Bipartisan Recommendations—
for Policy Makers and Practitioners—to Improve Retirement Security and Personal Savings

Far too many Americans are not saving enough—or at all—for retirement; workers routinely raid their retirement savings in times of financial emergency because they lack sufficient personal savings. Few of those with substantial savings have acted to address longevity risk and secure adequate retirement income that they cannot outlive. Home equity is typically underutilized as a resource in retirement. Americans often face these challenges with insufficient financial capability, and Social Security—the foundation of the national retirement system—is significantly underfinanced and leaves some with inadequate benefits. These problems may seem overwhelming, but they are solvable. Last year, a commission formed by the Bipartisan Policy Center proposed a comprehensive plan to address these challenges by building on existing systems—in the private sector and public programs—to increase middle-class retirement savings by roughly half by 2065 and reduce old-age poverty by one-third from current levels by 2035. The recommendations of the report demonstrate that policy makers, employers that sponsor plans, and retirement plan service providers have many opportunities to promote greater financial security in retirement.

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Introduction

Preparing for retirement—achieving financial security in old age—is a challenge we all face, and many are struggling. Consequently, retirement perennially tops the list of financial worries among Americans. Part of its daunting nature is that no one-size-fits-all solution exists. Each family, with its own personal circumstances, must navigate the complex array of public policies that affect retirement security.

The challenge is not limited to the accumulation of retirement savings. In a nation where many are living paycheck to paycheck—only 54% of Americans could come up with $400 in an emergency without borrowing or selling possessions—overall savings are insufficient, and assets often leak out of retirement plans to fund short-term needs. Even many households that are better off and have set aside funds are unsure if they will have enough to last throughout retirement. Meanwhile, financial security in retirement is affected by a constellation of policies spanning the Tax Code, entitlements like Social Security, and the regulatory state. In other words, this is an issue that requires diligent study and thoughtful reforms.

The Bipartisan Policy Center Retirement Security Commission

In 2014, the nonprofit Bipartisan Policy Center launched the Commission on Retirement Security and Personal Savings to begin a comprehensive look at the retirement challenge. The 19-member commission was co-chaired by former Senator Kent Conrad, who worked on these issues in his capacities as chairman of the Senate Budget Committee and member of the Senate Finance Committee, which has jurisdiction over the Tax Code and Social Security, and James B. Lockhart III, who is vice chairman of the private equity firm WL Ross & Co. and who previously held senior positions at the Social Security Administration and the Pension Benefit Guaranty Corporation during both Bush administrations.

Any issue related to retirement security was on the table as commissioners met regularly for nearly two years, exploring and discussing possible approaches. The deliberations were assisted by quantitative analyses produced by the Urban Institute, which generated estimates of the budgetary and distributional effects of policies to increase savings and reform Social Security. Understanding the potential impact of proposals on Americans was essential to securing agreement from 18 of the 19 commissioners to support the package of recommendations included in the final report, which was published in June 2016.

Background: A Problem for Policy Makers and Benefits Professionals

Evidence continues to mount that many Americans are not sufficiently preparing for financial security in retirement. A variety of organizations have attempted to estimate the scope of this challenge. The Employee Benefit Research Institute estimates that more than 40% of adults entering and approaching retirement (i.e., the Boomer and Generation X cohorts) will run short of money in retirement. Lack of preparedness, however, is not monolithic. Some are not saving enough, others raid their savings early and still others fail to address insurable risks—such as longevity, disability and long-term care—while many endanger their retirement security by leaving the workforce too soon (not always by choice) and claiming Social Security too early.

The diversity of risks to retirement, along with the complexity of the national retirement system, creates myriad opportunities for policy makers (lawmakers and regulators at federal and state levels) and the private sector (such as employers that sponsor plans and service providers) to act in ways that help Americans better prepare. These opportunities are big, such as changes to the benefit formula of Social Security and the decision to offer a workplace retirement savings plan, and small, such as routine communications with beneficiaries of public programs and participants of employer-sponsored retirement plans.

Six Challenges for Retirement Security

The commission identified six areas that represent challenges—but also opportunities—for the U.S. retirement system:

1. Roughly half of private sector workers do not contribute to workplace retirement savings plans, and many of those individuals do not even have access to one.
2. Low levels of short-term savings can leave people in a bind and of-
ten result in premature withdrawals from retirement accounts.

