Statement before the House Committee on Education and Labor

Subcommittee on Health, Employment, Labor, and Pensions

Hearing on "Examining Pathways to Build a Stronger, More Inclusive Retirement System"

The Unreported Strengths of the U.S. Retirement System

Wednesday, June 23, 2021

Andrew G. Biggs, Ph.D.

Senior Fellow

The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.

Chairman DeSaulnier, Ranking Member Allen, and Members of the Subcommittee. Thank you for the opportunity to discuss developments in retirement income policy in the United States.

Americans worry about their ability to retire in comfort and policymakers wonder what they can do to help. Every day, newspapers and websites present negative news about the state of Americans' retirement savings.

- "Half of older Americans have no retirement savings," says the Government Accountability Office.
- "The average retiree will run out of money after 10 years," says the World Economic Forum.
- "Bankruptcy booms for older Americans," the New York Times tells us.
- "Americans entering old age the least prepared in decades," says the Wall Street Journal.
- "Social Security has lost a third of its buying power since 2000," the Washington Post tells us.
- USA today warns us that "Retirees' reliance on Social Security nears an all-time high."
- "Half of Americans over age 55 may retire poor," says MarketWatch.

And yet, all of these claims are false. And not just false in some "gotcha" technical sense, but in the sense of conveying provably incorrect claims about the state of Americans' retirement savings.

Let me instead provide some more informative points that I will detail below:

- More Americans are saving for retirement than ever before. The relative share of private sector employees participating in a retirement plan has increased by 50 percent since the 1970s, when participation in traditional pensions reached its peak. (PBGC and IRS data.)
- Americans are contributing more to retirement plans than ever before. Total pension contributions as a share of employee wages are 45 percent higher today than in the 1970s. (Department of Labor data.)
- Total retirement savings today are more than seven times higher than in the 1970s. Since 1989, retirement savings have increased among every age, income, educational and racial/ethnic group. (Federal Reserve Board data.)

- The share of retirees receiving private retirement plan benefits increased by 35 percent since 1990 and the share of retirees with sub-poverty level incomes dropped by nearly one-third. (Census Bureau research.)
- Future retirees will have median "replacement rates" nearly identical to current retirees. The share of future retirees with low replacement rates will remain essentially unchanged and the share of retirees in poverty will decline. (Social Security Administration projections.)

A grounding in the facts is the foundation upon which solid retirement policy can be built.

This Committee has important work to do in facilitating private retirement savings, as it did via the SECURE Act and can do again through SECURE Act 2.0. While I did not favor multi-billion dollar bailout of multiemployer pensions that Congress passed earlier this year, Congress should work to implement that plan to minimize adverse incentives and costs to the taxpayer, and to more generally reform the funding rules of multiemployer pensions that led to this fiscal disaster. Congress has an even larger task in fixing Social Security, which for three decades our elected officials have failed to address. But in those actions, I urge you all to think about building upon our retirement system's successes more than turning that system upside down.

Why are Americans so worried about retirement?

It is natural to be concerned about retirement planning. It can be a complex task and we have only one chance to get it right. Surveys have long shown that working-age Americans fear for their retirement security, but surveys and data similarly show those worries rarely come to pass.

But there is another reason why discouraging claims about Americans' retirement savings are so common: very few people have the incentive to show why these claims are false and why the pessimism they convey is so misleading. The news media want to sell newspapers and magazines, and we all know that frightening news sells. The financial industry has a product to sell, so what are the chances they will tell you you're saving enough for retirement? And certain people have a philosophical disposition against America's "retirement system," which isn't so much a system as a combination of Social Security, employer-sponsored retirement plans and personal savings that leaves significant discretion to individuals, who some feel lack the judgement to handle so complex a task.

Many warn that America faces a "retirement crisis" of inadequate savings. And Americans believe them, with polls showing 75 percent agreeing that our nation faces such a crisis.[1]

And yet I am confident in saying that America's retirement system has never been stronger than it is today. Data show clearly that more Americans are saving more for retirement than ever before. Retirement incomes have never been higher and poverty in old age never lower.

How are today's retirees faring? Let's ask them.

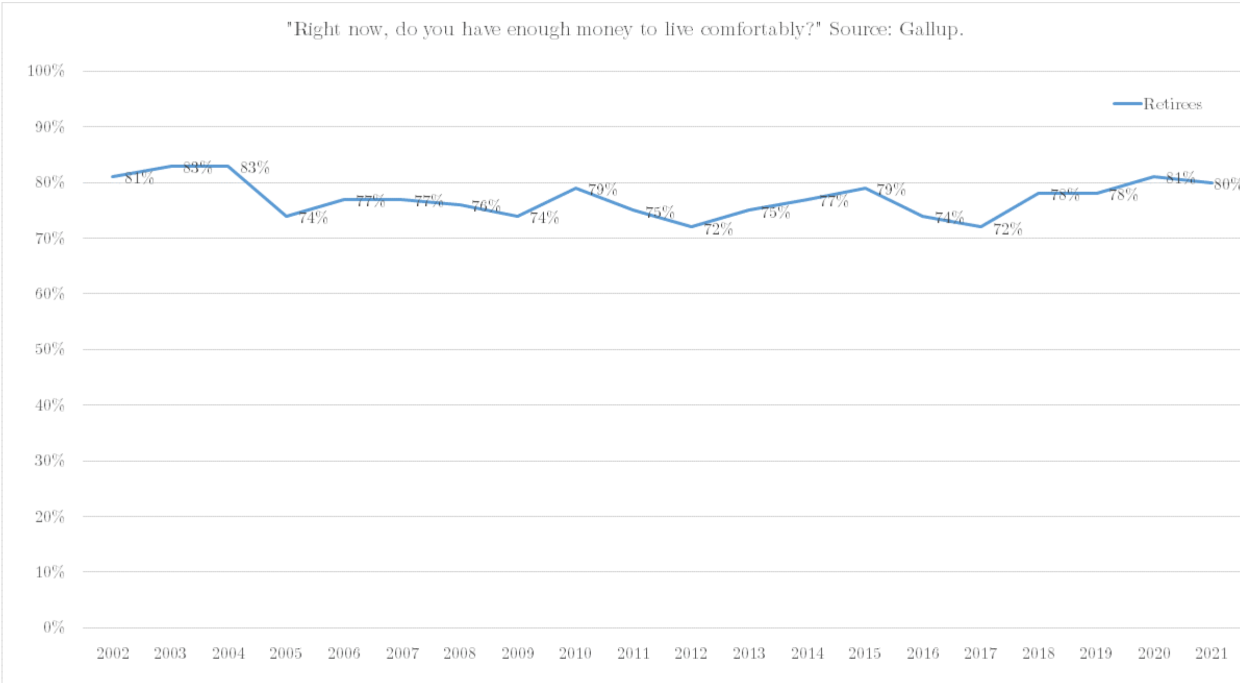
Economists and financial planners have a fairly clear definition about what constitutes an adequate retirement income: an income that allows retirees to maintain their pre-retirement standard of living. But what's easy to define conceptually becomes far more complicated when we attempt to measure it via hard data.

