business, I am already paying my FICA taxes, paying the minimum wage, I'm worried about the healthcare law, and somebody says to me, “Why don’t you do something about retirement?” I’m going to say, I might not make any money this year.

But if it’s so simple that I could do it and it was good for my employees and good to do, maybe we could make it a pilot program. We don’t have to do it for everybody in the whole country at once. We could take a simple plan and start a pilot program.

So I would invite each of you, if you would like to, to submit to me, or to us, your idea of a simple plan. Submit anything you can think of to get free of burdensome regulation and still make it responsible and that would encourage an enterprise to offer a voluntary plan that would promote the savings levels that you think are appropriate.

Now, I would like to ask one question about that. If you were to create a simple plan, would you do it for any business, or would you do it for a small business? And if so, how would you define the enterprise that you would do such a thing for? Does anyone have a response?

Ms. MADRIAN. I’ll start out by saying I’m going to go back to my class next Monday and I’m going to give them your challenge, and we’ll see what they can come up with.

Senator ALEXANDER. I’m quite serious. They are likely to come up——

Ms. MADRIAN. They are likely to come up with some excellent ideas.

Senator ALEXANDER. Give them the idea of, say, look, you’re going into business and you’ve got a lot of other things to do. How would you do this? That would be very helpful to us.

Ms. MADRIAN. Last year the CFPB held some sort of a competition—Senator Warren would know better about this—to redesign the mortgage disclosure forms, enlist the great thinkers in society interested in——

Senator ALEXANDER. If the Consumer Financial Protection Bureau would actually do that, it would double my—it would increase my appreciation of the agency.

[Laughter.]

Which is not very high right now.

[Laughter.]

But the mortgage disclosure form is a good example of what we are talking about. All of these regulations are well-intended. I mean, we don’t sit up here and say we want to do something bad to somebody. We all have good ideas, but they pile up, and then when you’re down here getting a loan, anybody who gets a mortgage loan knows it’s absurd. Nobody reads it. Nobody can read it or understand it. You really have less disclosure because of more regulation.

So rather than complain about the regulation, let’s just start from scratch and say what could we do. Let’s followup Senator Warren’s comments, and mine, and that of others here. All of you seem to think simplicity makes a big difference, and I’m sure that’s true.

Any comments on any of that by any of you?

Ms. MCCARTHY. Thank you for the opportunity. We look forward to it. We have a lot of good ideas. We will bring them forth.

The CHAIRMAN. Thank you very much, Senator Alexander.

And now Senator Murphy.

STATEMENT OF SENATOR MURPHY

Senator MURPHY. Thank you very much, Mr. Chairman. What an important hearing. Just one quick thought, and then one or two questions.

To my mind, the most important barrier to savings is not simplicity or regulation. It's stagnant wages. The fact is that the average worker is making 4 percent less in real wages than they were in 1970. They haven't had any gains since 2005. Meanwhile, all sorts of other costs are going up. Healthcare went from 8 percent of your budget to 18 percent of your budget in the last 40 years. It's tough to save if you don't make any more than you did 10 or 20 years ago.

I know we are not going to tackle that in the context of a bill on pensions, but I just think it's worth noting that if Congress doesn't tackle the issue of stagnant wages, there's not a lot we can do around the edges to try to make money appear out of nowhere.

That being said, younger generations today still think they are living in their parents' world. I mean, they still think that if they go to work, that they're just going to end up getting taken care of. They probably rely too much on Medicare and Social Security, but I think they also just don't understand how much the obligation has now shifted to them.

Mr. Moslander, I was really glad that you brought up the Lifetime Income Disclosure Act. This is a bill that Senator Isakson and Senator Bingaman supported. I'm hopeful to join you, Senator, this session in reintroducing it. But I just wanted to ask you to followup on your support for that piece of legislation, because this is a pretty innovative idea to just sort of put right in front of workers, especially younger workers, what the true annuity benefit of their savings is.

I guess I will ask a devil's advocate question about a bill that I support. But given that these forms sort of come to you with lots of information already, and a lot of workers don't pay too much attention to them in the first place, what do we think the confidence is that adding another number, which will be a pretty startling number, the amount of money you are actually going to get if you continue on your current savings trajectory, what kind of confidence do we have that that might actually change people's savings patterns?

Mr. MOSLANDER. A couple of things. I'm not sure that young people are as confident that they're going to be "taken care of." I think there is some skepticism among young people about the viability and what there will be in Social Security and the like for them by the time they get older. I think there is some research that shows that younger people are a little bit more inclined to consider saving for retirement.

At TIAA–CREF, for years and years and years, even before there were quarterly statement requirements, we sent people a projection, a statement at the end of each year that projected their income, and it wasn't important that they looked at it every year. It was important that they got it every year. And over time, we believe that presenting them with that income figure, as opposed to just an accumulation figure, created a mindset toward lifetime retirement income security.

One of the reasons we believe we have seen a lot more annuitization in the higher education market than you see in the profit-making sector, part of it is the products that are used in that marketplace, but it is also, we believe, because we presented this, and the employers have reinforced the fact that the plan is for retirement income, and this was a reinforcing mechanism as a mindset issue more than as an actual—it does help people save more, but it also gets them in the mode of thinking this is not something I cash out when I'm done. This is something that I receive income from.

Senator MURPHY. And one additional question to build on this line of conversation around simplicity. I think it's incredibly important, and we have sort of been talking about it with respect to simplicity as it relates to employers. Maybe I will direct this to Professor Madrian.

What about the barriers to savings from an employee perspective? I mean, it's dizzying the verbiage surrounding retirement savings today. What do we know about the barriers presented to people who want to put money away when they are confronted with this absolute multitude of words and phrases and vehicles that are available to them?

Ms. MADRIAN. Yes, the alphabet soup of retirement savings plan options in the United States. You should have come to my class yesterday. This is exactly what we talked about.

I think the big challenge is not so much that people don't want to save, but they don't know how to do it. It's a combination of a lot of people don't have really high levels of financial literacy. They are not comfortable with choosing. At Harvard University, up until a year and a half ago, we had 259 different investment options. That's a lot of choices to sort through if you're trying to decide how to invest your money.

I think that's the key reason why automatic enrollment is so successful. Automatic enrollment is the extreme form of simplification. You don't have to do anything if you want to be saving. In fact, the action needs to be taken by individuals who don't want to save. They are the ones who have to opt out of the plan.

The fact that when opt out happens, it happens immediately. It's not like people discover a year later that my employer is taking money out of my paycheck, I didn't want that to happen, I want to opt out. That, to me, is indicative of a strong desire for most people to save, and the simplification is really key. Even in plans without automatic enrollment, we found that if you provide a simplified option to sign up for the plan, think of a postcard that has a box on it that you can check and we'll enroll you in the savings plan, and we've picked an investment allocation for you, even initiatives like that can substantially increase savings plan participation.

I think the simplification is key for both the employee and the employer.

Senator MURPHY. Thank you.

Senator ALEXANDER [presiding]. Senator Isakson.

STATEMENT OF SENATOR ISAKSON

Senator ISAKSON. Thank you, Senator Alexander. I want to memorialize here publicly, in front of everybody, including those on television, that, Senator Murphy, I'm delighted to accept you as the replacement for Jeff Bingaman as the lead co-sponsor of the act.

Senator MURPHY. Looking forward to it.

Senator ISAKSON. And I appreciate the plug very much.

I appreciate the comments of Mr. Moslander regarding the drawdown phase, because we are always talking about the accumulation phase and beginning the process, but taking the money out the wrong way can leave people without any retirement while they're still alive, and I think it's very important that we focus on that education.