3. Americans are living longer and spending more years in retirement, yet most fail to take actions, such as purchasing a life annuity or claiming Social Security benefits later, that would reduce the risk of outliving their savings.

4. Home equity typically is the largest form of savings for a household, but much of it is depleted prematurely through borrowing—such as refinancing resulting in cashouts—and even those who do enter retirement with substantial home equity may fail to utilize it in ways that could help to maintain their standard of living.

5. A dearth of financial capability—basic knowledge about personal finance and the wherewithal to act upon it to improve one’s financial situation—puts many Americans at a disadvantage as they attempt to navigate the complex structures (savings, debt and public programs like Social Security) that affect their retirement security.

6. Social Security is significantly underfinanced—Trustees of the program project that the trust funds will be exhausted by 2034, at which point program revenues will only cover 77% of benefits under the current formula. In addition, benefits are inadequate for some Americans, especially low-wage earners and surviving spouses.

The workplace is crucial for addressing many of these challenges, especially through employee benefit plans. While any American with earnings can save for retirement by opening and contributing to an individual retirement account (IRA), the reality is that most do not save for retirement outside of the context of a workplace plan. Because most Americans need something more than Social Security for a comfortable retirement, employers have an essential role in facilitating good retirement outcomes for individuals and the U.S. society as a whole.

Recommendations

The commission comprehensively addresses all six challenges in its report, accounting for the interrelationships among different parts of the U.S. retirement system. The plan was agreed to as a package. Some members would not have supported some recommendations in isolation.

All of the proposals would build upon or modify existing systems and policies. While many would require legislation to implement, others could be done administratively, and the remainder could be advanced by the leadership of private sector organizations such as plan sponsors and service providers.

**Improve Access to Workplace Retirement Savings Plans by Modifying Savings Structures**

Since the vast majority of individual savings for retirement are accumulated in workplace plans, access to a savings plan at work is critical. This access gap is most pronounced for workers of smaller businesses. The commission proposed to create or modify savings vehicles to ease employer administrative and legal burdens associated with establishing a workplace retirement savings plan; once these structures are operating, a nationwide, minimum-coverage standard would take effect to ensure widespread worker access. Specifically, the commission would:

- **Establish retirement security plans, a new form of multiple employer defined contribution (DC) retirement plan, to serve any business with fewer than 500 employees.** Most administrative and fiduciary responsibilities would be transferred from the employer to a third-party retirement security plan provider. Unlike many legislative proposals to establish open multiple employer plans (MEPs), employers would not be held responsible for the selection and monitoring of retirement plan providers. Instead, to protect employers and participants, a periodic certification process would be established to screen the plan design and providers before they could qualify and be marketed as retirement security plans.

- **Establish a new alternative to annual nondiscrimination and top-heavy testing for employers that adopt automatic enrollment.** A new automatic enrollment contribution safe harbor would grant employers greater flexibility than existing safe harbor options, such as the ability to automatically escalate participant contribution rates up to 15% of pay. Employers with 500 employees or more could qualify for the new safe harbor only if they offer an employer contribution. Smaller employers could adopt the safe harbor regardless of whether they contribute, but lower contribution
limits would apply to small employer plans that do not feature an employer contribution.

- **Enhance the myRA program to provide a base of coverage for workers who are least likely to have access.** It is very challenging to provide economical retirement savings options to some workers, especially those with low earnings, those who work few hours or seasonally, and those who change jobs frequently. Retirement security plans (and other open MEP proposals) might not be sufficient to expand access to these workers. The existing myRA program offers a promising, low-cost platform to reach this population, but myRA would be more effective if placed into law and enhanced to allow employers to contribute to the accounts and automatically enroll workers (with the opportunity for workers to opt out), within carefully determined limits.