One way around this problem is simply to ask retirees how they would describe their financial situation. Survey after survey shows that, **by strong margins, retirees say they are doing well**.

The polling firm Gallup has for the past two decades asked retirees about their financial situations. In 2021, **80 percent of retirees say they have sufficient money, not merely to survive or to get by, but to "live comfortably."[2]** Roughly four-in-five retirees have stated they are living comfortably since Gallup began asking the question in 2002. Indeed, it has been three decades since American over age 65 had a higher rate of poverty than working-age households.

[1] Bond, Tyler, Dan Doonan, and Kelly Kenneally. National Institute for Retirement Security. "Retirement Insecurity." (2021).

[2] Gallup. "U.S. Retirees' Experience Differs from Nonretirees' Outlook." May 18, 2021.



Gallup's finding are confirmed in the Federal Reserve's Survey of Consumer Finances. In 1992, only 61 percent of Americans over 65 reported that their retirement income was "At least enough to maintain your standard of living." By 2019, that had risen to 76 percent.[3] The share describing their retirement income as "totally inadequate" had fallen by almost half, while **the share of retirees calling their incomes "very satisfactory" nearly tripled**.

In the Federal Reserve's Survey of Household Economics and Decisionmaking, **only five percent of retirees say they are "finding it hard to get by."** Compared to working-age Americans, seniors are more likely to tell the Fed they have money left over at the end of the month, less likely to say that financial concerns rule their lives, and more likely to approve of the safety and overall quality of the neighborhoods they live in.[4]

Likewise, while majorities of Americans believe the nation as a whole faces a "retirement crisis" of inadequate savings, in a Vanguard survey **only five percent of U.S. retirees describe their own financial situation as a retirement crisis.**[5] Many

---

[3] Author's calculations from SCF data.

[4] Author's calculations from SHED data.

[5] Madamba, Anna, and Stephen B. Utkus. "Retirement Transitions in Four Countries." Vanguard Research, 2017.

Americans reach retirement and realize that the worries they held for many years were unjustified.

Why do seniors say they are doing so well?

The simple reason most retirees tell surveys they are faring well financially is that, compared either to past retirees or to working-age Americans, they are. The progress made in retirees' financial well-being is a great untold story that needs to be known.

From 1979 to 2016, the average retiree household's income rose by 104 percent above inflation, according to Congressional Budget Office data. Average earnings for working-age households rose by only 64 percent.[6] Since 1979, retirees have gone from being a disproportionately poor segment of the U.S. population to a disproportionately well-off group.

Since 1990, the share of retirees with incomes below the poverty threshold declined by nearly one third, according to a Census Bureau analysis of Internal Revenue Service data.[7]

Likewise, common claims that one-third of retirees rely on Social Security for nearly all of their income have been debunked by better data. Recent Social Security Administration analysis of Internal Revenue Service data find that **less than 14 percent of Americans 65 and over rely on Social Security for 90 percent or more of their total income.**[8]

Why have retiree incomes risen so much?

Most retirees rely on a combination of Social Security benefits, pensions and personal savings, and work in retirement. All of those components of retirement income have increased over time.

In 1990, only 45 percent of retirees received income from a private pension or retirement account. Today, 61 percent do, according to Census Bureau

[6] See Biggs, Andrew G. "Fears of a Retirement Crisis are Overblown." MarketWatch. July 21, 2019.

[7] Bee, Adam, and Joshua Mitchell. "Do older Americans have more income than we think?." In *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association*, vol. 110, pp. 1-85. National Tax Association, 2017.

[8] Dushi, Irena, and Brad Trenkamp. "Improving the Measurement of Retirement Income of the Aged Population." *Social Security Administration* (2021).

research.[9] This is a 35 percent relative increase, much of which likely occurred among smaller employers who could not offer a defined benefit pension.

Just prior to Covid, **employment rates among Americans aged 55 and over were the highest since the late 1960s**, according to Bureau of Labor Statistics data.[10] Even as the economic recovery continues, older Americans are working at historically high rates.

Americans today claim Social Security benefits 1.2 years later than they did in 1990, boosting monthly benefits by about 8 percent, according to Social Security Administration figures. **The average Social Security benefit claimed by new retirees in 2019 was 37 percent higher after inflation than the average benefit claimed 20 years ago.**[11]

How much have retirement savings increased?

There are several ways to measure retirement savings. But by any standard, today's Americans have saved far more for retirement than their parents or grandparents did.

One important figure is the percentage of workers who are participating in a retirement plan. There are no high-quality data that accurately track retirement plan participation over time.[12] However, the data that do exist show that **more Americans are saving for retirement than ever before**. At the peak of traditional pension participation **in the mid-1970s, fewer than four-in-ten private sector workers participated in a retirement plan.**[13] **The most recent IRS data show that 60**

---

[9] Bee, Adam, and Joshua Mitchell. "Do older Americans have more income than we think?." In *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association*, vol. 110, pp. 1-85. National Tax Association, 2017.

[10] Author's calculations from Current Population Survey data.

[11] Author's calculations from Social Security Administration Annual Statistical Supplement, 2020. Table 6.A2. Benefits adjusted for inflation using the Personal Consumption Expenditures (PCE) deflator.

