United States Senate Finance Committee

Challenges in the Retirement System

Tuesday, May 14, 2019

Statement for the Record

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the opportunity to provide a submission to the Senate Finance Committee as part of its hearing on challenges in the retirement system. We commend Chairman Grassley and Ranking Member Wyden on holding this hearing, and we look forward to working with the Committee to advance federal legislation to help address the challenges in saving for retirement today.

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. SIFMA believes Congress can take steps toward enhancing the private retirement system even further. This includes passing bipartisan legislation, such as the *Retirement Enhancement and Savings Act* (RESA), *the Setting Every Community Up for Retirement Enhancement* (SECURE) *Act*, as well as other commonsense provisions that encourage small businesses to offer retirement savings plans while empowering individuals to take control of their financial 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.

For today's hearing, our submission will focus on the retirement provisions we support, and the importance of addressing retirement saving at a federal level, as opposed to the individual states creating 50 different plans.

Retirement Provisions We Support

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

[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.

income, from $30,000 to $50,000, participated in an employer-sponsored plan when a plan was available.[2]

Employers can incentivize meaningful participation in such plans by offering their employees matching contributions. 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 enhance opportunities to provide retirement plan coverage to employees, and have included many great provisions in RESA to achieve that goal. Allowing employers to join a pooled arrangement that permits different types of employers to collectively offer a plan to their employees (open MEPs) 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.

IRA programs are a very important part of the retirement savings landscape. Traditional and Roth IRAs encourage workers to set aside savings for long-term needs and provide important portability features to employer-based retirement options. SEP IRAs and one-person 401(k) plans are already working in the marketplace to provide portable savings options for workers – including for those participating in the gig economy.

For those workers leaving their place of employment, IRAs are an effective and easy tool to preserve retirement savings. IRAs provide diverse investment options for accumulating retirement savings and also benefit from a variety of options to assist with efforts to generate income in retirement. Moreover, IRA providers typically provide robust education, advice and financial planning services to millions of workers and retirees. Many of our members administer both SIMPLE IRAs and SEP 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 an open multiple employer plan (open MEP). Employers often cite the cost of setting up a plan, administrative burdens, and 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 unaffiliated businesses to form open MEPs. 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, while spurring innovation and increasing access to vital information for participants.

[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 the cap for the start-up tax credit for small employers could incentivize those business owners to offer plans for their employees.
- Expansion of the IRS Employee Plan Compliance Resolution System (EPCRS) to allow for more self-correction could help limit employer risks and liability, and could allow IRA owners access to the same corrections program as qualified plans.

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 examine 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. While we would suggest minor changes to the bill's reporting requirements, bipartisan legislation introduced by Senators Collins and Warner would go a long way toward strengthening these plans.

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 required minimum distribution (RMD) age above 70 ½ so that funds stay in retirement accounts until they are needed. The 70 ½ RMD age has not been updated since the early 1960s, despite Americans both living and working longer.
- Repeal the maximum age for IRA contributions so older Americans can continue to save past age 70 ½.
- Gradually increase the automatic safe harbor rate from 6% to 10%, which helps send the message that individuals should save more while allowing employers to help facilitate that additional saving.

Finally, it is critical that any reforms made by Congress, particularly to inherited retirement accounts, remain simple to understand for the benefit of the savers who are relying on these accounts for their long-term financial security. It is also important to avoid adding additional burden on plan sponsors and service providers who are integral to the administration of retirement plans

Importance of Addressing at a Federal Level

Several states have been working toward creating state-sponsored automatic IRAs under the belief that workers do not have sufficient access to retirement plan options. We do not believe that a system that encourages each individual state to create its own state specific auto-IRA plan is the best way to help individuals save for retirement. We have many concerns, but the primary one is that this could lead to 50 different systems across the country with different eligibility requirements, different default investments, and different withdrawal requirements. We also believe this approach ignores the underlying reasons why a business may choose not to sponsor a plan for their employees, and ignores the multitude of options already available to individuals and employers alike.

Such an arrangement ends up costing the states significant funds to operate the program while competing with a private market which already provides a wide variety of options for individuals who are ready to contribute a percentage of their annual compensation towards retirement but do not currently have a workplace plan.

There are additional concerns about state-run plans, including whether a mandatory IRA program would lead employers to choose the state option as an easy way to avoid creating a more expansive and substantive 401(k) plan.

While we appreciate the efforts of policymakers in many jurisdictions who are concerned about retirement savings deficits, we believe that efforts to mandate retirement savings at the state level are not the most efficient way to address these shortfalls. Proposals at the federal level are more likely to deliver the most cost-effective solutions since the framework for retirement savings, on the public side, relies on a federally-run Social Security system. For employers in the private sector, the federal ERISA statute has fostered a system that is both innovative and flexible and has served workers well for the past 45 years.

The RESA update to provide for pooling of different types of employers, is one incremental step that is worthy of adoption but provides for continued adaptability. We do not believe it is an issue of not having the right products, but instead it is an issue of educating individuals about the importance of saving and providing new ways for smaller employers to be incentivized to offer plans.

In conclusion, we strongly support the provisions included in RESA and similar retirement legislation because they will help more small employers offer retirement plans for their employees. Passage of retirement legislation this Congress would enable us to help more hard-working Americans feel secure in their retirement.