Ms. McCarthy, I want to ask you a question. I think you said in your testimony that participants who seek guidance take action and have better outcomes. Is that correct?

Ms. MCCARTHY. Absolutely correct.

Senator ISAKSON. The Department of Labor the last 2 years, and I understand continuing this year, is trying very much to change the definition of the term "fiduciary." Would you give me your opinion on if that change takes place, what effect that would have on people getting education in terms of retirement savings?

Ms. MCCARTHY. Yes. Thank you for the opportunity to talk about it. I fear that it would have a very dramatic effect on sponsors or partners, vendors, recordkeepers' ability to provide guidance to participants. We've done a tremendous amount of research amongst the participants that we service to understand what drives their behavior enrolling in the plan, not enrolling in the plan—and one of the key dynamics is, again, simplicity, as we've been talking about; auto enroll has been dramatic; but simply not knowing what to do.

When we think about guidance, guidance really boils down to help. It's as simple as that. The prospect of not allowing providers to help participants engage in their plan will, I have confidence, have a dramatic impact on this issue we're talking about today, and it won't be advantageous.

Senator ISAKSON. I appreciate your testimony very much, because I feel exactly the same way. I think education and transparency is invaluable in people making the right decision for themselves. Every time we put a barrier between them getting that good information, we're causing bad things to happen. That's not the intent, but that's the result.

And that brings me to Ms. Hounsell's commentary, particularly about women, second-career women, divorce and things of that nature. I ran a company for 22 years where all my workers, all my salespeople were independent contractors, and I had 1,000 of them, and almost all of them were second-career women, divorced women or women over 50 years old who came back to have a career in real estate out of some life-driven necessity. Most of them had not saved or did not have a husband who had saved and were not prepared for retirement when it might come, which would be in 10 to 15 years.

But because I used independent contractors as salespeople in my organization, the IRS prohibition against me providing any information or any help in savings made it impossible for me to help them, which brings me to the point of the fiduciary and everything else. We probably need a one-page list of all the things that we do up here that are negative toward people starting their retirement savings either in the tax code and IRS rules and regulations or what the Department of Labor might do.

Those are not the intended consequences, but they are the consequences. They were with me. I finally—and I don't know if it's still true. The independent contractor test used to be a 10-point test at IRS, one of which was you could not provide information, vehicles, or anything else. You could direct them to an IRA set, but somebody else had to be the administrator and advisor.

Could you do that for us? With the people you deal with and the trials and tribulations you have with people having access to that, would you give us a list of all those things that we require that, in the end, are negative toward formation of capital savings and retirement?

Ms. HOUNSELL. I would be happy to do that, but I can't do that off the top of my head now.

Senator ISAKSON. I know that, but you're very experienced with exactly the type of people we're concerned about.

Ms. HOUNSELL. I think what you're saying is that you actually directed people toward some kind of a retirement plan, but you weren't supposed to.

Senator ISAKSON. No, I didn't know.

[Laughter.]

Ms. HOUNSELL. You didn't know. OK.

Senator ISAKSON. I could not direct them to a plan. I could advise them they ought to seek information, but I couldn't give them the direction or anything else. I just would tell them, "You really ought to go take care of this." They'd say, "Can you help me?" I'd say, "I can't."

Ms. HOUNSELL. Right, and that's often what helps people get retirement income, because somebody will direct them to what they should be doing, especially if they don't have auto enrollment.

Senator ISAKSON. The reason I mentioned it, Senator Harkin made the statement about non-traditional—I think he called them "non-traditional employees." With the Affordable Care Act and some of the other things that are happening, there are going to be more independent contractors as workers in this country, I think, and more part-time workers in this country, and it's going to be more and more difficult with some of the prohibitions that are in the law now, and regulation, for them to get the right type of information.

I thank all of you for your testimony.

Ms. HOUNSELL. I think that's important.

Senator ALEXANDER. Senator Baldwin.

STATEMENT OF SENATOR BALDWIN

Senator BALDWIN. Thank you. I want to also thank the Chairman and Ranking Member for holding this important hearing, and our witnesses for testifying.

I'm deeply concerned about some of the statistics from my home State of Wisconsin, the number of citizens who rely solely on Social Security as a source of income once they retire. Figures shared by AARP suggest that 28 percent of Wisconsinites who receive Social Security have reported that this benefit is their only income, and two out of three Wisconsinites age 65 or older reported that Social Security makes up more than half of their monthly income. So the figures and trends are certainly troubling.

I also appreciate my colleague, Senator Murphy, for talking about some of the issues that we're not grappling with here today, stagnant wages, ET cetera, as we look at the health of our middle class. I just think about the hallmarks of middle-class status, and one of them in my mind is retirement security. Of course, we're discussing the fact that that's in jeopardy for some.

Ms. Hounsell, I appreciate your testimony. This is the week in which we celebrate the fourth anniversary of the signing of the Lilly Ledbetter Act into law, and we're hopeful that that Act, along with future legislation that we're working on, will begin to decrease the wage gap that exists between men and women. But until that happens, obviously, it's clear that women earn less, and therefore that affects the capability of saving for retirement.

A report by the Joint Economic Committee released this week, chaired by our colleague on this committee, Senator Casey, states that for women over 65 years of age, Social Security accounts for two-thirds of their total income, while for men over the age of 65 it's roughly 54 percent. In your written testimony, you reference the importance of the National Education and Resource Center on Women and Retirement Planning in educating women on how to plan for retirement. It's a program funded by the Administration on Aging.

It's my understanding that if sequestration proceeds, the Administration on Aging would see a decrease in its discretionary budget of about $121 million in 2013 alone. So I wonder if you can discuss generally the importance of this program in promoting retirement savings and whether you believe or have heard that sequestration would have an impact on the initiative.

Ms. HOUNSELL. Yes, it will have an impact on all of the programs that are at the Administration on Aging, and a lot of these programs are minimally funded but have such a big reach. The way we've actually operated the Center was to train trainers all over the country, and we've actually worked with the Wider Opportunities for Women and a number of people in Wisconsin. Wider Opportunities just came out with their report last week. I don't know if you saw that. What it does is it sort of shows what people over 65 need to live on in various States and cities. I don't remember Wisconsin, but I know that for single women it's anywhere from $19,000 to $29,000. That's just minimal, just rent, heat, all of those things that are absolutely necessary.

I work with a lot of organizations, and everyone will say, we need one-on-one, especially for the Latina groups. We need one-on-one for everyone, really. That's what everybody wants, and you sort of know that from your research as well.

I think what's really important is senior centers, places where people can actually come for help. FINRA's got this great project on libraries, and there aren't that many of them. I think there are about 25 they have funded. I've been to a number of them, doing programs with them. They're incredible.

There are ways that we could do this, but there's no coordination, no reach nationally, except for these little programs. The National Council on Aging does a great initiative as well.

I don't know what will happen after sequestration.

Senator BALDWIN. Thank you.

Senator ALEXANDER. Senator Franken.

STATEMENT OF SENATOR FRANKEN

Senator FRANKEN. Thank you. This topic brings up so many subjects about what is happening to the workforce, what kind of jobs people are going to do, what kind of companies people are going to have in the future. We're changing, and people are going to have a lot more different jobs as we go into the future. It's long past where you had the same job for your entire career.

That's an issue that I wonder about—not only do people change jobs, but companies exist for sometimes shorter times. What is the effect of that? What is the effect of people maybe having 20 jobs in their career, or 30 jobs in their career, going from one thing to another, and what happens when the place where you have your pension goes out of business? Anybody can speak to that.