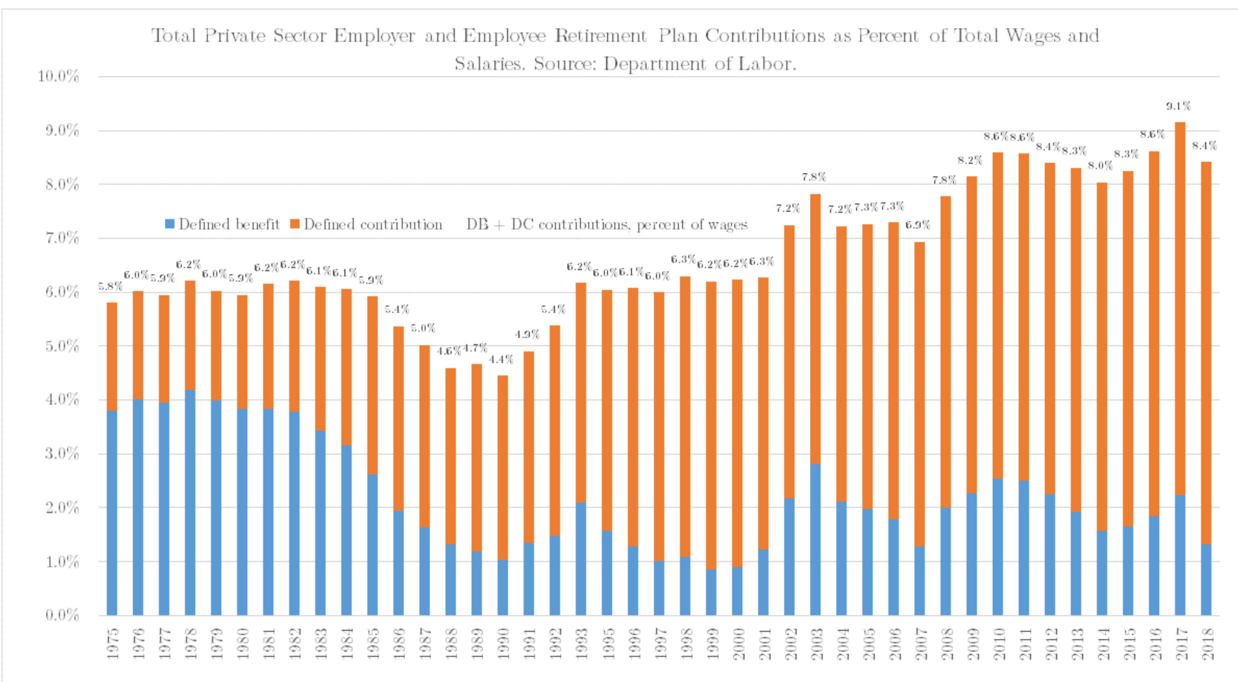
[12] Household surveys understate retirement plan coverage and participation, because some individuals who are offered a retirement plan or actually participate in one mistakenly say that they do not. Social Security Administration researchers found that while 45 percent of year 2006 employees in the Survey of Income and Program Participation said that they participated in an employer retirement plan, W-2 tax records showed that 58 percent actually participated. Dushi, Irena, Howard M. Iams, and Jules Lichtenstein. "Assessment of Retirement Plan Coverage by Firm Size, Using W-2 Tax Records." *Social Security Bulletin* 71 (2011): 53.

[13] Gotbaum, Joshua. "De-Risking: Plan Sponsor & Participant Perspectives & Actions." Presentation to ICPM/CRR conference, June 2016. Figures were provided by the Pension Benefit Guaranty Corporation.

percent of employees aged 25-64 in 2017 were participating in a retirement plan,[14] a 50 percent relative increase in retirement plan participation.

Moreover, the $19,500 annual 401(k) contribution limits is high enough that most couples could save sufficiently for retirement even if only one spouse were offered a retirement plan. **IRS data show that in 2017 81 percent of joint tax return filers had at least one member of the couple participating in a retirement plan.**[15] It is likely that more than nine-in-ten couples have at least one spouse offered a retirement plan at work.

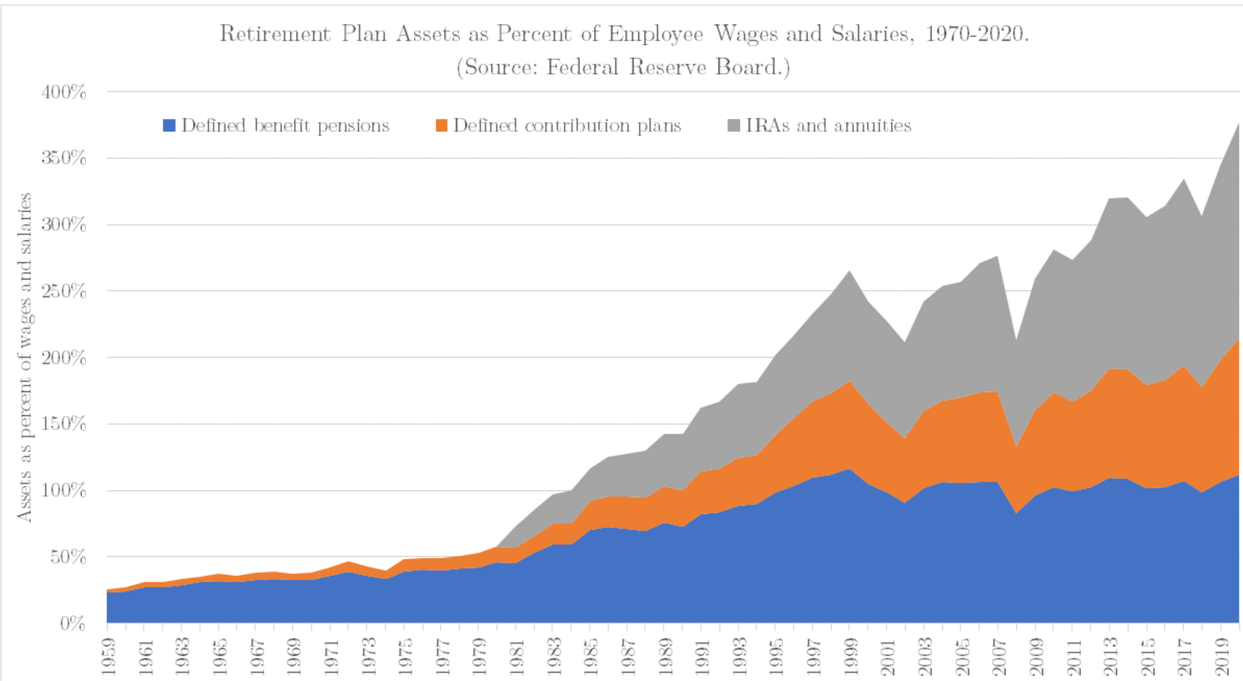
Another way to look at retirement savings is to track total contributions to retirement plans as a percentage of Americans' total wages and salaries. This figure captures both the rate of participation in retirement plans and the amounts that employees and employers are contributing. **Department of Labor data show that total private sector pension contributions increased from 5.8 percent of total employee wages and salaries in 1975 to 8.4 percent in 2018, a 45 percent relative increase.**