- **Introduce a nationwide, minimum-coverage standard to replace the emerging patchwork of state-by-state regulation.** Working Americans should have the opportunity to save for retirement with every paycheck. Broader access to and participation in retirement savings plans would especially improve retirement savings for middle-class and lower earning Americans (see the figure for modeling projections). This standard would take effect in 2020, once the aforementioned structures are operating, and would initially apply to employers with 50 or more full-time-equivalent employees. Employers could comply with the new standard in one of three ways: (1) offer a fully qualified plan, such as a 401(k) plan or a defined benefit (DB) plan covered by the Employee Retirement Income Security Act (ERISA), (2) automatically enroll employees into a retirement security plan or (3) automatically enroll employees into an enhanced myRA. Policy makers should carefully monitor implementation of the requirement and adjust the coverage threshold accordingly. Ideally, all employed workers would eventually be covered.

- **Establish new safe harbors to promote plan features that benefit participants.** Plan sponsors would have safe harbors to automatically reallocate participant investments into a qualified default investment alternative (QDIA) if they provide notification and the opportunity for participants to opt out. Also, regulations would be modified to clarify that plan sponsors using automatic enrollment may establish different default tax treatments (e.g., tax-deferred or Roth) for different groups of employees.

- **Create lifetime income plans as a new, more sustainable retirement plan design that multiemployer DB plans could voluntarily adopt.** These new plans would combine some features from DC plans, such as stable, predictable contributions and investment risk shared with participants, and other features from DB plans, such as professional investment management and benefits in the form of lifetime income. Because the risk of underfunding would be borne by employers and participants according to an agreement made when the plan is formed, benefits would not be insured by the Pension Benefit Guaranty Corporation.

- **Create a private sector retirement security clearinghouse to help individuals consolidate retirement assets.** This entity would streamline transfers and rollovers among employer plans and IRAs. To help facilitate the clearinghouse, the Labor and Treasury Departments would convene stakeholders to agree on data interchange standards for service providers. Labor and Treasury would support these new standards, for example, when accepting electronic filings. Adoption would be voluntary for single employer plans and required for retirement security plans and myRA.

- **Establish new limits on company stock in DC plans to protect employees from potentially catastrophic investment risk.** The amount of company stock in workers’ retirement accounts should be limited to no more than 25% of the account balance. When accounts exceed this limit, company stock funds would be automatically reallocated to a QDIA, unless the participant selects a different investment option.

**Modify Retirement Tax Expenditures and Federal Asset Tests to Support Expanded Savings**

Critical incentives in the Tax Code promote the establishment of workplace plans and the accumulation of retirement savings. The proper form and magnitude of these incentives are very controversial, and the commission did not recom
mend a major change from the current approach. The commission did agree to several tweaks, including:

- **Increase the maximum new-plan-startup tax credit for employers to $4,500, and offer a new, $1,500 tax credit for employers that add automatic enrollment to existing plans.** Going forward, the new-plan-startup tax credit also should be limited to employers that adopt automatic enrollment.

- **Change congressional budget estimation rules to use a more accurate, long-term approach for evaluating retirement tax expenditures.** Under current law, the Congressional Budget Office projects the budgetary impact of retirement legislation over the next ten years using a cash-flow basis. This approach overstates the impact of tax deferral on revenues (because it does not incorporate most revenue generated by taxation of account withdrawals many years in the future) and underestimates the revenue lost by Roth tax treatment (because it ignores substantial revenue losses from future tax-free withdrawals from Roth accounts). A better approach would be a long-term analysis based on the discounted net present value of the projected revenue changes.

- **Change the present saver’s credit into a refundable starter saver’s match to provide better incentives for younger savers.** For workers aged 18 through 35, the saver’s credit would be replaced with a starter saver’s match that would match contributions to an IRA or DC plan on a dollar-for-dollar basis up to a maximum of $500 per year ($1,000 for joint filers). The match would phase out over certain income levels, and the existing credit would continue to be available for workers aged 36 and older.

- **Establish an overall limit on the total assets an individual can hold in tax-advantaged savings accounts.** This new limit would apply to individuals who accumulate aggregate retirement savings, including all DC plans and IRAs, in excess of $10 million (indexed to grow annually with average wages). New contributions would be prohibited for individuals who exceed the limit.

- **End the “stretch” IRA estate-planning loophole.** Nonspousal beneficiaries would be required to distribute inherited IRA and DC plan assets over no more than five years. An exception would apply for beneficiaries with disabilities.

- **Exempt small retirement savings balances from required minimum distribution rules.** Individuals with less than $100,000 in aggregate DC plan and IRA balances would be exempt from minimum distribution requirements that normally apply beginning at the age of 70½.