Ms. HOUNSELL. I can speak to that for a minute because it happened to me. I have a frozen benefit at the PBGC. I worked for a company for 16 years, and there went the DB plan. At some point it was frozen, then went to the PBGC. So what you do is people are going to have to cull together many of these different benefits wherever they go and look for them.

Senator FRANKEN. I imagine your benefit under the Pension Benefit Guarantee Corporation is going to be a lot less than you had expected.

Ms. HOUNSELL. Yes. It was frozen for 25 years, so it's a lot less.

Ms. MADRIAN. I think Julia can probably talk best about what happens from the plan administration standpoint. What I'd like to point out is, I think the fact that people are changing jobs so often really highlights the importance of getting employers to set higher default contribution rates and to address the problems of leakage, because those are both issues that are really tied to job changing.

If you think of a system where companies have automatic enrollment and they enroll you at a low contribution rate that escalates over time, and you're changing jobs every year, you're always getting re-started at a low contribution rate and you never get up to a high enough contribution rate to really set aside money for retirement. That's a key reason why we need a higher default contribution rate with automatic enrollment.

And then we know that a lot of the leakage from the system is generated when people change jobs and suddenly they're presented with this option to leave the money in the plan, to roll it over to another plan or, a-ha, I can take the money out and do something with it today, and that's when the leakage is occurring.

We need to think about ways to discourage employees from doing that, and to the extent some of them may need money because they're unemployed, to limit the extent to which they're taking money out of the plan. Really important.

Senator FRANKEN. I know you want to speak, Ms. McCarthy. I just want to put a bookmark in my head here, because that all goes to financial literacy. But, go ahead.

Ms. MCCARTHY. Yes, it absolutely does. I agree with everything Brigitte is saying. It does come back to financial literacy and education on the implication of compounding. There are a number of different studies out there that talk about how long these next generations will stay in their roles, ranging from 10 years to 20 years, as you said—very, very different than the environment that we've grown up in.

Portability is incredibly important. The ability to take your benefit and consolidate it, roll it together, so when you start to think about retirement projections, you really have a comprehensive view of what you've accumulated and you continue to build on that.

We have a study that shows participants age 20 to 24, 51 percent of them don't engage in the plan at all. There's a portion that just simply aren't engaging. Forty-four percent of this population cash out. That's the problem. If you're autoing them at 30, at 3 percent, maybe they get to 4 percent, you cash them out, they go on to the next company, they will never accumulate retirement wealth.

Senator FRANKEN. Thank you. I want to just touch base on a couple of things.

On financial literacy, we're also the Education Committee. We're the Health Committee, we're the Labor Committee, and we're the Pension Committee. We need to have financial literacy taught in our schools. Was it Senator Enzi who gave you a big assignment? I would have another set of your students work on a math curriculum that uses all the issues in retirement to teach math, but also teach financial literacy at the same time, because I remember we used to have shop and home ec, and home ec is home economics. So that is the place. There is a place for us to teach, to have kids understand the world that they're going into so they don't get in trouble with credit cards, so they don't buy a house with a bad contract, so that it takes some of the pressure off the CFPB.

[Laughter.]

The other thing I want to mention is annuities. I was on the Special Committee on Aging, and I heard something that shocked me, and then I guess in retrospect it isn't that shocking, that people actually, when asked how long do they think they're going to live, underestimate it. So we need to get people into annuities. We need to do that so that they don't outlive their savings.

Thank you.

Senator ALEXANDER. Thanks, Senator Franken.

I want to thank the four witnesses. This has been very, very helpful.

We'd like to leave the record open for 10 days. Senator Harkin had to step out, so I'm going to conclude the hearing, but several of us may have followup questions that we'd like to ask you. If you would be kind enough to respond to them, I think you can tell from the level of interest in your comments that we'll surely pay close attention. You've gotten two big assignments here.

This is encouraging to me because the legislation that passed in 2006 seems to have had some good effects, and we've gotten some good information about ways to meet Senator Harkin's goal, which is to narrow the gap between what Americans ought to be saving for retirement and what they do save for retirement.

From my own point of view, it seems to me that a good deal more work needs to be done on complexity, legalese, and liability. This is a committee where we supposedly have very different ideological views, but I think you've heard some common suggestion here that rather than taking off regulations, we might try a model that starts from scratch with the objective of making it easier for business enterprises to offer retirement plans. We have a changing country where apparently more Americans are going to be independent contractors, not full-time employees, or maybe be part-time employees—how do we make it easier for employers of any kind to offer retirement savings and to do it in a way that closes the gap that Senator Harkin called this hearing about?

I thank you very much for coming, I look forward to hearing back from you, and I suspect you'll be hearing from several of us with specific questions.

The hearing is adjourned.

[Additional material follows.]

ADDITIONAL MATERIAL

RESPONSE TO QUESTIONS OF SENATOR HARKIN AND SENATOR ENZI BY EDWARD MOSLANDER

SENATOR HARKIN

Question 1. One of the features of the defined contribution system is that it places investment risk on families rather than employers. Investing is complicated and most people don't have the time or the knowledge to constantly monitor and adjust their portfolios. There has been a lot of work done to make investments simpler, for example, with target date funds. Is there more we can do to improve the investments available and make them more effective?

Answer 1. One potential area of improvement lies within the Qualified Default Investment Alternative (QDIA) regulations. While we believe the Department of Labor's (DOL) current QDIA rules allowing for the use of target date funds as a default investment in retirement plans is a significant improvement from the previous rules, there are steps Congress and/or the DOL should take to improve the default investments available to plan participants. We believe the focus of the final 2007 QDIA rules on liquidity and market value may have unintended consequences. The ability to withdrawal accumulated balances in a lump sum when an individual terminates service from an employer is a difficult temptation to resist for many. The results of these actions over an individual's career could result in insufficient balances in his or her defined contribution plans, which consequently could place more stress on public entitlement programs. Additionally, these withdrawals can create an excess tax burden on employees who would be subject to penalty taxes for taking the cash today as opposed to waiting for distributions at normal retirement age.

We ask that the QDIA rules be improved by allowing plans to offer guaranteed products as part of the QDIA. Guaranteed products protect investors on the downside, while also offering them a lifetime stream of income when it is time to begin drawing down the plan balances. Allowing for the inclusion of guaranteed vehicles within retirement plans that provide for lifetime income and not just a mark-to-market, cash payout at termination, is an effective way to allow plan participants to accumulate assets and plan for their eventual income stream. It also helps change the framing of defined contribution plans from wealth creating investments to vehicles whose end goal is to pay out benefits for as long as an employee lives in retirement.

Question 2. One of the concerns I have heard about matching contributions is that lower income workers are at a disadvantage because they frequently can't take full advantage of the match. Do you have any thoughts about how to make sure that low-income workers are being treated fairly with respect to company matches?

Answer 2. We fully support reforms that strengthen retirement security for workers throughout the income distribution and for lower income workers in particular. Over the past decade, regulations that have encouraged employers to adopt provisions, such as automatic enrollment, default contribution rates and an automatic escalation of those contribution rates, have helped increase the retirement security prospects of many lower income workers. In addition, existing non-discrimination rules help ensure that these benefits are distributed across the income distribution. Unfortunately, too many low-income workers with access to employer-based retirement plans do not take full advantage of the savings incentives. For these workers, we recommend the consideration of regulatory and legislative reforms that would encourage employers to adopt plan designs that place greater emphasis on employer non-elective contributions as the primary source of contributions for lower income workers.

SENATOR ENZI

Question 1. Haven't we made financial disclosures too complex? How can we make financial literacy more interactive? With smartphones and tablets increasing exponentially, how can we utilize these tools for workers to let them know how much they need to save for retirement?

