



U.S. CHAMBER OF COMMERCE



SOLUTIONS FORUM

Rethinking Retirement:

Moving Ahead Without Leaving Anyone Behind

EVENT SUMMARY



National Press Club • Washington, D.C. • July 26, 2013



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Randy Johnson, senior vice president of Labor, Immigration & Employee Benefits at the U.S. Chamber, and Debra Whitman, executive vice president for Policy, Strategy & International Affairs at AARP, present a joint statement on retirement policy urging policymakers to expand workers' access to tax-deferred payroll deduction retirement savings plans, keep and enhance incentives to save, and increase education efforts.

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Sponsored by AARP and the U.S. Chamber of Commerce
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SUMMARY

The joint AARP-U.S. Chamber of Commerce forum brought together a diverse group of employers, plan administrators, and representatives of consumer groups and the financial services industry to discuss ways to improve retirement savings in America. Specifically, the forum addressed challenges for minorities and low-income workers, ways to expand access, incentives to save, and methods to get people more involved and educated about saving for retirement.

JOINT STATEMENT ON RETIREMENT SECURITY

Randy Johnson, senior vice president of Labor, Immigration & Employee Benefits at the U.S. Chamber, and Debra Whitman, executive vice president for Policy, Strategy & International Affairs at AARP, discussed the need to focus on retirement security as the 65 and over population is expected to double in the next 25 years. By 2030, almost one out of every five Americans will be 65 or older. Johnson pointed out that if the country is not able to provide the “means for increased savings for people across the economic spectrum, we’re going to have a real problem on our hands.”

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Randy Johnson, senior vice president of Labor, Immigration & Employee Benefits at the U.S. Chamber, welcomes participants to the conference, emphasizing that employers and workers are “in this together” when it comes to improving retirement security.

AARP and the Chamber released a joint statement on retirement security urging policymakers to do the following:

Expand access for workers to tax-deferred payroll deduction retirement savings plans at their place of work, while recognizing and minimizing any additional burden these plans place on employers. Payroll deduction retirement saving, especially when combined with automatic enrollment and automatic escalation, has proven to be the most efficient and effective method to increase participation and retirement saving.

Keep and enhance incentives for individuals at all income levels to save, while targeting, in particular, low- and moderate-income earners who have fewer opportunities and resources to save. Increasing private retirement saving is critical to both overall economic growth and to the future income security of millions of Americans.

Increase education efforts regarding the need for working Americans to save sufficient amounts for retirement and how to do so most effectively. Many Americans who are able to set

money aside simply do not save or save far less than they should. Improved and sustained education can help address that challenge.

“Today, [as outlined in the joint statement,] AARP and our friends at the Chamber of Commerce are highlighting three broad strategies,” explained Debra Whitman, executive vice president for Policy, Strategy & International Affairs at AARP. “Taken together, we believe that these three strategies can make a difference in Americans’ lives and America’s future.”

OPENING REMARKS

Randy Johnson opened the forum by welcoming the opportunity to address retirement security jointly with AARP. “We’re all in this together,” he said, both “employers who play an important role ... in providing retirement and workers, many of whom are represented by AARP.”

A FRAMEWORK FOR GREATER SAVINGS

According to keynote speaker Bob Reynolds, CEO of Putnam Investments, Inc., research shows that most people will face a significant decrease in living standards in retirement. He recommended improving the accessibility of payroll deduction plans at the workplace as part of a series of steps to move the United States toward retirement security:

- **Best practices endorsed by the Pension Protection Act of 2006 should be the new norm for all workplace savings plans.** For all workplace savings plans, Reynolds suggested mandating features

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Keynote speaker Bob Reynolds, CEO of Putnam Investments, Inc., recommends that payroll deduction plans be made more accessible to employees as one of a number of steps to move the United States toward retirement security.

such as automatic enrollment, annual automatic re-enrollment, automatic escalation to higher deferrals, and automatic default to a qualified target date or balanced funds.

- **Access to workplace savings plans should be extended to all Americans by requiring companies to offer such plans.** This would improve retirement readiness for many low- and moderate-income workers. Although mandates often face opposition from businesses, policymakers should focus on designing better ways to make plans less expensive to offer, compensate companies through the tax code, and protect them from liability.
- **The baseline for savings rates across the workplace savings system should be raised** from the typical 3%, 5%, and 7%, which are insufficient to ensure retirement readiness. “There is no more powerful driver of retirement success than deferral

rates—and I feel a fiduciary duty to call for a 10%+ new industry baseline,” said Reynolds.