- **Exclude modest retirement account balances from asset tests to remove disincentives to saving for lower income Americans.** The first $25,000 of savings in retirement accounts (IRAs and DC plans) would be excluded from asset tests for all public programs, such as Supplemental Security Income, Medicaid and food stamps.

**Promote Personal Savings for Short-Term Needs, and Preserve Retirement Savings for Older Age**

Many Americans are unprepared for financial shocks. When households experience financial emergencies and their only significant savings are in retirement accounts, it is no wonder that plan loans, hardship distributions and early IRA withdrawals are typical results. While many plan loans are repaid, other preretirement leakages are not replaced with additional saving. Even more troubling, many leakages likely are the result of system complexity rather than a cash crunch. Cashouts, especially for smaller balances, commonly occur when workers change jobs. Anyone who has experienced frustration with inscrutable paperwork and lengthy account-transfer processes can understand why some might opt for the easier course of cashing out their retirement savings. The commission made the following recommendations to address both the challenges of insufficient personal savings for short-term needs and the need for streamlined processes that encourage workers to preserve their retirement savings for older age.

- **Clear barriers to automatic enrollment in multiple savings accounts.** Some workers need short-term savings as much as savings for retirement, yet automatic features that have worked so powerfully to promote retirement savings have not been widely utilized to help workers develop financial resilience for emergencies. Regulatory barriers would be cleared so employers are encouraged to automatically enroll employees into a savings plan in which contributions are split be-
tween a tax-deferred or Roth retirement savings plan and a standard savings account covered by deposit insurance, which would not be tax-advantaged and which could be accessed at any time.

- **Simplify the process for transferring retirement savings from plan to plan.** A private sector retirement security clearinghouse, as proposed above, could facilitate this streamlined process for trustee-to-trustee transfers and rollovers. Within five years, all DC plans with at least 1,000 participants would be required to provide a simple, online form that enables participants to transfer their savings to another large DC plan or to any voluntarily participating IRA provider.

- **Harmonize early withdrawal rules for IRAs and DC plans.** Employer-sponsored plans have more restrictions on preretirement withdrawals than IRAs. These rules send mixed messages to savers. Rules governing early withdrawals from IRAs would be strengthened to the higher standards of DC plans. Specifically, preretirement IRA withdrawals would be limited to those included in the Internal Revenue Service (IRS) hardship withdrawal safe harbor list, plus involuntary unemployment and health- and disability-related expenses. Most exceptions to the 10% early distribution penalty would be eliminated. Also, the six-month suspension of contributions following a hardship withdrawal from an employer-sponsored plan would be eliminated to encourage participants to rebuild their savings as soon as possible.

**Facilitate Lifetime Income Options to Reduce the Risk of Outliving Savings**

Even those who have accumulated substantial retirement savings may be exposed to significant financial peril in old age if they do not act to address **longevity risk**—the risk of outliving one’s savings. Many approaches exist to address this challenge—such as annuities, managed account withdrawals and later claiming of Social Security benefits—yet few savers utilize these options, even when they are made available within retirement plans. Perhaps more than any other part of the U.S. retirement system, this challenge calls for robust innovation on the part of plan sponsors, regulators and lawmakers. The commission made several recommendations to promote greater use of retirement income options, including:

- **Encourage plan sponsors to integrate easy-to-use, sophisticated lifetime income features.** Plan sponsors have been discouraged from addressing this need by concerns about fiduciary liability, the time and resources required to implement lifetime income features and low participant take-up from previous efforts. New safe harbors, modified regulations and additional guidance would make it easier for plan sponsors to incorporate lifetime income options within DC plans. These safe harbors and other efforts would limit legal risk to plan sponsors if they follow certain specifications, but regulations also would feature sufficient flexibility to design a tailored solution for participants. In particular, policy changes would promote three especially promising approaches: laddering of annuities, active-choice decision frameworks and later claiming of Social Security.