Answer 1. Regarding the complexity of financial information and efforts to make a more financially astute, informed and retirement-ready American public, there are several challenges one should consider. For example, there are varying opinions about how much money workers need to save for retirement. It is difficult to create a financially literate populace that wants to save for its future if you cannot tell individuals what "success" actually looks like for them. That said, there is a consensus that workers should look to replace somewhere between 70 and 90 percent of their pre-retirement income. This number can vary depending on the lifestyle the person desires in retirement, the expenses they will have and their debt load, particularly the existence or absence of a mortgage.

Once an individual decides on a percentage that would keep him or her relatively comfortable in retirement, an ideal interactive tool would be one that measures progress toward that goal based on one's age over his or her working career. For instance, most financial advisors agree that saving somewhere between 10 to 15 percent of one's salary each year, including any employer match that may be received, is going to keep most people on track toward a successful retirement.

With respect to today's interactive planning tools, there are opportunities to make these more effective. One shortcoming is a general inability to account fully for what retirement will look like for a specific individual. A truly effective financial planning tool should be able to look at any given worker's annual income and make projections on how much Social Security income he or she will receive in retirement, project other income sources such as annuity payments, calculate the future value of money, make inflation and interest projections, and account for long-term debt (such as a mortgage).

Another factor is healthcare. For most people, healthcare is the single largest expense they will have in retirement, but effectively projecting and communicating these costs is difficult. Integrated mobile tools would be well-suited to project for workers what their healthcare costs might be, perhaps by providing examples of healthcare costs for people in similar physical condition and offering projections of the future costs of those services based on standard cost inflation.

A further aspect of creating a technology-informed, financially literate and retirement-ready population can be gleaned by learning from the teachers who make up the core of TIAA–CREF's participant base and have a unique perspective on the value of lifetime income products. TIAA–CREF offers teachers lifetime income products (*i.e.*, annuities) in nearly all its retirement plans. Individuals who invest in guaranteed lifetime income products tend to have a much stronger sense of financial security and are more confident they are on track to reach their retirement goals than those who do not. The reason is these people know that even if things go awry in retirement, which they sometimes do, they will have a steady stream of income that will cover basic living expenses no matter how long they live. We feel that lifetime income products are a key element in the success of any retirement plan, yet we see an American public that is, for the most part, not familiar with the value of these products and how critical they can be to a well-rounded retirement portfolio. Financial education should focus far more in this area.

People are hungry for information—both technology-driven and from well-informed personal advisors. The more tools people have to help them project what their future will really look like based on the actions they take every day, the more likely they are to rely on those tools to build their future. Perhaps, in the future, we will be able to compile all the data needed to build an online financial tool capable of providing feedback on all the factors discussed above, but that day is not quite here yet. In the meantime, people should seek assistance from qualified, low-cost financial advisors who can help them build their future by providing objective advice not only on how much to save and where to invest, but on how to evaluate lifetime income products, make intelligent healthcare choices and understand how all these factors work together to paint a successful picture of retirement. TIAA–CREF offers this type of advice through its financial advisors and is working toward migrating many of its online calculators to the mobile space so they are accessible to our clients across multiple platforms. Our clients also leverage these tools as well as a number of financial literacy tools we offer to educate their employee base.

Question 2. Small businesses with low profit margins are already overburdened by the day-to-day obligations of running a small business. How can we give small businesses greater access to the 401(k) system when they do not have the extra money to spend? In addition, how can we provide small business owners with greater access to financial literacy tools at a low cost?

Answer 2. For many years, TIAA–CREF has provided thousands of very small plans with access to our high quality retirement products. As a mission-driven organization itself, TIAA–CREF has established partnerships with small colleges, independent schools, libraries, foundations and other types of institutions to support their respective missions by providing low-cost retirement services to their dedicated employees.

With recent changes in industry regulations, including increased focus on individual plan pricing, continuing to service these clients in a cost-effective manner is a great challenge. However, we remain committed to all of our institutional clients and their participants and therefore have continuously sought out ways to make plan administration more affordable. Over the last several years, we have invested resources into streamlining the administration of these plans and improving their overall economics. Some of these efficiencies include the reduction of paper enrollments by more than 57 percent since 2009 and an almost full elimination of remittances via paper statements and checks. To assist plan sponsors with their ability to cover administration and other eligible expenses, we have also provided access to a new generation of institutionally owned contracts that allow for plan-level wrap fees that contribute to plan revenue. With the work we have already done and other enhancements we are planning, we are confident we will be able continue improving their respective plan financials and remain their provider of choice.

In addition to these improvements, we have also developed a new client offer for eligible small businesses that meet some basic financial requirements. At a high level, such businesses need to have $2 million in mappable assets or at least $250,000 in annual remittance. This offer leverages institutionally owned contracts and provides access to an extensive list of non-proprietary and proprietary investment options.

Beyond 401(k) and 403(b) offerings, TIAA–CREF supports small businesses by offering custodial services through individual retirement account (IRA) offerings. Specifically, TIAA–CREF has offered the Simplified Employee Pension (SEP) IRA since 2005. In addition, TIAA–CREF in 2013 began offering the Savings Incentive Match Plan for Employees (SIMPLE) IRA. SIMPLE and SEP IRAs are available to business owners to provide retirement benefits for the business owners and their employees and offer simplified and less costly administration. Further, employees of businesses that adopt SIMPLE or SEP IRAs with TIAA–CREF have access to the tools, advise and planning services, and financial information offered by TIAA–CREF.

Finally, another potential means of making plan administration more affordable for small (and large) employers is to modernize and simplify regulations related to providing electronic disclosure of documents to plan participants. Current regulations make it difficult for plans to provide their participants with disclosures via e-mail or online and rather encourage the continued use of paper as the preferred means of disclosure. We encourage the DOL to modernize its electronic delivery guidance to largely permit electronic delivery as the default method of delivery, subject to certain safeguards to preserve each participant's right to request to receive paper delivery of any required disclosure materials at any time without charge. A default e-delivery standard will benefit both plan sponsors and plan participants through reduced expense and more timely and effective access to plan materials.

Question 3. In the 112th Congress, Senator Kohl and I introduced the Savings Enhancement by Alleviating Leakage in 401(k) Savings Act of 2011, or the SEAL 401(k) Savings Act. The SEAL 401(k) Savings Act is a bipartisan effort to reduce leakage and increase savings. The Act bans certain products that actively encourage participants to tap into their savings, often accruing large fees in the process. Can you explain how studies have shown that leakage from retirement plans can significantly reduce worker's retirement savings and the amount of money they will have when they retire?

Answer 3. TIAA–CREF understands the concerns about retirement plan leakage and supports efforts to enhance existing provisions affecting retirement plan loans and distributions. The SEAL 401(k) Savings Act was a positive step in the direction of addressing such concerns and helping increase retirement security for plan participants. While there are measures in place to discourage individuals from taking premature distributions from their retirement savings, events do arise where an individual finds it necessary to tap into his or her savings prior to normal retirement age. Fortunately, many plans do offer their participants the flexibility to access some of their savings through plan loans and/or hardship distributions.

Plan loans allow participants to borrow against their savings and then payback the loan over a specified period (generally 5 years). When participants take a loan, they avoid the income taxes and potential tax penalties that apply to early withdrawals retirement accounts as long as the loan is paid back within the defined term. If the terms of the loan are not met and a participant fails to pay the loan back in a timely manner, the loan can go into default. In such situations, the amount in default would be removed from an individual's plan accumulation to ensure the loan is paid in full and, accordingly, this amount becomes subject to taxes and potential tax penalties. To minimize the risk of this occurring, we believe it is important to take steps to ensure participants are educated on the consequences of a default and that steps are taken to ensure they avoid defaulting on the loan. The SEAL 401(k) Savings Act includes a provision that would help those who have terminated service with an employer and are required to repay outstanding loans in full within 60 days after termination. The provision would extend the rollover period for plan loan amounts for participants who default on a plan loan because they were unable to pay the loan back within the 60 day period by allowing them to contribute the amount outstanding on their loan to an Individual Retirement Account (IRA) up until the time they file their taxes for that year. While TIAA–CREF structures its plan loans so that participants are not required to pay back loans within 60 days of termination, we believe this provision would be helpful in plans that do.