CHALLENGES TO RETIREMENT SAVING

The challenges of specific populations, including women, Hispanics, African-Americans, and low-income workers, when saving for retirement were discussed by a panel of experts. Panel moderator Gary Koenig, director of economic issues for the AARP Public Policy Institute, led a discussion on the challenges these groups face and the most effective ways to improve access, plan design, incentives, and education.

- **Cindy Hounsell, president of the Women’s Institute for a Secure Retirement, said that low-income and minority workers want to save and want access to features such as payroll deductions.** “Moderate- and low-income

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A panel moderated by Gary Koenig, director of economic issues for the AARP Public Policy Institute, addresses the challenges facing women, Hispanics, African-Americans, and low-income workers in saving for retirement.

people ... want to save as much as anybody else. They want to have access ... and they want to know how to do it.”

- **Leticia Miranda, senior advisor at the National Council of La Raza, emphasized the lack of access to retirement savings plans**, indicating that “two-thirds of Hispanics work at places that don’t offer a retirement plan.” This leaves them without a way to save through their paychecks. As a result, “about 53% of Hispanic seniors depend on Social Security for almost all their income.”
- **Patti Björk, director of retirement research at Aon Hewitt, pointed out that 401(k) plan leakage has become a problem for moderate income and minority workers.** “That is where we really see significant differences,” she commented. “African-Americans are taking high volumes of loans and withdrawals. And females are taking higher volumes than males.” Hounsell

confirmed that women also deal with lower lifetime earnings, as they have more interruptions in employment and are twice as likely as men to work part time.

Here are other key points of the discussion:

- **Automatic enrollment can help Hispanics and other racial groups save for retirement**, Miranda and Björk both stressed. “It just has huge important benefits. And you could extend that if we had a more universal system, with an Automatic IRA, and a mandate on employers to permit employees to save their money,” said Miranda.
- **Making the saver’s tax credit refundable could make it more effective** and encourage low- and moderate-income workers to save. “Tax incentives for retirement are completely skewed to the top one-fifth of workers,” Miranda said. “And it’s so unfair.”
- **“Communication is key,”** according to Björk and Hounsell. Web tools, access to mobile applications, print versions, and help products are beneficial. Björk said, “Advice or target date funds or managed accounts are another good tool to help people and guide them through the process.” Hounsell added that segmentation can be useful when communicating with workers, stating that when companies and financial organizations provide access to tools or emails that focus on women, “people get really excited” when they receive information that addresses their specific needs.

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Michael Kiley, president of Plan Administrators, Inc. (PAi), explains how minimizing disincentives for employers would help spur coverage expansion and improve the retirement system as a whole.

WAYS TO EXPAND COVERAGE

David John, Senior Strategic Advisor for the AARP Public Policy Institute, moderated a panel of plan administrators and representatives of the financial services industry focused on practical solutions and innovative plan designs from the industry that can bolster retirement savings and improve the system as a whole.

- Beth McHugh, vice president of Workplace Investing at Fidelity Investments, supported increasing automatic enrollment** to meet the goal of helping individuals of all ages and demographics prepare for a secure retirement in the face of increasing costs. “Automatic enrollment is a powerful step toward getting people in plans and getting people covered. ... Plans with automatic enrollment have an average participation rate of 83%, compared with just 54% of those without automatic enrollment.”
- She also suggested raising the minimum default deferral rate to 6% or higher, increasing the cap on the automatic enrollment safe harbor beyond the current 10%, and using automatic escalation to ensure that employees are saving enough to be fully prepared for retirement.
- Heather Hooper, vice president of Retirement Strategies at investment management firm Loring Ward, reinforced the importance of plan simplicity to employers.** “Employers want to focus on running their businesses. They don’t want to have to worry about all the moving pieces behind their plans.” Employers care about “ease of administration, risk mitigation, and creation of meaningful benefits for their participants to help them retain top talent,” she explained. Simple plan designs help meet those priorities.



Jamie Kalamarides, senior vice president of Institutional Investment Solutions at Prudential Retirement, right, discusses the potential for increasing coverage through the use of multiple employer plans.

