

**United States House of Representatives
Committee on Ways and Means**

Hearing on Improving Retirement Security for America's Workers

Thursday, February 7, 2019

Statement for the Record

The Securities Industry and Financial Markets Association ("SIFMA")¹ appreciates the opportunity to provide a submission to the House Ways and Means Committee as part of its hearing on retirement security. We commend Chairman Neal for his long-standing commitment to expanding retirement savings and retirement security for all Americans, and we look forward to working with him and other members of Congress to advance this critical policy goal.

The Importance of Addressing Retirement Savings

The American retirement system, including various tax incentives to promote savings, has helped millions of Americans prepare for a secure retirement. Entering the 116th Congress, SIFMA believes Congress can take steps toward enhancing the private retirement system even further, including passage of provisions that have bipartisan support, the *Retirement Enhancement and Savings Act* (RESA) as well as other commonsense provisions to encourage small businesses to offer retirement savings plans and encourage individuals to utilize the options that are available to enjoy retirement security.

Additionally, SIFMA shares the committee's concern that American workers are not sufficiently prepared for retirement and strongly believes individuals need to make more educated choices with respect to their savings. This goal requires a steady focus on education and disclosure, and greater partnership between employers, providers and employees. Financial literacy and general investment education should become part of the basic curriculum from grammar school through high school. Beyond that, there needs to be collaborative outreach by the states, the federal government, employers and providers to educate individuals about their likely retirement income needs, accessible methods of estimating those needs and the amount necessary to set aside monthly to meet those needs.

SIFMA is committed to increasing retirement security and has identified three primary pillars to reach this goal:

- (1) Expanding access to plans;
- (2) Increasing participation; and
- (3) Enhancing education.

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

Expanding Access to Plans

Expanding the availability of employer-sponsored savings plans is one way to help boost retirement savings. The Employee Benefit Research Institute (EBRI) found that 73% of workers earning a moderate income, from \$30,000 to \$50,000, participated in an employer-sponsored plan when a plan was available.²

Employers offer additional encouragement for employees to participate and meaningfully save in a retirement plan. Employers match participant savings and employers have also facilitated the use of auto-enrollment to bring more workers into their savings program.

Policymakers have recognized that for certain small employers, additional tools may provide an enhanced opportunities to provide retirement plan coverage to employees. Allowing employers to join a pooled arrangement that allows different types of employers to collectively offer a plan to their employees holds some promise to boosting coverage at small enterprises. And, for the very smallest employers – those with less than 25 employees -- the SIMPLE IRA and SEP-IRA have proven their value.

Many of our members administer SIMPLE IRAs. These options involve less burden and more flexibility while providing meaningful savings for employees because of matching contributions or non-elective deferral requirements.

Those businesses that have not made the choice to offer a retirement plan may be good candidates for the open MEP. Employers often cite the costs of setting up a plan, administrative burdens, and potential legal risks inherent in sponsoring a plan, including the potential for expensive and time-consuming litigation as barriers to starting a plan for their workers.

SIFMA strongly supports Congress removing legal barriers – including geographical restrictions – to allow for open MEPs, which would allow unaffiliated business owners to pool their assets even when their only relationship to each other is through their participation in the MEP. Such a structure can reduce the employer's cost of sponsoring a benefit plan while also transferring much of the legal risk to professional fiduciaries responsible for the management of the plan.

There are several other good proposals to help ease cost concerns and take advantage of innovative technology, including:

- Expansion of e-delivery could eliminate some cost barriers and help reduce administrative complexity.
- Increasing the cap for the start-up tax credit for small employers could incentivize those business owners to offer plans for their employees.
- Expansion of EPCRS to allow for more self-correction could help limit employer risks and liability.

