Submitted electronically

December 12, 2022

The Honorable Chuck Schumer
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker
United States House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Republican Leader
United States Senate
Washington, DC 20510

The Honorable Kevin McCarthy
Republican Leader
United States House of Representatives
Washington, DC 20515

Re: End-of-Year Legislative Package – Retirement Security Provisions

Dear Leader Schumer, Leader McConnell, Speaker Pelosi, and Leader McCarthy:

We are writing to express the Milken Institute's support for your continued efforts to pass legislation that would bolster the nation's retirement system. We recognize the work of many members of the Senate and House of Representatives who have been focusing on this crucial, bipartisan issue, and the Milken Institute has been following the legislation with great interest.[1] We sincerely hope that the collective legislation (EARN Act, RISE & SHINE Act, and SECURE Act 2.0) will pass in this session. Specifically, we would like to highlight three overall areas of the legislation:

1. **Proposed changes that would encourage those not saving for retirement to begin to save.**

2. **Proposed changes that would encourage savers to increase their retirement savings.**

3. **Proposed changes that would make retirement savings easier and enhance employer offerings.**

Overview

There is an urgent need to address many issues preventing Americans from investing and saving enough to secure their long-term financial security. According to the Transamerica Center for Retirement Studies, only 24 percent of workers are very confident they will be able to fully retire with a comfortable lifestyle. Overall, statistics on retirement savings show significant shortfalls, inequities, and lack of any savings at all by many Americans. Further, we are at a unique crossroads, with an aging population and increasing longevity, making enhancements to our current system even more important.

People are living longer than ever before. On average, across OECD countries, at age 65, people can expect to live another 19.7 years. As baby boomers reach retirement age, our population is skewing older.

[1] The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

By 2024, 25 percent of American workers will be 55+, and by 2040, Americans aged 65 or older will reach 80 million people. These longevity and demographic trends compel the government, employers, and individuals to rethink retirement planning.

In addition, in the United States, 25 percent of people lack any retirement savings, and roughly half have no access to employer-sponsored retirement plans. Those at the lower end of the income spectrum are much less likely to have access to an employer-sponsored retirement plan. AARP's Public Policy Institute's research shows that 46 million workers with annual earnings of $50,000 or less, or 81 percent of those 57 million workers, do not have access to an employer retirement plan.

Moreover, significant gender and racial savings inequities imperil large portions of the population's ability to create a financially secure future. For example, Bank of America has found considerable gender disparities in 401(k) savings by looking at women's average account balances as a percentage of men's accounts. And it found that baby boomer women have the most significant gap, saving just 53 percent of what men have saved.

The Employee Benefit Research Institute (EBRI) research concluded, "when it comes to women and savings for retirement, those most at risk are divorced, never married, or widowed women." EBRI's Retirement Security Projection Model found that Black and Hispanic households aged 35 to 39—those with a significant part of their career left to save for retirement—are significantly more likely to have a shortfall of money in retirement and to have larger retirement shortfalls than their White counterparts.

Thus, we need to work to narrow wealth, gender, and racial retirement savings gaps by making savings and investment more accessible and equitable while creating new solutions that enhance and encourage long-term savings for all. The Milken Institute is also focused on encouraging savings at an early age and is working to highlight the power of compounding.

Addressing the many issues preventing a large portion of the population from adequately saving for a financially secure and fulfilling life with age is imperative. The Milken Institute supports public policy change and private sector solutions that address the growing retirement crisis.

Key Provisions

The Milken Institute supports the Senate and House legislation that enhances and strengthens America's retirement system by addressing these three overarching issues.