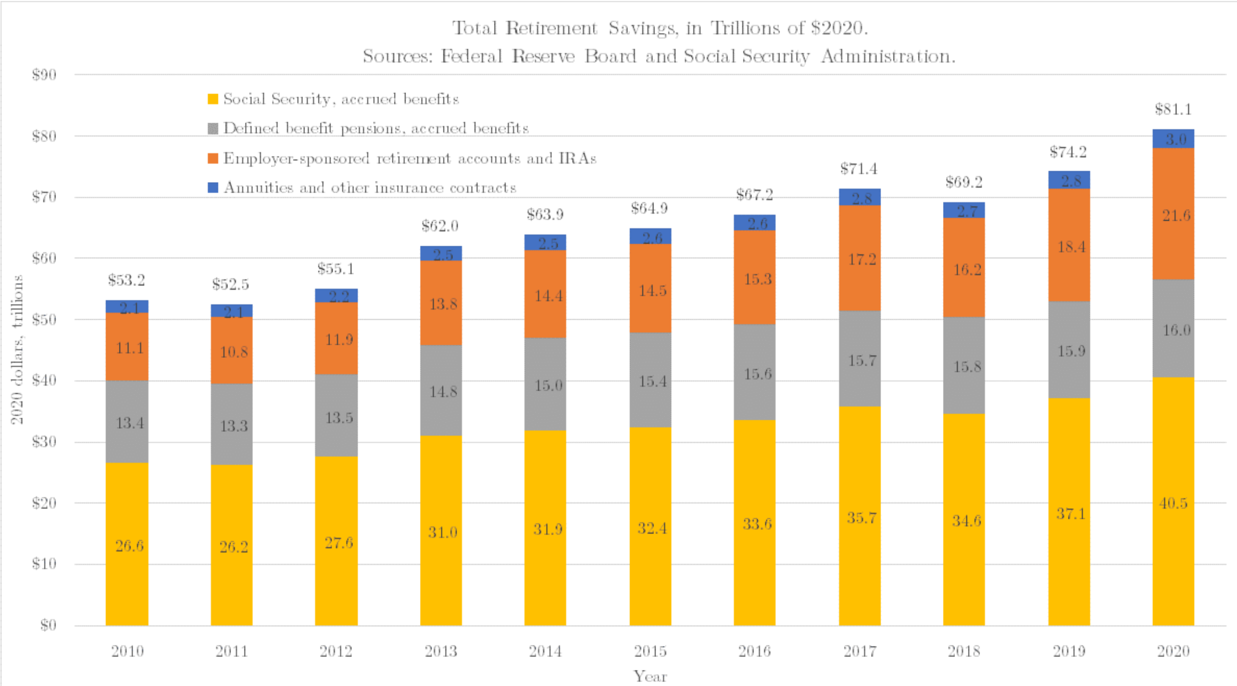
[14] Source: IRS Statistics of Income data.

[15] Source: Internal Revenue Service Statistics of Income (SOI) data.

As a result of higher participation and increasing contributions, total retirement savings in the United States are at the highest levels on record. **Federal Reserve data show that retirement savings have increased over seven-fold since the peak of traditional pension participation in the 1970s**, even after accounting for the growth of the wages and salaries that these savings must replace in retirement. ERISA's requirements for better defined benefit pension funding boosted assets for traditional pensions. **But the real explosion in retirement savings took place through defined contribution 401(k) and IRA plans**, which took off in the 1980s**.**



When accrued Social Security benefits are added to retirement account balances and benefits earned under traditional pensions, **total retirement savings increased from $53.2 trillion in 2010 to $81.1 trillion in 2020**, a 52 percent increase above inflation in just a single decade.



My own analysis of Federal Reserve Survey of Consumer Finance data shows that **since 1989 retirement savings have increased in every age, income, educational and racial/ethnic group**.[16] Savings have increased whether measured in inflation-adjusted dollars or, as financial planners sometimes do, as a percentage of the household's annual earnings. **All types of Americans are saving more for retirement today than they did in the past**.

What about inequities in retirement incomes?

Both financial planning and economics state that the goal of retirement saving is to maintain your pre-retirement standard of living once you stop working. According to the Social Security Administration, **"Most financial advisors say you'll need about 70 percent of your pre-retirement earnings to comfortably maintain your pre-retirement standard of living."** This ratio of retirement income to pre-retirement earnings is often called a "replacement rate."[17]

[16] Biggs, Andrew G. "Changes to household retirement savings since 1989." American Enterprise Institute. *AEI Economic Perspectives* (2020).

[17] Social Security Administration website; "Social Security Retirement Planner: Decide When to Retire," http://www.ssa.gov/retire2/.

Any analysis of private retirement savings must start with the fact that Social Security's benefit formula is progressive. According to the **Congressional Budget Office, the average Social Security "replacement rate ... is 80 percent for workers born in the 1960s whose lifetime earnings fall in the lowest earnings quintile, more than double the 34 percent for workers whose earnings fall in the highest quintile**."[18] Given the replacement rates provided by Social Security, it is not at all surprising that low-income Americans save little for retirement and high-income Americans save a great deal.

In 2020, Americans held over $41 trillion in private retirement savings. These savings are tilted toward high-earning households.[19] **But Americans in 2020 also were entitled to over $40 trillion accrued Social Security benefits.**[20] **Social Security benefits are tilted toward low-earning households.**

The equity of the retirement system as whole depends not on the progressivity of Social Security or the distribution of private savings, but on whether different groups have different abilities to maintain their pre-retirement standards of living.

The Urban Institute's DYNASIM model, a sophisticated computer projection model of a range of retirement income sources, estimates that current and future **white retiree households have a median income equal to 100 percent of their pre-retirement earnings.** By contrast, **the median replacement rate for Black households is 99 percent.**[21] Black and white households have different levels of income both before and after retirement, which occurs for a variety of reasons. But under the

[18] Congressional Budget Office. "Social Security Replacement Rates and Other Benefit Measures: An In-Depth Analysis," p. 18. (2019). https://www.cbo.gov/system/files/2019-04/55038-SSReplacementRates.pdf

[19] Source: Federal Reserve, Financial Accounts of the United States. https://www.federalreserve.gov/datadownload/Preview.aspx?pi=400&rel=Z1&preview=Z1/Z1/FL153050015.A

[20] Accrued benefits means benefits that have been earned but not yet collected. Nickerson, Daniel, and Kyle Burkhalter. "Unfunded obligation and transition costs for the OASDI Program." *Social Security Administration, Office of the Chief Actuary, Actuarial note* 1 (2020).