- **Implement policy changes to encourage plans to offer installment purchases of guaranteed lifetime income products.** Purchasing an annuity in small amounts over several years, an approach known as **laddering**, offers many advantages, reducing the risk of poor timing (for example, buying an annuity when interest rates are especially low or selling equity investments to fund the purchase during a stock market downturn) and lessening natural fears surrounding major, single-sum purchases. Yet the laddering approach is typically difficult in practice. A new safe harbor, along with any necessary regulatory changes and guidance, would grant limited protection from fiduciary liability to plan sponsors that offer participants the use of a service that automates laddering for purchases of a guaranteed lifetime income product. This safe harbor would be product-neutral and would apply broadly to insured products that include lifetime guarantees, such as irrevocable fixed life annuities, as well as products that guarantee a lifetime stream of withdrawals from an account balance to which the participant has continued access. The laddering safe harbor would accommodate various participant-decision frameworks, including opt-in approaches, in which participants have the opportunity to affirmatively select an option; opt-out approaches, in which a subset of participants, such as those meeting age and plan savings thresholds, are notified in advance that they will be enrolled into the option by default unless they affirma-
tively opt out; and active-choice approaches (described in the next item). Since participants might use only a portion of their retirement account to purchase a guaranteed lifetime income product (for example, a participant might use 10-20% of their savings to purchase a life annuity that would begin payment at the age of 80 or 85, an approach known as a longevity annuity), a systematic withdrawal method could be a prudent retirement income approach for the remaining assets. Such methods allow participants to make automated, regular withdrawals from a retirement account in amounts that are likely to be sustainable over the long term—though they are not guaranteed to last for the life of the participant. The safe harbor also would encourage plan sponsors to make automated, systematic withdrawal methods available to participants as a supplement to the laddering approach.

- **Implement policy changes to promote active-choice methods of selection among retirement income features.** An active-choice framework requires individuals to make a decision. Whereas participation is the default course with an opt-out policy, and nonparticipation is the default for an opt-in design, an active-choice framework lays out several options and allows individuals to choose their preferences. Policy makers should offer a safe harbor for plan sponsors that wish to utilize an active-choice approach for retirement income features, thereby engaging participants in this important decision. Under such an approach, participants of a certain age, perhaps ten years before the expected retirement age, would be offered a simplified menu of retirement income options, potentially including those encouraged by the proposals above. Before taking any withdrawals from the plan, participants would be required to make an affirmative election of whether and how to use retirement income features. Participants could choose to decline all such features and independently manage withdrawals from the plan.

- **Encourage plan sponsors to offer information and features designed to lessen the risk that...**

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**FIGURE**

**Retirement Savings for Lower Income and Middle-Income Earners Grow Significantly Under Minimum-Coverage Standard**

Projected change in retirement savings among individuals aged 62 and older in 2065 under near-universal access to workplace retirement savings.

*Note: Retirement savings include savings in defined contribution plans, such as 401(k) plans, IRAs and Keogh plans. Population is segmented based on lifetime earnings; for example, the bottom quintile represents those individuals whose total career earnings (including wages and salaries) were in the lowest 20% of all Americans. The figure is presented on a per capita basis, which means that estimates are for individual persons, assuming that couples equally divide household assets. For modeling assumptions and methods, please see page 47 of *Securing Our Financial Future: Report of the Commission on Retirement Security and Personal Savings*. Source: DYNASIM3 microsimulation model from the Urban Institute.*
workers will claim Social Security benefits early. For each year between the ages of 62 and 70 that individuals wait to claim Social Security benefits, their monthly payments increase by between 5% and 8%. For many retirement plan participants, claiming Social Security benefits later would improve retirement security by offering better protection against longevity risk. Working longer or temporarily taking larger distributions from retirement accounts are both ways to facilitate later claiming. Policy makers should establish a safe harbor that encourages plan sponsors to implement features that help participants make informed decisions about when to claim Social Security benefits and that assist participants in using their retirement savings to enable later claiming.

- Develop new guidance and rules to encourage plan sponsors to better engage participants in decisions about lifetime income. Many participants would benefit from a better understanding of their options for retirement income and the ability to select a solution that is appropriate for their particular circumstances. Furthermore, participants may have little sense of how much income their savings could generate during retirement. Some plan sponsors have been reluctant to offer such estimates out of fear that a participant might interpret them as a promise and that the sponsor then might become liable if actual retirement income falls short of the estimates. The Labor Department has initiated the development of guidance to encourage plan sponsors to communicate with participants about lifetime income as well as development of a rule to include lifetime income projections on quarterly plan statements, which would include a safe harbor to protect plan sponsors from liability if actual experience differs. The Department should finalize and publish guidance for plan sponsors on communicating with participants about aspects of lifetime income and finalize the lifetime income illustration rule.