- Jamie Kalamarides, senior vice president of Institutional Investment Solutions at Prudential Retirement, highlighted the benefit of expanding coverage to small businesses using multiple employer plans.** Such plans “allow small businesses to pool their purchasing power, reduce costs, simplify administration, and transfer the complex decisions that they are fiduciarily responsible for to professionals.” Kalamarides said that getting workers to participate in defined contribution plans is important, as people “save 50% more when retirement income is in the plan.”
- Michael Kiley, president of Plan Administrators, Inc. (PAi), said a key piece of the puzzle is decreasing disincentives for employers.** Innovation that would enable workers to safely provide retirement capital to small businesses would help build employer support. “If you’re a small business owner and you want to be invested in the retirement system, you want to see it as a source of capital,” he explained. Automatic IRAs are another way to decrease disincentives. The Automatic IRA “decreases distribution costs, allows employees to solve the problem for themselves,” and reduces the risk for employers. Kiley also pointed out advantages to his suggestion of developing a lottery system inside a savings program that would allow retirement savers and their employers to win prizes. “When you reward one of the participants, you reward the employer that sponsors the plan. Just like you reward the company that sold the winning lottery ticket. You allow employers to participate. You give them incentives to do so.”

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EMPLOYER AND
CONSUMER PERSPECTIVES

“We’ve talked about populations we may need to target or that are underrepresented. We’ve heard solutions from service providers. But now we have the employers and the workers. And these are really the key parts of the puzzle when we’re talking about retirement and security,” moderator Aliya Wong, executive director of Retirement Policy at the U.S. Chamber, said at the start of the last panel. The discussion focused on why employers sponsor retirement plans, why workers participate, and the challenges faced by plan sponsors.

- **Paula Calimafde, chair of the Small Business Council of America, described the cost-benefit analysis that small businesses must do when offering a plan.** Costs include contributions that the employer must or chooses to make and administrative expenses; benefits include helping employees save for retirement in a tax-advantaged way. “People usually don’t save unless they’re saving in a retirement plan,” according to Calimafde.
- **Shaun O’Brien, assistant policy director for Health Care and Retirement at the AFL-CIO, emphasized the importance of retirement and financial security to his members.** He said that “85% of union members in the private sector participate in some kind of retirement plan. Two-thirds of private sector union members participate in the defined benefit plan. Compare that to 12% of nonunion private sector workers.” O’Brien also said, “There’s a greater share of union workers participating in defined contribution



Panelists respond to questions about retirement savings challenges during a discussion highlighting employer and consumer perspectives.

plans than nonunion workers in the private sector. So retirement security is very important to our members.”

- **Stacey Dion, vice president of Corporate Public Policy for Boeing, explained what Boeing is doing to educate its workforce about retirement savings.** Boeing supports its employees with tools and resources, including online advisors, financial planning seminars, and monthly webcasts. The company maintains a popular mobile app with 24/7 access to the defined contribution plan. In addition, Boeing is “bumping up its deferral from 25% to 30%,” allowing deferral of bonuses, and launching a pilot program to provide employees with one-on-one financial counseling. Boeing also strongly supports phased retirement, which enables workers to transition into retirement without “going from 100 miles an hour to zero” and to prevent “brain drain” for the employer, said Dion.

- **Calimafde and O'Brien disagreed about whether simplifying retirement savings plans would help.** Calimafde agreed with earlier panelists that the complexity of workplace savings plans needs to be reduced. "I think, unfortunately, that sometimes the government, in trying to make the system perfect, is actually layering it down with complexity. And if we could pull some of that complexity away, we would end up with a system that was even more vibrant." She also agreed that electronic notification would be effective. "People in the workforce are looking at the Internet. And they are not looking at these 10-page paper notices anymore."

O'Brien disagreed that changes aimed at simplification were the answer, as these would fail to address the issue of people who don't have access to any sort of plan. "Maybe [these changes] would make some gains, but it strikes me as playing at the margins more than really addressing the problem."

CLOSING REMARKS

AARP's Debra Whitman recapped the often-repeated solutions proposed during the forum, including expansion of workplace savings options, reform and expansion of the payroll deduction system, increased use of automatic enrollment and automatic escalation, improved incentives to save, and increased education about the importance of saving. She emphasized that the next step toward retirement security is persuading policymakers in Washington to "hear these areas of common consensus and move forward" with these important solutions.



Deb Whitman, executive vice president for Policy, Strategy & International Affairs at AARP, summarizes the solutions proposed during the forum.



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