[21] The DYNASIM projections are available at https://www.urban.org/dynasim4-projections-birth-cohort. Income at age 70 is compared to average earnings between the ages of 50 and 54. The replacement rates figures I cite above are averages across all the birth cohorts simulated.

U.S. retirement system, Black and white households have roughly equivalent abilities to maintain their pre-retirement standards of living once they retire.

Men and women have similar retirement income replacement rates, while **Hispanics have lower replacement rates than other Americans.** However, the median projected replacement rate for Hispanic households of about 89 percent of pre-retirement earnings is not in itself inadequate relative to financial planners' common target of 70 percent. It is not clear whether lower replacement rates for Hispanic households relative to white or Black households reflects a poorer state of preparation for retirement or other factors not captured in the model.[22]

All Americans should have the opportunity to save for retirement on top of Social Security. But we should be wary of how hard we push lower-income Americans to save more for retirement when the evidence indicates that most are already able to maintain their pre-retirement standard of living. Doing so could reduce these groups' standard of living during their working years, when they have many other financial burdens to bear. It is important to remember that savings are a tool to move resources from one time of life to another. More savings are not always better; balanced savings is the goal.

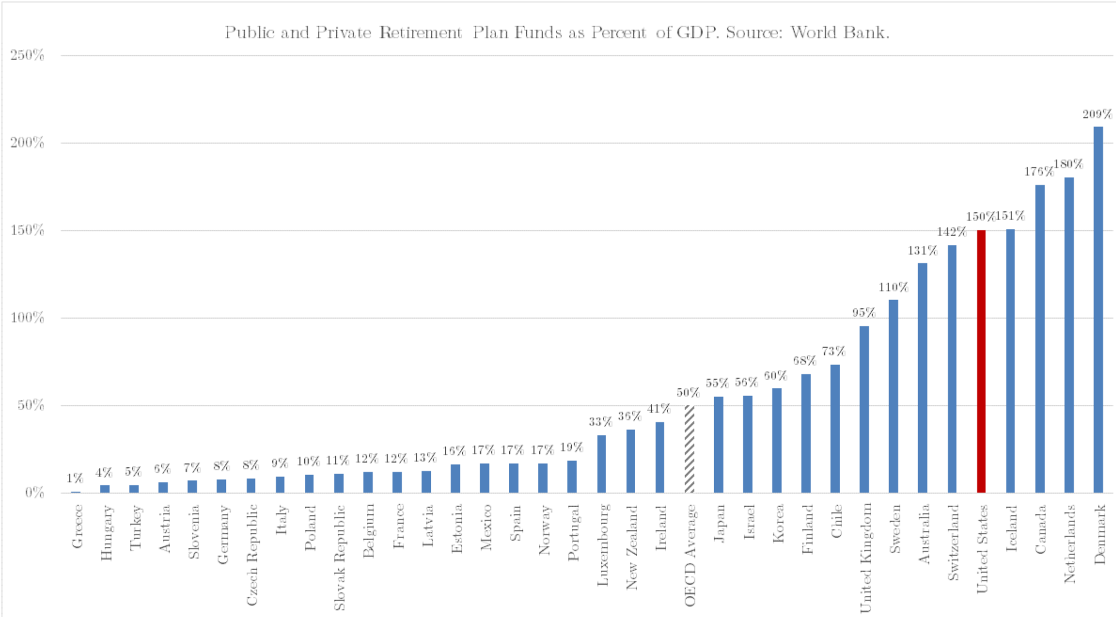
How does the U.S. retirement system compare?

The United States can learn a great deal from other countries. We all face the challenges of providing for aging populations, where the number of retirees grows more quickly than the population of workers.

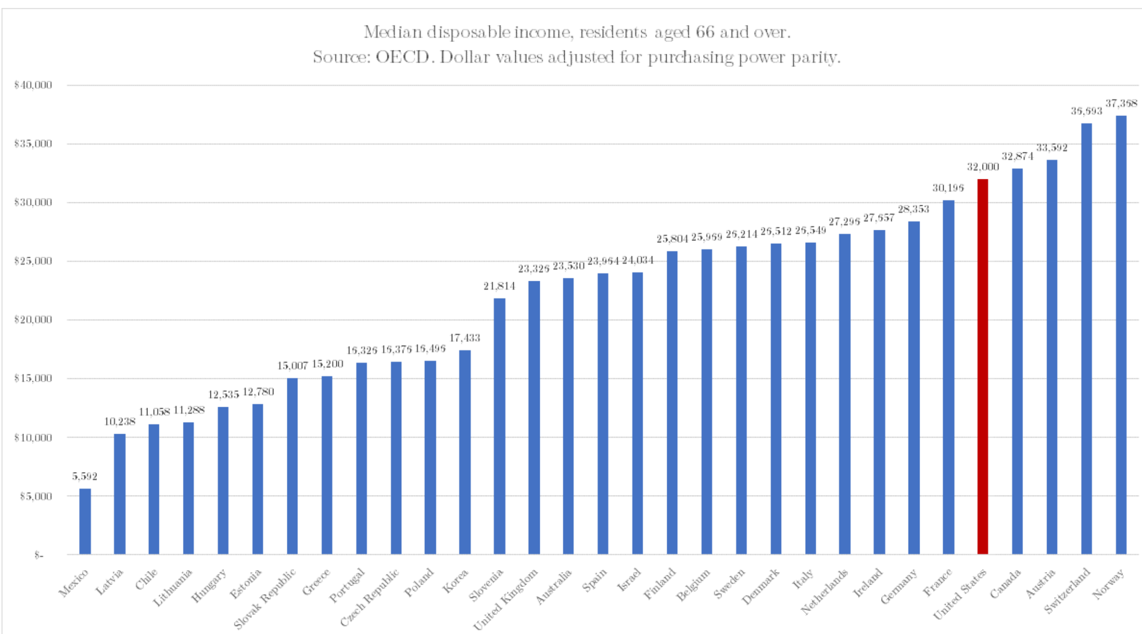
But other nations can also learn a great deal from the U.S. For one thing, Americans are great retirement savers compared to other countries. World Bank data show that the typical developed country has retirement plan assets equal to 50 percent of gross domestic product. **The U.S. has retirement savings equal to 150 percent of GDP, three times the OECD average.** Only three countries – Canada, the Netherlands and Denmark – hold substantially greater retirement plan assets than does the U.S.