- Clarify the role of the plan sponsor in assessing the financial strength of insurance carriers when selecting in-plan annuities. Current safe harbor guidance leaves plan sponsors that seek to offer a guaranteed lifetime income distribution option with too much uncertainty about how to evaluate the solvency of potential carriers. While plan sponsors should be responsible for evaluating the appropriateness of retirement income features and associated costs, they typically lack the expertise to evaluate the solvency of insurance companies and should be able to look to others for guidance on the financial strength of the carrier. Lawmakers of both parties, including Senator Orrin Hatch and former Senator Tom Harkin, have proposed reasonable approaches to address this problem. Policy makers should seriously consider these approaches and enact a new standard that offers plan sponsors more clarity about how to assess solvency. Any new approach still must require plan sponsors to thoroughly evaluate the costs and benefits of products under potential annuity contracts.

- Allow participants aged 55 and older to initiate in-service rollovers for the purchase of annuities that begin making payments later in life, and improve the portability of in-plan annuity contracts. Many DC plans do not incorporate in-plan guaranteed lifetime income distribution options. Participants in these plans must wait until at least the age of 59½ to purchase an annuity or other guaranteed lifetime income product. This limits workers’ ability to purchase such products using an installment approach (also known as laddering, as discussed earlier) to mitigate timing risk. In a related move, the Treasury Department already has established rules to encourage the use of qualifying longevity annuity contracts (QLACs), which are insurance products that guarantee a monthly payment for life starting no later than the age of 85. Compared with immediate annuities, QLACs can be a lower cost method to address longevity risk. ERISA would be revised and new regulations would be developed to enable DC plan participants aged 55 and over to initiate special in-service rollovers exclusively for purchasing QLACs. Further, this special in-service rollover opportunity would be extended to participants who purchase an in-plan lifetime income product that is subsequently discontinued, increasing flexibility for plan sponsors and addressing a concern that serves to inhibit in-plan adoption of lifetime income products.

- Allow DB plans to offer additional lifetime income distribution options in order to provide employees with more flexibility and discourage lump-sum dis-
When given a choice, DB plan participants have demonstrated a strong aversion to taking pension benefits entirely in the form of monthly income. Perhaps some mix of lifetime income and a lump sum would be more attractive and result in greater protection against longevity risk than otherwise. The Treasury Department should issue regulations to encourage DB plans to give participants flexibility in choosing what portion of their benefit to take as a monthly payment and what portion to receive as a lump sum. In addition, the Treasury Department should develop a second regulation to allow DB plans to offer longevity annuities as an option, which could align with the existing QLACs that plan sponsors may now offer to DC plan participants.

- Improve work incentives by allowing qualified retirement plans to align plan retirement ages with Social Security. Currently, employer-sponsored retirement plans cannot designate a plan retirement age above 65. Allowing plan sponsors to align plan retirement ages with the Social Security full retirement age, currently increasing toward 67, could both encourage participants to work longer and provide more consistent work incentives across Social Security and employer-sponsored plans.

Facilitate the Use of Home Equity for Retirement Consumption

Home equity usually is overlooked in discussions about retirement policy. Yet housing is the largest single asset for many older Americans. As a class, home equity ($12.5 trillion) rivals the $14 trillion held in retirement savings. Homeownership can reduce living expenses in retirement and can serve as a source of savings to address the challenges of aging. For example, homeowners can downsize to a smaller, less expensive home, using the remaining proceeds to pay for retirement living expenses such as long-term care.

Reverse mortgages are an option appropriate for some homeowners; these can be used to provide a combination of regular monthly payments to help with regular expenses and a line of credit to handle nonrecurring expenses, although fees can be high. The products also have a negative reputation with many and can be risky, though new regulations have improved practices and increased consumer protection.