1. **Proposed changes that would encourage those not saving for retirement to begin to save.** We support the following provisions that would serve to motivate individuals to start saving for retirement:

- **Automatic enrollment in employer plans.** GAO research and behavioral finance researchers have found that automatic enrollment boosts plan participation.
- **Student loan repayment option.** Student loan debt has skyrocketed in the past 10 years. Thus, allowing employers to match employees' student loan payments in the form of a contribution to their 401(k) or other similar retirement plans would encourage saving earlier and enhance the ability of younger people to build a financially secure future.
- **Enhancements to part-time employee retirement plans**. Proposed changes, such as those that would decrease the required time to participate in an employee plan, would allow more workers to save for retirement.
- **Simplified Employee Pensions (SEPs) for domestic workers**. Most domestic workers do not have access to retirement plans, so creating SEP plans would be significant for many Americans.
- **Emergency savings accounts.** The creation of "pension-linked emergency savings accounts" offered as a part of a retirement account, with employer contributions, that allow for monthly withdrawals with a yearly limit of approximately $2,500 would be impactful for many Americans.

Such accounts would benefit those who want to save for retirement but have heightened concerns about ensuring that they also have access to emergency funds.

2. **Proposed changes that would encourage savers to increase their retirement savings.** We support the following proposed legislative changes to promote long-term savings:

   - **Auto escalation in employer plans**. Research also shows that employees often default to yearly increases.
   - **Delaying the required minimum distribution age beyond age 72**. For the Americans who will continue to work later in life or otherwise do not need to draw down their retirement or long-term savings, increasing this age will allow them to increase their overall lifetime savings significantly.
   - **Saver's tax credit enhancement or saver's tax refund.** Expanding this tax credit available to those with low and moderate incomes would allow for greater yearly savings. Thus, ensuring that this credit reaches $2,000 per person would be significant. And proposed changes that would modify the credit, with respect to retirement plan contributions, by changing it from a credit to a tax refund or a government matching contribution deposited directly into individual retirement plan accounts, up to $2,000 per individual taxpayer, would be even more impactful.

3. **Proposed changes that would make retirement savings easier and enhance employer offerings.** We support the following proposed legislative changes to plan structures that facilitate retirement savings:

   - **Increasing plan tax credit for small businesses.** Crediting plan startup costs and providing credit for five years per employee will encourage small businesses to offer retirement plans. In 2022, the number of employees in small businesses in the US will hit 61.7 million. Thus, small business employees make up 46.4 percent of total US employees. And employees in small businesses are less likely to have a retirement plan. AARP's Public Policy Institute has found that 78 percent of firms with fewer than 10 employees and approximately 65 percent of those who work in companies with 10-24 employees lack a retirement plan.
   - **Long-term care withdrawal.** Retirement plan withdrawals to pay for long-term care will be necessary for many Americans to help them pay for this essential cost. On average, an American turning 65 will incur $138,000 in long-term care costs due to an illness requiring assistance with daily activities. Further, the number of insurers offering long-term care insurance has decreased from more than 100 in 2002 to just 12. Most Americans are unprepared to self-fund the high costs of long-term care, and many are unaware that Medicare does not cover long-term services and support. The Milken Institute has been focused on research related to funding long-term care.[2]
   - **Pooled Plans.** Allowing pooled employer plans (PEPs) to name any fiduciary to collect contributions and implement written collection procedures will enhance the ability of small businesses to provide retirement plan services to their employees regardless of the company's size. Small business owners and employees have often been left out of retirement services because of administrative costs. Reducing the complexity around PEPs can lead to more people participating in retirement savings plans.

Conclusion

The Milken Institute strongly supports legislation that will encourage and enhance long-term savings for retirement.

We welcome the opportunity to provide additional detail regarding the information above. We would be pleased to meet with you and your staff to discuss these important issues and serve as a resource as you continue to refine legislation.

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[2] See: https://milkeninstitute.org/programs/long-term-care.

Thank you for your continued work to strengthen our nation's retirement system.

Sincerely,

Michael S. Piwowar
Executive Vice President
MI Finance
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Cheryl L. Evans
Director, Lifetime Financial Security Program
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CC:
The Honorable Ron Wyden
Chair, US Senate Finance Committee

The Honorable Mike Crapo
Ranking Member, US Senate Finance Committee

The Honorable Patty Murray
Chair, US Senate HELP Committee

The Honorable Richard Burr
Ranking Member, US Senate HELP Committee

The Honorable Richard Neal
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The Honorable Kevin Brady
Ranking Member, US House Committee on Ways & Means

The Honorable Bobby Scott
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