Hardship withdrawals are another means of allowing participants to access retirement funds to, among other things, avert potential financial crises (*e.g.*, foreclosure or eviction). When individuals take a hardship withdrawal, however, they are in most cases required to cease contributing to their plan for 6 months after the withdrawal. Requiring an employee to stop contributing to his or her retirement plan is counterproductive when it comes to retirement security for two reasons. First, for individuals who have been compelled to deplete their retirement nest egg due to a hardship and as a result have experienced a setback in their retirement savings goals, it is important for them to continue to contribute to their plan to begin to replenish this amount. Second, since it is often difficult to get employees to initiate contributions in the first place, it also could be a challenge to get them to restart their contributions after the 6-month waiting period, potentially placing them on a path toward retirement *in*security. For this reason, we support the proposal in the SEAL 401(k) Savings Act that would eliminate this mandatory 6-month contribution hiatus following a hardship contribution.

Response to Questions of Senator Harkin, Senator Enzi, and Senator Warren by Julia McCarthy

SENATOR HARKIN

Question 1. A lot of plans offer participants access to all kinds of tools and calculators so that people can get a better sense of what they need to save for retirement. How many people are actually using those tools?

Answer 1. Fidelity offers a variety of tools and calculators that are available via a phone representative or online via NetBenefits for our 401(k) participant population including:

- **Retirement Quick Check** (used to determine how much money they will need in retirement).
- **Income Simulator** (used to display current savings trajectory, including social security assumptions and other retirement income, and how this income translates into a monthly retirement paycheck).
- **Retirement Income Planner** (targeted at customers who are within 5 years of retirement, or already in retirement and designed to answer questions such as, “How much can I spend in retirement?” and “How long will my income last?”).
- **Portfolio Review** (helps participants design an appropriate asset allocation).
- **Income Strategy Evaluator** (provides targeted guidance to help retirees make transition from retirement savings to managing retirement income by integrating a broad mix of products to develop the right solution for the participant, including mutual fund investments, fixed annuities and variable annuities).

A monthly average of 211,000 participants uses our on-line tools and calculators. This does not include guidance interactions via the phone.[1]

Fidelity continues to study ways to increase participants’ involvement with their workplace retirement plans as our research has shown this to be the biggest inhibitor to greater use of educational tools and guidance. Once a participant has engaged either on-line or via a phone representative, our research shows that he/she is likely to have higher asset balances, is less likely to take a loan, and contributes at a higher overall savings rate. On average, 34 percent of participants do not engage with their plan during the course of a year.

Question 2. You say in your testimony that automatically increasing people’s contributions is a good way to help them save more. Do you have a sense of what the ideal increases should be? For example, is 1 percent per year enough?

Answer 2. We typically recommend that employers auto-enroll participants in the plan at 6 percent and institute an annual increase program that increases contributions by 1 percent each year up to 12 percent.

[1] 2011 Monthly Average Usage: 133,086; 2012 Monthly Average Usage: 223,463; 2013 Monthly Average Usage: 233,709 (January data only). There is no usage data available for Income Simulator, our newest tool, which is still in the process of being rolled out to participants.

Yearly automatic increases combined with typical company match programs should get participants to a level of 12–15 percent annual savings (9 percent average employee savings and average 3–6 percent of company match) that will produce better outcomes. It is also our recommendation that automatic increases occur in tandem with salary increases to minimize the effect on the employee's net take-home pay. In addition, Fidelity data reveals that few employees decline to participate. Ninety-three percent of those enrolled by their employer remain within the program.

SENATOR ENZI

Question 1a. Haven't we made financial disclosures too complex? How can we make financial literacy more interactive? With smartphones and tablets increasing exponentially, how can we utilize these tools for workers to let them know how much they need to save for retirement? Also, how can we provide small business owners with greater access to financial literacy tools at a low cost?

Answer 1a. Yes. A participant in a 401k plan will receive a minimum of 13 required disclosures in their first year of eligibility in a plan. Some of these disclosures can be 25 or more pages in length. While this information is important, the sheer volume and complexity of content often overwhelms employees who participate in a variety of benefit programs each with a separate disclosure program. The ability to streamline disclosures, enrollment and education materials, make them interactive, and accessible on a mobile device has the potential to significantly increase participant engagement in saving for retirement, in addition to addressing the cost of providing such disclosures, a major deterrent to small businesses to offer such plans.

Fidelity is experimenting with interactive approaches to engage more participants in managing their 401k. For example, in 2012 we worked with a Fortune 100 company to create an interactive game with the expressed purpose of making retirement education fun.

The results were impressive (based on a 35 percent response rate):

- Eighty-five percent of participants reported learning more about investing and/or their retirement plan;
- Seventy-nine percent of participants plan to review and update their investments;
- Fifty-eight percent plan to increase their deferral rate as a result of playing.

We are working to bring more of this type of interactive approach into our product offering by developing an eEducation program which features a suite of videos using animation and movement to maintain attention while using digestible content. Concepts are introduced via short animated videos and then more fully explored through the use of podcasts, Brainsharks (an online learning tool), and articles. We are also updating our existing suite of tools for compatibility with mobile devices including access to live channel support.

Fidelity is leveraging the unique features of the mobile channel so customers can interact with us using their smartphones and tablets. We are building simple user experiences with interactive content encouraging communication through SMS texting and other actions naturally tailored to a mobile device.

As Fidelity deploys these approaches more broadly, we continue to evaluate which approaches, content, and interactions are most effective in helping our customers learn more about investing for their future. However, we are mindful that we still must meet current regulatory requirements for disclosure.

Question 1b. How can we provide small business owners with greater access to financial literacy tools at a low cost?

Answer 1b. The use of Web sites, Internet discussion forums, blogs, and online financial management tools are all low-cost ways to educate consumers on saving for retirement and financial best practices. Technology expands financial literacy educational options by providing flexibility in how, when, and where learning occurs. It is our experience that participants prefer learning through technology given its accessibility, ability to provide instant feedback, and its use of interesting and impactful graphics, and video.

Question 2. Small businesses with low-profit margins are already overburdened by the day-to-day obligations of running a small business. How can we give small businesses greater access to the 401(k) system when they don't have the extra money to spend?

Answer 2. The three principles that should guide a retirement plan for small business are:

(1) minimized ERISA fiduciary responsibilities and reduced administrative costs through simplified design and execution;

(2) small business financial incentives to establish and maintain plans that include key automatic design features;

(3) access to online guidance and education at no cost (included with recordkeeping arrangement).