---

[22] For instance, Hispanic Americans are more likely to live in multigenerational households than other racial/ethnic groups, which would give them greater access to co-resident income not measured in the DYNASIM model.

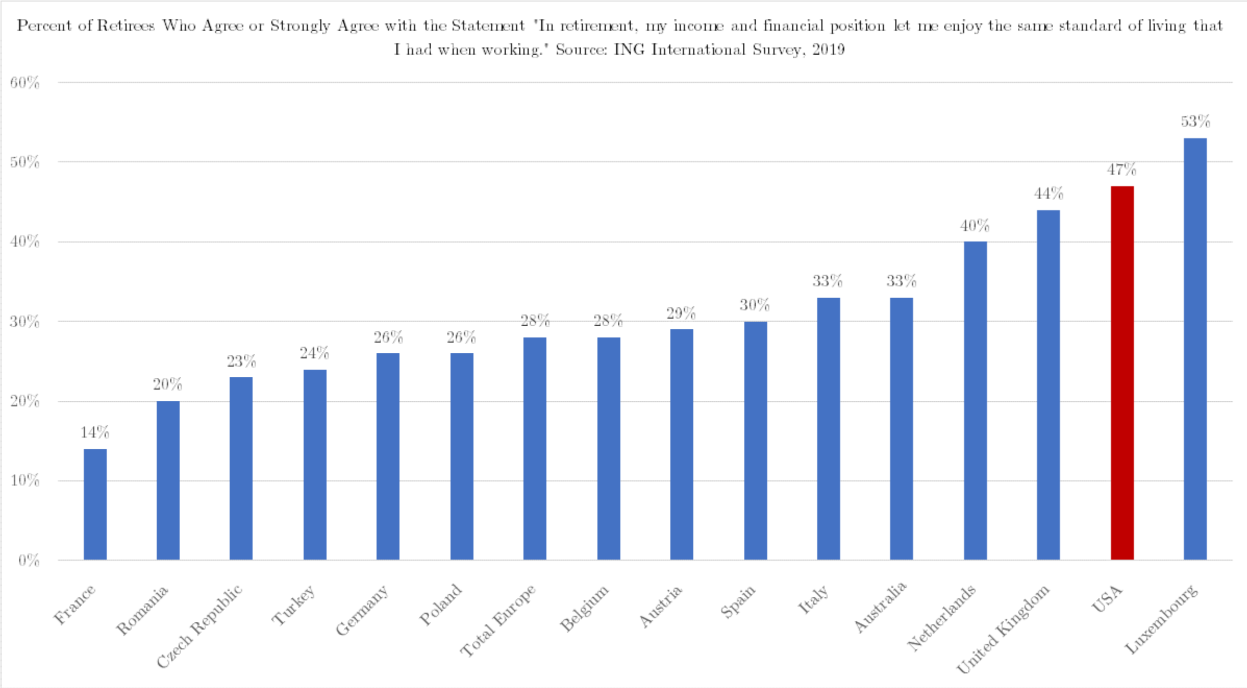


U.S. retirees also have high incomes, and that's not merely true for the richest Americans but for typical (or "median") retirees as well. OECD data show that the median U.S. retiree has a disposable income that is in the top five in the world.[23]

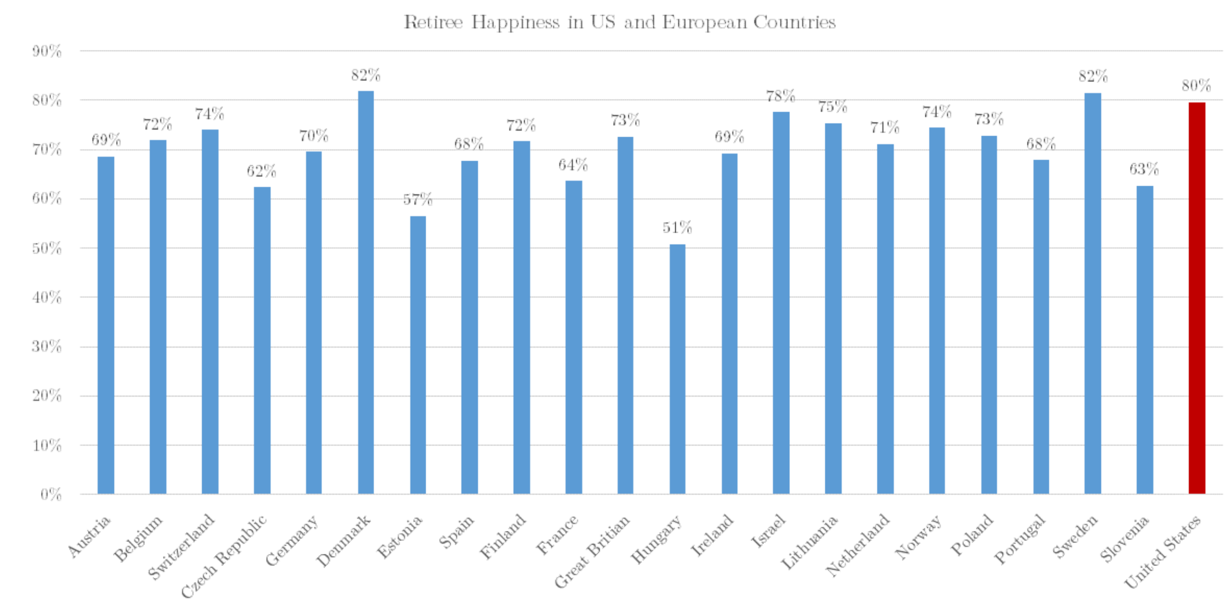


[23] Disposable income is defined by the OECD as "total income less current transfers paid. Such transfers comprise: employers' social insurance contributions; employees' social insurance contributions; taxes on income; regular taxes on wealth; regular inter-household cash transfers; and regular cash transfers to charities."

American retirees report that they are better able to maintain their pre-retirement standard of living than do seniors in other countries. **Forty-seven percent of U.S. retirees agree with the statement, "In retirement, my income and financial position let me enjoy the same standard of living that I had when working."** Only the Netherlands, which is often said to have the strongest retirement system in the world, fares better. By contrast, **only 28 percent of European retirees agree or strongly agree that they can maintain their pre-retirement standard of living**.



Retirees in the United States also report being happier than seniors in many other countries. Eighty percent of American seniors describe themselves as happy, versus an average of only 70 percent in a selection of European countries and Israel.



