



AMERICAN BENEFITS COUNCIL

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BUILDING A NATIONAL RETIREMENT SAVINGS POLICY: PRINCIPLES TO GUIDE US

Throughout its history the Council has advocated on behalf of the employer-sponsored system in the absence of a coordinated national retirement savings policy. The Council has sought and achieved goals such as increased savings limits and certain simplification measures, but the treatment and regulation of retirement plans has varied widely to accommodate other policy and political priorities, such as addressing perceived institutional abuses or the need to raise federal revenue.

Today, even as policymakers have grown increasingly and vocally concerned about a so-called “savings gap,” under which many Americans are seen as financially underprepared for retirement, employer-sponsored defined contribution plans are at risk of erosion resulting from efforts to curtail tax-favored savings. This is largely because the tax deferral supporting these plans creates the illusion of lost revenue, but also because critics have suggested that the current tax treatment is inefficient or inequitable.

The development of a widely accepted, broadly beneficial retirement savings policy would allow all stakeholders, including the Council, to evaluate reform proposals against a set of criteria to determine whether such proposals are worthy of support or opposition.

Over the past several years, the Council’s approach has been embodied by a series of public policy strategic plans and reports, including [A 2020 Vision: Flexibility and the Future of Employee Benefits](#), [Our Strong Retirement System: An American Success Story](#) and [Safe and Sound: A Ten-Year Plan for Promoting Personal Financial Security](#). This document seeks to summarize and streamline the principles outlined in those documents to aid the development and evaluation of a national retirement savings policy.

1. Ensure a diversified, balanced and robust retirement system.

The economic security of American families requires access to a diversified portfolio of retirement savings instruments. At a minimum, these include strong and sustainable employer-sponsored retirement plans, individual savings that are preserved for retirement (in addition to emergency savings) and a viable Social Security system.

Research clearly shows that people are best served when they have access to and participate in an employer-sponsored retirement plan. For individuals who are not consistently covered by an employer, national policy should strengthen the ability to save independently and facilitate access to resources, tools and education to help them do so effectively. Finally, Social Security must be preserved not only as a protection against poverty but as a vital, meaningful element of retirement security for the vast majority of workers. A balanced system that harmoniously incorporates all three elements is essential.

The United States is unique in the extent to which it has achieved a balance of public and private responsibilities and incentives. Optimal combinations of retirement savings instruments will vary depending upon individual circumstances and at different points in the lifecycle. It is the diversity and balance of the American system that provides its strength.

2. Expand coverage by building on the successful voluntary employer system.

The “three-legged stool” of retirement security includes employer-provided plans, personal savings, and Social Security. But the employer-sponsored system is the sturdiest leg of that stool. While the personal savings rate has rebounded from historic lows of a decade ago, a combination of factors (such as low interest rates, wage stagnation and tepid economic growth) has limited its progress. At the same time, the flagging health of the Social Security program continues to pose serious long-term fiscal challenges, absent very difficult political and policy choices.

Meanwhile, the employer-sponsored system is popular and productive. The predominant defined contribution plan system, in particular, has proven to generate substantial retirement benefits as a result of consistent contributions over time. Access to, and participation in, these plans is strong, especially among full-time workers at large companies. These savings are durable because defined contribution plans are an excellent fit for America’s mobile workforce. Defined benefit pensions, while far less common than they were several years ago, continue to provide reliable financial security for those who participate. Employer plan sponsors add tremendous value to retirement savings by lowering costs through group purchasing, providing access to investment guidance and developing innovative plan designs.

Some academics have suggested replacing the employer-sponsored system with a new government-based system, while a number of states and localities have sought to fill in coverage gaps by establishing government-sponsored arrangements. While we share the goal of expanding retirement plan coverage, improving participation rates among part-time and moderate-income workers and employees at smaller firms would be best achieved by removing impediments to private-sector plan sponsorship.

3. Encourage employer plan sponsorship by strengthening and expanding tax incentives.

Enlightened, bipartisan tax policy is the foundation of the successful employer-sponsored benefits system. Employers' competitive need to offer cost-effective benefits – to recruit and retain talented people – is key to consistent plan sponsorship. The existing tax incentives encourage employers to make the commitment to design and fund a plan.

These tax incentives also help individuals achieve personal and financial well-being by promoting participation in the plan, by maximizing the value of employee contributions and by directing these funds to vehicles that will be preserved for retirement. Financial security in retirement depends on saving *more*, not less, and therefore every effort should be made to resist lowering limits on savings.

Because the voluntary, employer-sponsored retirement benefits system is predicated on flexibility, and because the federal government has a vested interest in individuals building adequate retirement savings independent of public programs, the historically successful tax incentives must be retained and built upon.

4. Retain the federal framework for plan design and administration.

Uniform plan administration, as provided under the Employee Retirement Income Security Act (ERISA), is essential for multi-state employers to sponsor benefits, since even subtle variations in state laws create substantial administrative burdens and costs.

As noted above, the lack of a coherent retirement savings policy at the national level has led to the development of state-based proposals that, while well-intentioned, undermine the uniform standards provided by ERISA and in some cases tilt the playing field unfairly toward state-run plans at the expense of private sector employer-sponsored arrangements, which provide far greater benefits with many more protections.

State-based initiatives should be evaluated with respect to the overriding need for national uniformity, which allows the employer-sponsored system – and multi-state employers – to thrive.