None of these options is available, however, if the home equity doesn’t last until retirement age. Home equity is too frequently depleted by borrowing and, increasingly, Americans are entering retirement owing ongoing mortgage payments. The commission proposed some ways to strengthen the role of home equity in retirement security, including:

- **End subsidies that encourage the use of home equity for preretirement consumption.** Federal policy has abetted the depletion of home equity by making mortgage interest tax-deductible. Tax deductions would no longer apply to mortgage interest when home equity decreases, such as through home equity lines of credit, second mortgages that reduce home equity and refinancing transactions that result in a cashout.

- **Strengthen programs that support and advise consumers on reverse mortgages.** Despite the risks and costs, a reverse mortgage can be a prudent option for some retirees, especially for those who wish to remain in their homes and who have high levels of home wealth but lack sufficient retirement savings and income. Many of those who could benefit have not considered the option, nor are they aware that advice is available from independent counselors sponsored by the Federal Housing Administration (FHA). Additional resources would be provided to the FHA to administer the federal reverse mortgage option, with a portion dedicated to enhancing the existing financial counseling program. In addition, FHA should engage other retirement-focused federal agencies to develop a strategic plan for how reverse mortgages can play the most appropriate role in retirement security.

- **Establish a low-dollar reverse mortgage pool for retired homeowners.** The current federal reverse mortgage option allows older homeowners to access a large portion of their home equity for consumption purposes. This makes the product risky and, therefore, expensive, as the vast majority of borrowers opt to borrow the maximum amount. Policy makers should offer a low-dollar reverse mortgage pool that would operate alongside the current system as a way to allow retirees to tap into smaller amounts of their home equity, which should result in lower risk and, consequently, lower fees paid by borrowers.
**Improve Financial Capability Among All Americans**

Financial capability refers to the knowledge, ability and opportunity to manage one’s own finances. Without a basic knowledge of personal finance and related skills, Americans cannot effectively navigate a path to a secure retirement. Unfortunately, too many Americans possess low levels of financial capability. Addressing this deficiency will require efforts from throughout society—governments, educational institutions, community organizations and employers. Further, timely interventions—such as those that occur when people need information or tools to help them make decisions—are most effective. The commission proposed several ways that financial capability can be improved, including:

- **Implement the recommendations of the President’s Advisory Council on Financial Capability.** Convened in 2010, the council published a host of proposals directed toward key community organizations and institutions. The council also developed a set of recommendations for employers, including a workplace financial capability framework that describes best practices for employers interested in designing and implementing initiatives to promote financial capability.11

- **Improve personal financial education in K-12 and higher education curricula.** Personal finance should be a regular part of the basic education curriculum in K-12 schools, but it should not end there. Institutions of higher education should adopt financial capability coursework requirements for graduation.

- **Improve communication about Social Security benefits.** Too few Americans understand that their Social Security monthly benefit will increase if they claim later. Most claim before full retirement age—many at the age of 62.12 For some, this is the right decision, but others might claim later if they were better informed. The Social Security statement should be revised to emphasize the higher monthly benefits that come from claiming benefits later. Also, the Social Security ages should be renamed to reflect the trade-offs involved in claiming earlier or later. For example, the earliest eligibility age, currently the age of 62, should be renamed the “reduced benefit age.” Furthermore, Social Security should ensure prospective applicants at field offices receive accurate information about claiming options.

**Strengthen Social Security Finances and Modernize the Program**

Social Security—specifically the Old-Age and Survivors Insurance (OASI) program—provides the base of retirement income security for almost all Americans. As such, Social Security must be considered as part of any comprehensive effort to improve retirement security. The program provides essential context for other components of the U.S. retirement system. For example, how much individual workers should save for retirement in employer-sponsored plans is dependent, in part, on how much they will receive in benefits from Social Security. This calculation is especially difficult today because workers do not know what to expect from Social Security going forward. With program trust funds projected to become depleted by the mid-2030s, policy makers will likely take action to avoid a 23% across-the-board cut in benefits.13 Yet workers saving today do not know how these actions will affect them—such as through higher taxes and/or lower benefits—and so cannot adjust their savings accordingly.

In addition to clearer expectations for Americans saving for retirement, addressing the financial challenges of Social Security soon could have many other benefits. The necessary adjustments to the program would be smaller, and its structural inequities could be addressed to improve retirement security in the next few years. For example, benefits can be modest (for one-third of beneficiaries in 2015, monthly Social Security income was less than $1,05014), leaving some in poverty; also, total household Social Security benefits can drop by as much as half after the death of a spouse, leaving many widows and widowers in difficult financial straits.