Notes: US data are from the General Social Survey, 2012; EU data are from the European Social Survey, 2014. The GSS questions measure happiness on a 1 to 7 scale; the ESS measures happiness on a 0 to 10 scale. Percentages represent the weighted mean response for a country as a percentage of maximum response (either 7

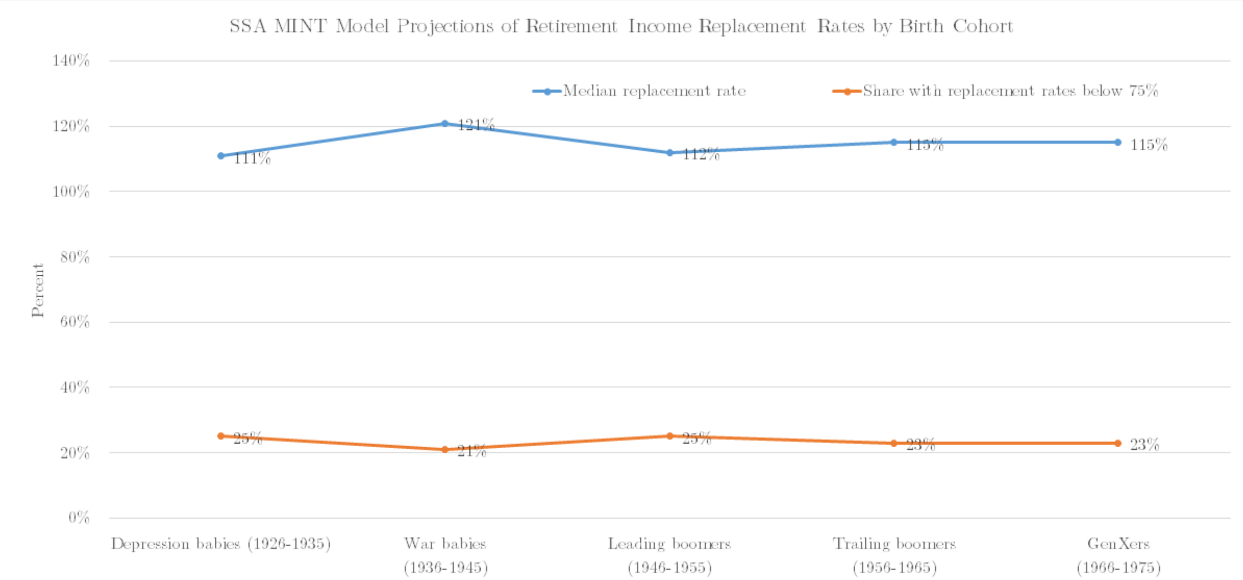
What about the future?

When confronted with these data, many will acknowledge that today's retirees are in fact doing well. But future retirees, they warn, face a much grimmer reality: the vast majority of working-age Americans are saving inadequately for retirement, they claim, and huge numbers could even retire into poverty.

Here I will turn to the Social Security Administration, which since the late 1990s has built the most sophisticated model in existence of Americans' retirement savings and retirement incomes. The Model of Income in the Near Term (MINT) can look both at current retirees and project how future generations of retirees will fare. The MINT model has received millions of dollars in federal funding; is built by SSA's experts with access to data that are generally unavailable to outside researchers; is contrasted in conjunction with experts at the Urban Institute, and subjected to validation by still more experts outside of the SSA.

In simple terms, the SSA projections are the best in the business. And the SSA model projects nothing that looks like a "retirement crisis." At my request, the SSA calculated retirement income replacement rates for current retirees and projected replacement rates for future seniors. The SSA calculated the median replacement rate, which is for the typical retirees, as well as the percentage of retirees who have retirement income replacement rates below 75 percent, a commonly-used benchmark for retirement income adequacy.

The SSA model calculates that current retirees typically have retirement incomes between 111 and 121 percent of their career-average earnings, adjusted for inflation. Americans born between 1956 and 1965, who are just now reaching retirement age, will have medina replacement rates of 115 percent of pre-retirement earnings, as will the Generation X cohort born from 1966 through 1975. In other words, **the Social Security Administration projects that future retirees will be just about as well-prepared for retirement as today's retirees.** And we know from surveys and data that today's retirees are doing fine.



The replacement rate is measured as income at age 70 as a percentage of career-average pre-retirement earnings adjusted for inflation. Income is the sum of Social Security benefits; defined benefit and defined contribution pensions; wage income; SSI benefits; and the annuitized value of 80% of financial assets. Implicit rent via home equity is not included as income.

Likewise, the SSA model projects that only around 23 percent of future retirees will have replacement rates below 75 percent of their pre-retirement earnings. That figure is right in line with current retirees. And the share of retirees with incomes below the poverty threshold, which already has declined significantly and is below that of working-age Americans and children, will fall even further.[24]

[24] See Social Security Administration. "Why Will Poverty Decline for Social Security Beneficiaries Aged 60 or Older?" (2015).

Where problems do exist, the fault often lies with government.

It ironic that many people talk down the U.S. private sector retirement system, pointing to problems that do not actually exist, while insufficient attention is paid to the problems that actually are there.

The recent federal bailout of multiemployer pension plans is a case in point. Multiemployer pensions were designed to provide workers in certain industries with benefit portability if they shifted from one employer to another. But choosing to provide for benefit portability through a traditional defined benefit structure opened the door for accounting tricks and false assumptions that ultimately led to many multiemployer plans' demise.

Specifically, multiemployer plans – and, importantly, Congress as well – believed that multiemployer pensions could avoid the much more stringent ERISA funding standards that apply to single-employer plans by self-insuring, with the participating employers obliged to financially assist the plan as needed in times of financial distress. Single employer plans must assume low, conservative returns on plan investments and must address unfunded liabilities quickly, to reduce the chances of becoming insolvent and potentially triggering the need for a federal bailout. Multiemployer plans instead were allowed to assume much higher returns on investment, which allowed for much lower contributions, and to take up to 30 years to address unfunded liabilities when they occurred, all based on the premise that the various employers who sponsor multiemployer plans would support each other rather than turning to the federal government for help. This premise ignored the possibility that entire industries could decline and the self-insurance concept collapse.

Based on the false premise that multiemployer pensions would be unlikely to ever need to fall back on the Pension Benefit Guaranty Corporation, multiemployer plan sponsors paid much lower PBGC premiums than sponsors of single employer plans and were promised much lower levels of guaranteed benefits by the PBGC.