Here are the key plan design features that align with those principles:

A. Minimized ERISA fiduciary responsibilities and reduced administrative costs through simplified design and execution:

- Eliminate discrimination testing requirements if workers are enrolled at 6 percent;
- Fiduciary responsibilities delegated to approved private sector plan Service Providers with professionally managed accounts (QDIA) for participants;
- Simple, relevant, and actionable communications and disclosures;
- Allowance of electronic means as the default form of communication for all required disclosures,
- Consolidation and streamlining of required participant disclosures and notices;
- Government as repository for small orphaned accounts via R bonds and larger account balances would be rolled over to current workplace plan or IRAs to enable consolidation of accounts for a highly mobile workforce;

B. Small business financial incentives to establish and maintain plans that include key automatic design features:

- Automatic enrollment of all employees, regardless of age and service at 6 percent with opt down option;
- Incentives for small business owners to start plans (e.g., startup tax credits);
- Automatic annual increase program for all employees;
- Optional employer contributions—higher tax credit or other tax incentives for additional employer contributions;
- Expand the savers credit for low-income workers;
- Maintain current limits and retirement incentives on employee or employer contributions;
- Restriction of loan provisions;
- Hardship withdrawals restricted to safe harbor provisions only;
- Simple web-based administration for plan sponsor and participant including mobile and digital access.

C. Increased access to no-cost guidance and education:

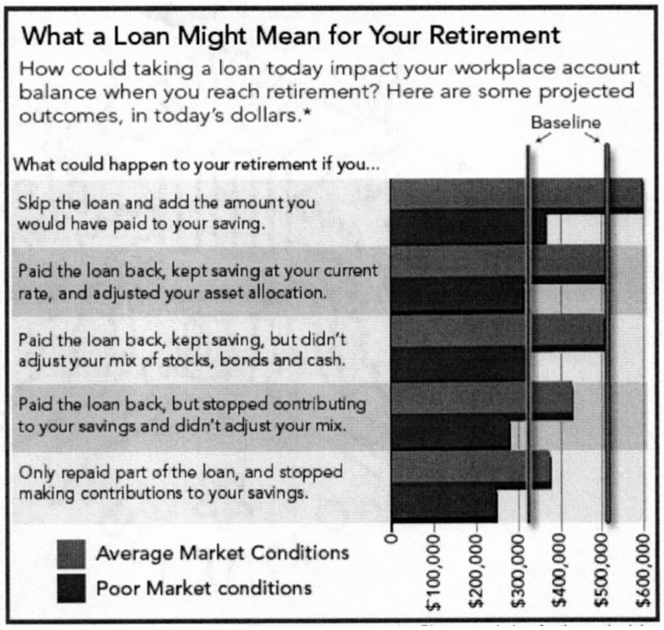
- Access to on-line guidance and education to participants at no cost;
- Significant participant education services included as part of recordkeeping arrangement;
- Uniform curriculum across providers—starting with simple basics of budgeting and saving to broader topics of investing and retirement income planning.

Fidelity has conducted extensive research in understanding and meeting the needs of small employers. In fact, we categorize these clients as our "Fiduciary Segment" because meeting that responsibility is their greatest concern. This group of plan sponsors are looking for providers to "keep them out of trouble" while providing quality benefits to their employees at a reasonable cost. To that end, we have prototyped multiple concepts ranging from a fiduciary training college and a dynamic monitoring dashboard to an assurance model that would include a standardized investment lineup, use of a volume submitter document, simplified testing etc. These concepts have been well-received and we will continue to refine them based on client feedback.

Question 3. In the 112th Congress, Senator Kohl and I introduced the Savings Enhancement by Alleviating Leakage in 401(k) Savings Act of 2011, or the SEAL 401(k) Savings Act. The SEAL 401(k) Savings Act is a bipartisan effort to reduce leakage and increase savings. The Act bans certain products that actively encourage participants to tap into their savings, often accruing large fees in the process. Can you explain how studies have shown that leakage from retirement plans can significantly reduce worker's retirement savings and the amount of money they will have when they retire?

Answer 3. Fidelity believes that in order for employees to stay on track and accumulate sufficient assets toward retirement, plan loan restrictions are essential as too many loans can have a significant negative impact on retirement savings.

Attached is an illustration from Fidelity's most recent piece on loans entitled *Borrowing From Your Retirement* which shows the effect a loan can have on your retirement assets.



The chart above is hypothetical and for illustrative purposes only. Please see below for the methodology.

IMPORTANT: *The projections or other information generated by Fidelity's planning tools regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. They are intended to provide a rough estimate of investment scenarios over time.*

Additionally, EBRI's Retirement Security Projection Model simulated the impact of loans on DC participant retirement savings. The projection simulates a full-time career employee who takes a loan and then stops saving for the duration of the loan repayment period (5 years). Ceasing deferrals during the loan repayment period is expected to decrease future retirement income by 10 percent to 13 percent. If two loans are taken, this reduction nearly doubles. On the other hand, if the participant continues to save during the repayment period, the loan causes little changes to expected retirement income.

SENATOR WARREN

Question 1. In the HELP hearing on January 31, 2013, Professor Madrian suggested that it might make sense to provide employers with a simple way to participate in retirement plans, with a minimal burden and minimal regulatory requirements. She indicated support for "piggybacking" on activities that employers are already required to do. What specifically are the points at which it might be possible to modify existing employer activities to seamlessly integrate a pension element and how effective do you believe intervention at each of those points might be? Please address new employee forms, employer withholding actions, and employer quarterly tax forms, as well as any other points that you might think would provide such an opportunity. Any draft sample forms would be particularly helpful.

Answer 1. Employees typically receive wages on a weekly, bi-weekly or monthly basis. Thus, payroll deduction has proven to be an easy and convenient way for employees to participate in retirement plans, and simultaneously for employers to transfer an employee's pre-tax 401(k) contributions to a service provider.

Introducing new retirement plan processes and forms may cause more complexity for employers and additional confusion for employees. Instead, we believe in proven solutions such as automatic workplace enrollment and an automatic annual increase program.

Since the passing of PPA in 2006 we have seen our customer's adoption rate of automatic enrollment increase from 2.6 percent in 2006 to 23 percent as of

12/31/2012. The participation rate in plans with automatic enrollment is 83.5 percent versus 53.1 percent for plans that do not offer automatic enrollment.

Question 2. How would you suggest structuring a default employer participation requirement that employers could opt out of if they determined that they would prefer, for whatever reason, not to provide such a plan for their employees?

Answer 2. Historically, the passage of the Pension Protection Act (PPA) addressed many of the concerns plan sponsors had with respect to employer participation requirements or automatic contribution arrangements as it influenced whether an employer adopted an employer participation requirement/automatic enrollment arrangement. The PPA guidance on a Qualified Automatic Contribution Arrangement ("QACA") eliminated the need for non-discrimination testing, clarified State withholding laws, and provided parameters for acceptable default elections. Fidelity saw an 18 percent increase in plans adopting these arrangements from 2006.

Plans unwilling to commit fully to the QACA safe harbor were able to model their Automatic Contribution Arrangements (ACA) based on allowable QACA configurations. Any concerns about having too high or too low a deferral rate were effectively solved by mirroring the safe harbor election. Providing an additional safe harbor will motivate ACA Plan Sponsors to re-evaluate their deferral percentages to match the new safe harbor higher deferral limits.

Recently, Fidelity proposed a new safe harbor (or a second safe harbor) for automatic arrangements including the following features:

- The minimum levels of default contribution would be 6 percent for the first year, 8 percent for the second year, and 10 percent for the third year and all subsequent years.
- The plan sponsors adopting this safe harbor would receive a tax credit equal to 10 percent of the employer and employee contributions made on behalf of non-highly compensated employees to a maximum of $10,000. This credit would apply for the first 3 full years the new safe harbor is in effect.
- The same non-elective contribution rule applies; however the matching contribution requirement would be modified to 50 cents on the dollar on the first 2 percent, then 25 cents on the dollar on the next 8 percent.

Question 3. What are the factors that might influence whether a default employer participation requirement would materially increase the levels of employer participation in these plans across the country?