The commission proposed a comprehensive package of changes to the OASI program that would substantially improve long-term program finances, increase retirement incomes for those with lower lifetime earnings and surviving spouses, reduce poverty among older Americans by one-third from current levels by 2035 and improve work incentives. The package is roughly evenly balanced between revenue increases and changes to benefits, and it was modeled extensively by both the Urban Institute and the Social Security Administration, both of which concluded that the package would extend the ability of Social Security to pay benefits without abrupt reductions through the end of the 75-year projection period.
To achieve these outcomes, the commission recommended several changes to benefits and program financing. The benefit formula would be revised to become more progressive and improve late-career work incentives. Low-income beneficiaries would receive an additional boost to benefits, bringing many out of poverty. The full retirement age would be indexed to longevity until it reaches the age of 69 in 2070, and future cost-of-living adjustments would be based on the more accurate Chained Consumer Price Index. The benefit for nonworking spouses would be limited for higher earners, and the survivors benefit would be reformed and enhanced to protect widows and widowers from precipitous drops in income. Earnings subject to Social Security taxes would be expanded to the first $195,000 by 2020 (up from $127,200 in 2017), and the payroll and self-employment tax rates would gradually increase from 12.4% to 13.4% over ten years. The highest income beneficiaries—with more than $250,000 of income—would be taxed on their entire Social Security benefit.

Conclusion

The recommendations of the commission, supported by modeling analysis, show that significant improvement to retirement security could be achieved through modifications to and expansion of the existing U.S. retirement system. It is not necessary to start over from the ground up to obtain good results. Further, bipartisan solutions that advance the goals of both the left and right—such as greater personal responsibility, broader access and inclusion, work incentives, safety nets, private sector innovation and uniform social insurance—are possible, but they require trade-offs, many of them politically difficult.

Change that delivers increased financial security for older Americans will require leadership. Congress must act, since legislation will be necessary to address many of these challenges. More than a decade has elapsed since Congress last passed wide-ranging retirement legislation (the Pension Protection Act of 2006)—but not for lack of trying. In recent years, several major retirement security bills have been introduced, and the 114th Congress (2015-16) saw the formation of a bipartisan, bicameral Retirement Security Caucus along with 15 committee hearings on retirement issues. An encouraging sign is the bipartisan show of support for the Retirement Enhancement and Savings Act (RESA), which includes provisions aligned with several of the proposals of the commission. RESA passed the Finance Committee unanimously in September 2016, potentially setting the stage for it to resurface and be signed into law this year.

Tax reform and the need to address financial shortfalls in multiemployer plans present notable opportunities for the 115th Congress to advance proposals that would help Americans prepare for retirement. The administration could act as well. In addition to presidential leadership to spur Congress to address retirement issues, agencies such as the Labor Department, Treasury Department and Social Security Administration could do much to advance retirement security, such as removing regulatory barriers to broader access to lifetime income features and improving communication with prospective Social Security beneficiaries.

Accessing the Commission Report


An effective system also needs employee benefit plan professionals to continually improve their own plans and engage with the policy-making process. These experts can help by promoting laws and regulations that support improved access and innovations in retirement plans that benefit participants as they prepare for financial security in older age. We are all in this retirement-preparation journey together, and what’s at stake is nothing less than the fabric, cohesion and future prosperity of our American society.

Endnotes

3. For a list of the commission membership, see “Retirement and Personal Savings Commissioners.” Available at: http://bipartisanpolicy.org/projecteconomic-policy-projectpersonal-savingsmembers/.


For an argument in favor of the commission proposal, see Charles Blahous, “A Balanced Bipartisan Compromise for Strengthening Retirement Security.”
5. For more on disability, see Bipartisan Policy Center, Disability and Retirement Security: New Research and Next Steps, October 20, 2016. Available at: http://bipartisanpolicy.org/events/disability-retirement-security -new-research/. For more on long-term care, see Bipartisan Policy Center, Initial Recommendations to Improve the Financing of Long-Term Care, February 1, 2016. Available at: bipartisanpolicy.org/library/long-term-care -financing-recommendations/.

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