² Retirement Plan Participation: Survey of Income and Program Participation (SIPP) Data, 2012. (2013). Employee Benefit Research Institute Notes, 34(8), p. 6. Retrieved, from http://www.ebri.org/pdf/notespdf/EBRI_Notes_08_Aug-13_RetPart-CEHCS1.pdf

Increasing Participation

SIFMA supports many of the proposals that have been introduced in recent years to expand the use of critical tax incentives that encourage savings, including provisions that would increase the contribution limit of SIMPLE IRAs to be consistent with 401(k) plans. As the Committee considers legislation that would further enhance existing solutions, we urge you to consider provisions that would update the SIMPLE IRA. SIMPLE IRA plans are easy to implement savings programs that can provide retirement security for both the employer and employees of small businesses. Increasing the amount which can be saved on a tax-deferred basis will encourage participants to save more for retirement.

In addition, SIFMA believes a SIMPLE plan sponsor should be permitted to make additional non-elective contributions to participant accounts. This would allow small business owners to fully utilize existing tax incentives in years their businesses are doing well. Congress can further harmonize SIMPLE and 401(k) rules by allowing SIMPLE balances to be rolled into other qualified savings accounts within the first two years of the plan. Additionally, lawmakers should consider a Roth-style SIMPLE IRA similar to the existing Roth 401(k) utilized by many American workers.

There are several other good proposals to increase participation and prevent leakage, including:

- Increasing the RMD age so that funds stay in retirement accounts until they are needed.
- Provide an exception to the RMD rules for accounts with \$250,000 or less in aggregate savings.
- Repeal the maximum age for IRA contributions so older Americans can continue to save.
- Gradually increase the automatic safe harbor rate from 6% to 10%.

Enhancing Education

The third pillar to increasing retirement security is to enhance education. A fundamental understanding of savings and investing is critical to the financial well-being and success of individuals thinking and preparing for retirement. Education occurs in our classrooms, as well as outside the classroom through working with financial advisors.

SIFMA's affiliated organization, the SIFMA Foundation, is dedicated to fostering knowledge and understanding of the financial markets for individuals of all backgrounds, with a focus on supporting teachers with educational programs.

This education continues well beyond the classroom years in a number of ways, one of which is through working with financial advisors. These professionals provide access to affordable advice that helps individuals and families save for a sound financial future. An Oliver Wyman report found that advised individuals, segmented by age and income, have a minimum of 25% more assets than non-advised individuals. And in the case of individuals aged 65 and older with \$100,000 or less in annual income, advised individuals have an average of 113% more assets than non-advised investors. Moreover, advised investors have more diversified portfolios -- own twice as many asset classes, have more balanced portfolio asset allocations and use more packaged products for equity exposure compared with non-advised investors.³ In addition to providing critical financial and retirement savings education, advisors add value by encouraging clients to save holistically, not just for retirement. For nearly every listed

³ Oliver Wyman, The role of financial advisors in the US retirement market, July 2015, <http://www.dol.gov/ebsa/pdf/1210-AB32-2-00515.pdf>

savings goal, advisors' clients are significantly more likely to save on a regular basis compared with people who do not consult advisors.⁴

Financial advisors also help small business owners and their employees saving for retirement. The Oliver Wyman study also found that small businesses that work with a financial advisor are 50% more likely to set up a retirement plan, and micro businesses with fewer than 10 employees are almost twice as likely.

This access to education and advice throughout an individual's life is critical to enhancing the retirement security for all Americans. Policies to support this education starting early and continuing through the individual's lifetime will provide individuals with the tools they need to understand personal finance, the importance of saving for retirement, and help them make sound financial decisions for lifelong success.

SIFMA looks forward to working with Chairman Neal and other interested members of Congress on this important issue and would be pleased to provide further information if needed. Thank you for your time and consideration.

⁴ LIMRA, Matters of Fact: Consumers, Advisors, and Retirement Decisions (and Results), May 2015, http://www.limra.com/uploadedFiles/limra.com/LIMRA_Root/Posts/PR/_Media/PDFs/Facts-about-retirement-decisions.pdf