Answer 3. Generally, we believe that the following factors would influence employer participation in offering workplace plans:

(1) minimized ERISA fiduciary responsibilities and reduced administrative costs through simplified design and execution;

(2) small business financial incentives to establish and maintain plans that include key automatic design features;

(3) access to online guidance and education at no cost (included with recordkeeping arrangement).

In 2012, a cross-company team of Fidelity associates partnered with Stanford's University School of Design to better understand the true needs of participants in retirement plans and to better design retirement plans for future generations. A major theme of those discussions was the need for simplicity for both employers and employees in the design and operation of plans. A second issue of no less importance involves lowering the employer startup and maintenance costs of an employee savings plan.

Fidelity is happy to engage in conversations with you and your staff regarding employer participation and ways to make employer participation simpler and more cost-effective.

Question 4. What are some mechanisms that you believe might minimize the administrative costs of participation in a plan for small businesses and other employers?

Answer 4. We believe employers can reduce administrative costs through more standardized plan design, efficient administration including periodic plan sponsor/service provider review of plan costs, e-delivery communication strategies that drive participant engagement and outcomes, and cost-effective investment line-ups suitable for the workplace investor.

We recommend the expansion of e-delivery regulatory policies by the Department of Labor and the Treasury Department so that more participants can enjoy the convenience of e-delivery. Labor Department 2011 technical guidance issued in conjunction with Participant Disclosure did little to allow for the increased use of technology.

Most recently, Department of Labor officials have made public the contents of a planned survey on benefit statements in furtherance of its 2013 regulatory agenda that includes proposed guidance on quarterly benefit statement requirements under ERISA. Despite the fact that Fidelity's online benefit site, Netbenefits, has more than 2 million visits on a daily basis, the survey framework still supports the concept that most workplace 401(k) participants receive paper statements in the mail. An additional expected requirement within the proposed guidance, lifetime income illustrations, is another example of guidance that is more easily conveyed via an online tool that a participant can model to easily understand his/her need to alter current savings strategies and take action to produce better outcomes.

Finally, as stated within our earlier response to Senator Enzi, a participant in a 401(k) plan will receive a minimum of 13 required disclosures in their first year of eligibility. While this information is important, the sheer volume and complexity of the notice can overwhelm the employee who participates in a variety of benefit programs each with a separate disclosure program thereby defeating the regulatory objectives of notification and education. Fidelity's experience with 2012 required participant disclosures under section 404A–5 is illustrative. Fidelity distributed close to 15 million lengthy disclosure statements that generated less than 1,000 phone calls mostly to inquire, "What is this?" and "Do I need to take any action as a result?" These required disclosures, although well-intentioned, are expensive to produce yet provide little to no value to the participant. Fidelity supports congressional initiatives to review and consolidate required disclosures and the elimination of those deemed extraneous or duplicative in order to simplify administration and lower cost.

Question 5. Is there data to suggest that tax incentives for employers would materially increase the number of employers that offer retirement plans to their employees, and do you have any recommendations about how those incentives should be structured?

Answer 5. Although Fidelity has not conducted research on the particular point of whether tax incentives for employers would materially increase the number of employers that offer retirement plans to their employees, certain recent studies have examined how employers might react to changes in retirement savings tax incentives, including likelihood of offering or reducing retirement savings plans. Findings indicate that tax incentives are a critical component in the decision to offer and maintain DC plans. In addition to the potential for significant negative impact on retirement security, it has been determined that changes in income tax exclusion would cause many current sponsors to modify their plans by decreasing or eliminating one or more plan provisions, while some would likely drop their plan altogether.

- Specifically, a 2011 survey by Harris Interactive commissioned by the Principal Financial Group survey found that if workers' ability to deduct any amount of the 401(k) contribution from taxable income was eliminated, 65 percent of the plan sponsors responding to the survey would have less desire to continue offering their plan.
- The Harris Interactive study further determined that 75 percent of small and medium-sized employers say current tax deferral incentives are the most attractive retirement plan feature to employees and eliminating retirement plan tax incentives could reduce the number of plans.
    - Ninety-two percent of employers state that tax incentives for workers are important in their decision to offer a plan.
    - Sixty-five percent say their desire to continue offering a plan would decrease if those incentives were removed.
    - Thirty-six percent of those employers who don't currently offer a plan say the lack of tax incentives would decrease their desire to start offering one.
    - Many employers believe that even a reduction in tax incentives would diminish their own desire to offer a plan.
- In a survey conducted by Mathew Greenwald & Associates, Inc., on behalf of the American Benefits Institute, 8 in 10 employers say the exclusion of employee (81 percent) and employer (77 percent) contributions from current employee income taxation is important in their company's decision to sponsor a DC plan.
- A 2011 AllianceBernstein survey of plan sponsors found that small sponsors were more likely than large employers to respond negatively to a proposed change in the deductibility of contributions by employees.

Though these studies did not query whether certain tax incentives would materially *increase* the number of employers that offer plans, there is strong evidence to suggest the inverse, in that there would most certainly be a dramatic reaction by plan sponsors should certain current tax incentives be eliminated or significantly altered. Various proposals to modify the income tax exclusion of DC plan contributions, such as the 20/20 proposal, a 25 percent tax credit, and a tax exclusion limitation, are likely to garner opposition from employers. In fact, companies that do not currently sponsor a plan would be less likely to start one if one of these proposals were passed, and many sponsors expressed a desire to offer no plans at all in the absence of tax incentives for employees.

Finally, if retirement tax incentives are taken away or altered, it is unlikely we would continue to see participation rates near 70 percent among employers that sponsor a retirement plan. In this vein, it remains critically important that we continue to listen to employers and how tax incentives affect their decisions with respect to plan sponsorship.

RESPONSE TO QUESTIONS OF SENATOR HARKIN AND SENATOR ENZI BY M. CINDY HOUNSELL

SENATOR HARKIN

Question 1. I get the sense that a lot of people think that they'll just be able to work longer to make up for not saving. But as you say in your testimony, lots of people end up being forced into retirement—either because they're disabled or because it's hard for older people to find work once they lose their jobs. What can we do to help people understand that they can't work forever?

Answer 1. Helping people understand that they cannot work forever is one of many important planning issues that are not understood by today's workers. Public benchmarks are needed to help workers plan so that they understand what lies ahead for their retirement and can measure their future longevity risks and make better decisions. These benchmarks can be baselines agreed upon by both public and private partners that then become well-known by the public. They should be part of any education mechanism—whether workshops, webinars, podcasts, or publications—aimed at educating workers about retirement planning.

Benchmarks should provide a basic guide or roadmap on what steps and strategies workers can take and how to implement the lifecycle approach as reminders. For instance, many workers know they are supposed to be saving and investing but they do not know how much they should be saving. The public/private partners would provide information based on best practices that would assist workers at each stage of life, or "the life-cycle approach." For example, the strategies and material provided could advise individuals between ages 25–35 that building savings contributions up to 10–15 percent of salary is a typical retirement savings goal for their working lives.

Nonprofits, government agencies (like the IRS, SSA, and DOL), employers, and financial institutions should be encouraged to highlight these benchmarks on their Web sites and in relevant communications. One of WISER's partners has introduced the idea of a national retirement readiness education advertising campaign based on one of the top advertising campaigns of the 20th century, *Iron Eyes Cody*. The "Crying Indian" Public Service Announcement known as the Iron Eyes Cody Campaign to clean up America was a combination of community action and legislation. It helped to transform the landscape. The nonprofit, Keep America Beautiful, had an impact on littering by impacting values and behavior and by reducing litter 61 percent since 1969. The "Crying Indian" is available 40 years later on YouTube and is still getting hundreds of thousands of hits.[1]

Question 2. There are lots of people that don't have traditional, 40-hour-a-week jobs—part-time workers, temporary workers, and independent contractors, to name a few. What do we need to do to make sure people with non-traditional employment arrangements have easy access to a retirement plan?