However, the 2021 Congressional bailout arbitrarily granted participants in multiemployer pensions much better protections than employees who participated in an underfunded single employer plan, even though the sponsors of multiemployer pensions paid lower PBGC premiums all along. For instance, while airline employees sometimes suffered significant cuts to their benefits when their pension was turned over to the PBGC, multiemployer participants will receive every penny they have been promised. But the cost to taxpayers will be significant, with the Treasury Department slated to issue grants estimated at $86 billion from 2022 to 2024 to 186 underfunded pensions. However, $86 billion is likely to be a low-end estimate of the cost of the multiemployer pensioni bailout. The CBO notes the under certain circumstances over 300 plans could be eligible for federal payments, and there is the risk that plan trustees would act strategically to obtain these funds. Moreover, since the federal grants pay benefits only through 2051, a further multiemployer pension bailout is almost certain.

It is important to point out that these are federal grants, without any obligation to be repaid, not the loans that were originally touted when Congress told America that a multiemployer plan would be a "backstop," not a bailout.[25] Decades-long claims that the PBGC was a separate, self-funding entity that could not impose costs on the federal taxpayer were abandoned.

All of this did not have to happen. If multiemployer pensions had been required to use the same investment return assumptions as single employer plans, it is much more likely that troubled plans would have survived. In a 2018 study, the Government Accountability Office found that, if the prominent Central States plan had received the 7.5 percent annual return it assumed from 2000 to 2014, it would have ended that period 91 percent funded. Instead, Central States received just 4.9 percent returns, leaving its funding at 50 percent and declining.[26] But this is precisely the reason why federal law does not allow single employer pensions to assume high investment returns, to protect the plan and its participants against poor investment returns. Multiemployer pensions were allowed to flout those rules and now the federal taxpayer must pay the price for Congress's unwillingness to properly regulate these plans.

Moreover, portability of benefits between employers is something 401(k)-type plans do automatically and one reason why employees like them. An employee who must withdraw from a defined benefit plan mid-career can lose tens or even hundreds of thousands of dollars in lifetime benefits due to traditional pensions' backloaded benefit formulas, in which the lion's share of benefits are earned in the decade or so just prior to retirement. Defined contribution plans like 401(k)s have steady benefit accumulation

---

[25] In a July, 2019 full committee markup of multiemployer rescue legislation, Chairman Neal declared "This is not a bailout. This is a backstop, guaranteed by the good faith and full credit of the United States." Ichniowski, Tom. "House Passes Bill to Aid Ailing Multiemployer Pension Plans." Engineering News-Record, July 24, 2019.

[26] Government Accountability Office. "Central States Pension Fund: Investment Policy Decisions and Challenges Facing the Plan. GAO-18-106. June 04, 2018.

rates, so there is no penalty when a person must change jobs. Moreover, 401(k)-type plans are by definition always fully funded. It is visible to employees what is in their plans and there is no pretense of a claim that they employer or the taxpayer must make up for investment loses. This creates incentives for larger contributions to 401(k) plans, which helped those plans so rapidly overtake defined benefit pensions in terms of overall funding.

All of this points to a larger reality, which is that where shortfalls in retirement savings occur, they are predominantly on the government side of the ledger. Even if we looked at the most pessimistic estimates of U.S. households' retirement savings, which make unrealistic assumptions in an effort to show that Americans have undersaved for retirement, funding shortfalls in Social Security and state and local government pensions are even larger. This is a worldwide phenomenon, with a World Economic Forum study concurring that in most countries the "retirement savings gap" is overwhelmingly in government programs rather than household savings.[27]

The reason retirement savings gaps are so heavily weighted to government programs is incentives: for all the failings that individuals may have in planning for retirement, they have a clear incentive to do so to the best of their ability since they will be the one to suffer if they fail to save adequately. By contrast, the political incentive is for government to kick the can down the road when it comes to difficult decisions on retirement plan funding. This helps explain why, thirty years after the Social Security trustees first called for Congressional action to fix the plan's long-term solvency, nothing yet has been done. It also explains why state and local pensions, more than a decade after the Great Recession, have still failed to financially recover.

If the U.S. retirement system is broadly working, what should Congress do?

When a team is on a winning streak – and the U.S. private sector retirement system is – team leaders should think twice about messing with success. When most things are going right, changes that are not well thought-out could cause harm as easily as bringing benefits. Any Member of Congress who thinks the U.S. retirement system should be substantially changed but who hasn't yet grappled with the data I have presented today should consider these facts and figures before moving forward.

[27] World Economic Forum. "Global Pension Timebomb: Funding Gap Set to Dwarf World GDP." (2017).

But a winning team also builds on its successes. The U.S. retirement system has done so: over the years retirement plan coverage and participation have increased; management fees have declined; and innovations such as automatic enrollment and target data investment funds have been adopted. All of these steps helped address gaps and shortcomings that existed in the way Americans prepare for retirement. While Social Security reform has been and remains contentiously partisan, legislation on private retirement savings has been the opposite: there is a long and continuing tradition of Democrats and Republicans working across the aisle.

The SECURE Act of 2020 was the most important and far-reaching legislation on retirement saving since the Pension Protection Act of 2006. The SECURE Act worked to expand the availability of retirement plans at work, particularly among small employers, and it gave individuals more flexibility and options on how to save and how to draw down their savings.

The SECURE Act 2.0 is in that same tradition. It would expand automatic enrollment in 401(k) plans to all new employees, increase tax incentives to employers who offer retirement plans, and expand retirees' ability to convert their 401(k) balances to an annuity that offers benefits for life. In addition, SECURE Act 2.0 would open up Multiple Employer Plans to nonprofits, who offer 403(b) plans instead of 401(k)s, as well as generally simplifying reporting and disclosure requirements that can be a disincentive for small employers to offer a retirement plan. All of these are worthy improvements that would help Americans prepare for retirement.

SECURE Act 2.0 also would establish a new database of lost retirement accounts, which would help Americans reconnect with savings from a prior job. However, I am wary of proposals for the Pension Benefit Guaranty Corporation to hold lost accounts and invest those balances in U.S. Treasury bonds. Private entities have greater experience as account administrators. Moreover, given that many lost accounts are from young employees and may sit for years before being claimed, I would prefer to see these accounts remain invested in a retirement-appropriate portfolio mix of stocks and bonds that could grow over time. This would cost more initially, but would bring benefits to savers over time.

I appreciate the attention this subcommittee is paying to the important issue of retirement savings and look forward to the actions it can take on behalf of all Americans.