5. Offer employers the flexibility to design plans to best serve diverse and evolving employee populations.

While a uniform federal framework is essential for large, multi-state employers to maintain consistent plan design and compliance, the framework itself should be flexible enough to accommodate a wide range of approaches based on the population to be served by the plan and other industry factors.

Employers have a unique understanding of the retirement needs of their employees and are motivated to provide innovative solutions that will help them achieve financial security. Because needs are diverse, one-size-fits-all approaches to coverage, contributions, vesting and other plan design elements are inappropriate and may be counter-productive for participants. Individual factors result in divergent goals and outcomes which are best accommodated when the system is flexible.

6. Minimize regulatory burdens on plan sponsors.

Excessive regulation of retirement plans can be a powerful deterrent to retirement plan sponsorship. While policymakers may view such requirements as modest, implementing even small changes within a large and varied employee population can be extremely burdensome and costly.

Regulatory agencies should continually strive to eliminate duplicative, contradictory or excessive regulation of plans. This should include an emphasis on exception-based regulations that target sponsors with poor performance (rather than imposing burdens on all sponsors). It should also include “large business” exceptions to certain rules, since many regulations are aimed at addressing real or perceived concerns are simply inapplicable to large plan sponsors. In particular, the volume and redundancy of participant disclosures can adversely affect transparency to the point where excessive amounts of information means that participants tend to read none of it. Participants would be best served by concise, well-organized information – delivered electronically through means that are efficient and readily accessible, unlike paper, which is easily lost.

Correspondingly, because employer-sponsored benefit plans are complex enterprises that fall under the jurisdiction of myriad regulatory agencies, employers must frequently accommodate differing (and sometimes contradictory) obligations. In such instances, these agencies should coordinate rulemaking to promote and simplify compliance. Furthermore, future legislation should provide clear instructions to the executive branch about prospective compliance requirements for affected parties that take effect upon the timely issuance of enabling regulations.

7. Enable participants to save for extended retirement and address the financial risks of longevity and economic volatility.

While policymakers are rightly concerned about the number of individuals participating in retirement plans, equal attention should be given to participants' ability to accumulate sufficient assets for lengthy retirement periods.

Because retirement savings are typically invested in financial vehicles designed to appreciate over time, they are subject to a number of common economic risks, including inflation and market fluctuations. Policymakers need to recognize these risks and permit employees to contribute enough money to build a sufficient, sustainable nest egg.

Moreover, increases in longevity present the risk of outliving one's retirement assets or facing unexpected costs, including those arising from temporary or permanent disability. Employees need flexibility to save for retirement and protect against risk as they transition through different career stages and different life needs.

8. Expand opportunities for participants to obtain financial advice and education.

In an environment dominated by defined contribution plans, participants need reliable, unbiased, easy-to-understand information and education. This will help them select products and investments best suited to their needs.

In light of the potential financial risks identified above, education on basic economic and financial concepts should be encouraged at an early age and continued throughout an individual's life and career. Public policy should embrace the development of independent and employer-provided tools and resources to help people make informed choices about their budget and retirement goals.

Because the workforce is comprised of multiple generations, cultures and socio-economic backgrounds, employers need maximum flexibility to provide such resources to their employees. In particular, standards for communication between employer and employee must be flexible enough to allow employers to encourage participation in a plan. And because employer plan sponsors play a vital and knowledgeable role in this relationship, they must be able to communicate with participants about the plan in a candid, personalized way without running afoul of fiduciary liability rules.

9. Encourage the responsible use of technology to fulfill plan obligations.

Technology is constantly evolving to improve productivity and administrative efficiency. But policymakers often restrict the use of such technology until its use is near-ubiquitous. Because technology advances faster than the regulatory process, even relatively permissive policies are destined to be obsolete before they can be effectively used by employers and plan participants. For example, executive branch agencies that regulate benefit plans have not developed a broadly applicable and consistent approach for employers to use electronic means for participant communications.

Without a more modern and flexible standard, employers will be confined to the least efficient shared standard permitted by all agencies – the lowest common denominator – which will only increase costs and barriers for plan sponsors and participants.

10. Only make changes to retirement plans based on sound policy, not on the need for revenue or incomplete budget estimates.

In recent years, legislation affecting retirement plans has been enacted only in the context of other federal spending measures, in which the retirement plan provisions have been used to raise revenue or reduce deficits. Changes to retirement policy should be evaluated solely on the basis of their policy value, as measured against the other principles outlined in this document.

When considering legislation that would affect employer-sponsored retirement savings arrangements, lawmakers must view traditional budget and revenue estimates in context.

The tax deferral of income tax on contributions to – and earnings on – pension and retirement savings plans are traditionally scored by the federal government as representing a significant (if theoretical) revenue loss to the federal government within the traditional ten-year budget scoring “window.” In fact, the majority of foregone tax revenue related to retirement plans is not permanently “lost.” Rather, contributions and investment earnings accumulate tax-free until the participant receives a benefit payment – typically decades in the future – at which point it is taxable income.

Budget scoring windows, inconsistent with the long-term nature of retirement savings, distort the costs of tax incentives for retirement savings. The true value of plans is measured by the benefits of preservation for retirement, greater numbers of savers and higher savings levels of moderate income workers that result from employer-sponsored plans.