Answer 2. The first problem as it relates to this question is that many of the people who work in non-traditional employment are paying both the employer and employee payments for Social Security; an amount that along with Medicare, adds up to over 13 percent of their pay. Many workers think this will be enough to provide them with sufficient financial and health security upon retirement, which it will not. While Social Security is an important income source, it is just a foundation and workers need to have additional savings to provide them with sufficient retirement income. One way to entice these workers to also consider making a contribution to a retirement plan and to save regularly is to provide a retirement plan with the

[1] Nybo, Stig and Liz Alexander. 2013. "*Transform Tomorrow*." Introduction, 14–16, John Wiley & Sons, Inc., Hoboken, NJ.

incentive of a simplified Saver's Credit that is structured as a matching contribution. It could be automatically deposited into either an Automatic IRA or an R Bond.

We know it is important to reach workers who do not have access to a 401(k) plan at work, and ways to do that would be through an Automatic IRA or a 401(k) through a Multiple Employer Plan. The Automatic IRA offers workers the opportunity to save through regular payroll deposits that continue automatically. The employer's administrative functions would be minimal. With an Automatic IRA, employees would automatically be enrolled in an IRA and a percentage of their income would be directed to the account automatically. The contribution amount would increase year-by-year. The investment fund could be a target date fund. The Automatic IRA has the potential to reach up to 75 million workers that do not have access to a retirement plan at work. But the key to increasing coverage and participation for workers in this economic climate is the ability of workers to have easy access to a simplified Savers Credit as part of the structure of the Automatic IRA or R Bond. There is ample research showing that low-income workers understand and will respond well to receiving a match.

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Question 1. Haven't we made financial disclosures too complex? How can we make financial literacy more interactive? With smartphones and tablets increasing exponentially, how can we utilize these tools for workers to let them know how much they need to save for retirement?

Answer 1. The financial disclosures are too complex for most consumers. Among the thousands of people WISER has interacted within our education efforts, only a rare few have said they have ever read financial disclosures. We need to change the current model in a way that will make people want to read this important information. The disclosures need to appear less intimidating and have all the relevant information condensed in a summary. If they appear easy-to-read without financial jargon, busy consumers will be more likely to read them. These disclosures are usually written by lawyers or financial experts who are not experienced at writing for the average consumer. This may be one topic where input from the Consumer Financial Protection Bureau may be helpful, as well as nonprofit and other organizations that specialize in financial literacy.

Question 2. Small businesses with low profit margins are already overburdened by the day-to-day obligations of running a small business. How can we give small businesses greater access to the 401(k) system when they don't have the extra money to spend? Also, how can we provide small business owners with greater access to financial literacy tools at a low cost?

Answer 2. Employers have access to a simplified 401(k) plan but it has never gotten traction. The Automatic IRA could provide an alternative as a way to make sure that workers without a qualified retirement plan have access to an automatic-enrollment payroll deduction plan. Increasing tax credits are needed as incentives to make these cost-effective retirement savings options more attractive to small businesses and to defray any costs employers might incur for establishing the mechanism of automatic savings for their workers.

Multiple Employer Plans or MEPS are also a cost-efficient alternative for small businesses looking to avoid the expense and administrative burden of a stand-alone 401(k) plan. Multiple employer 401(k) plans provide a way for small employers to join together to adopt a 401(k) plan and to share expenses.

On the issue of small business and financial literacy, there are countless resources for free financial literacy information that can lead to improved financial decision-making. The bigger problem is the need for outreach to small employers and finding ways to make them aware of the available information, tools, and resources. The Department of Labor and employers are both "agents" that employees trust, and they need to join together to make more information and tools available. The Department of Labor could establish a public/private partnership and work to encourage a larger audience to use their tools, including **"Taking the Mystery out of Retirement Planning"** and **"Savings Fitness: A Guide to Your Money and Financial Future."** Both are excellent tools for people looking to take the first step to plan for their future.

Other resources include *www.mymoney.gov*, the site created by the Financial Literacy and Education Commission managed by the U.S. Department of the Treasury, the American Savings Education Council, AARP, the National Endowment for Financial Education, and the American Institute of CPAs. Also, as mentioned in our testimony, WISER operates the National Education and Resource Center on Women and Retirement Planning on behalf of the Administration on Aging. Materials are readily available on the WISER Web site, which was recently named by Forbes as one of the 100 best Web sites for women. WISER has also been highly successful in its approach of training local partners as "trusted messengers" to provide retirement and savings educational programs.

Question 3. In the 112th Congress, Senator Kohl and I introduced the Savings Enhancement by Alleviating Leakage in 401(k) Savings Act of 2011, or the SEAL 401(k) Savings Act. The SEAL 401(k) Savings Act is a bipartisan effort to reduce leakage and increase savings. The Act bans certain products that actively encourage participants to tap into their savings, often accruing large fees in the process. Can you explain how studies have shown that leakage from retirement plans can significantly reduce worker's retirement savings and the amount of money they will have when they retire?

Answer 3. We applaud your efforts to help workers keep their retirement savings for retirement. A considerable number of studies over the years have shown that 401(k) leakage can have a sizable impact on retirement security. The SEAL 401(k) Savings Act would ban 401(k) debit cards and make it easier for workers to pay back loans in the event they lose their job. Consideration should also be given to allowing IRAs to accept rollovers of participant loans from qualified plans. Another important piece is that the Act would allow workers to continue saving for retirement through the plan in the event of a hardship withdrawal. Currently, workers have to wait 6 months before they can resume saving through the plan.

The largest area of leakage in 401(k) plans, however, is the cash-out between jobs. A recent study by *Hello Wallet* bears this out. Using survey data from the Federal Reserve's Survey of Consumer Finance and the Census Bureau's Survey of Income and Program Participation, the study finds that 19.1 percent of workers have cashed out their 401(k) at some point.[2] The majority of those workers point to bills, loans, and other debt as the reason for cashing out.[3] About 21 percent of workers with insufficient emergency savings have cashed out for non-retirement needs.[4] We need to ensure that workers realize the difference; 401(k) funds should not be considered "contingency funds" to cover short-term needs. They need to understand the importance of setting up a separate emergency fund to cover 3 to 6 months of expenses in the event they lose their job. However, while it goes against every tenet of retirement preservation there is a need to find a solution for the large number of workers who would rollover their retirement funds after a job loss if they knew they could borrow from it. We would be happy to discuss this issue in more detail with the committee.

Question 4. You raised the issue of part-time employees and temporary workers not being offered retirement benefits. What are some ways that you propose extending retirement savings opportunities so that part-time and temporary workers have a way to save?

Answer 4. One way to reach workers who do not have access to a 401(k) at work is through an Automatic IRA. The Automatic IRA offers the opportunity to save through regular payroll deposits that continue automatically. The employer's administrative functions would be minimal. With an Automatic IRA, employees would automatically be enrolled in an IRA, and a percentage of their income would be directed to the account automatically. The contribution amount would increase year-by-year. The investment fund could be a target date fund or Treasury securities. The Automatic IRA has the potential to reach up to 75 million workers that do not have access to a retirement plan at work.

To incentivize saving among lower income workers, the Saver's Credit could be made refundable. Currently, the Saver's Credit is nonrefundable, so it offers no incentive for very low-income earners who have little or no tax obligation.

[Whereupon, at 11:33 a.m., the hearing was adjourned.]

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[2] Fellowes, Matt. *The Retirement Breach in Defined Contribution Plans*. HelloWallet.
[3] *Ibid*.
[4] *Ibid*.