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From the Editor

Everyone into the Savings Pool: The Time to Begin National Reform Is Now

Even Congress is starting to realize that many Americans are woefully unprepared for retirement. Overspending, financial illiteracy, and a yawning coverage gap in workplace retirement programs are causing baby boomers, their children and their children's children to lead a paycheck-to-paycheck existence. In the good old days, we were all comfortably perched on the three-legged stool of a fiscally sound Social Security program, funded workplace defined benefit (DB) pension plans, and robust personal savings. However, even if that halcyon period of retirement security really existed, today all three legs are very wobbly. We should begin immediately by focusing on the easiest leg to fix: individual savings, using a few proven steps to empower workers to prepare for their own retirement.

More than three decades of 401(k) defined contribution (DC) savings experience have taught us what encourages folks to save and what roadblocks get in their way. These lessons learned were neatly summarized in a May 2016 Government Accountability Office (GAO) study on Retirement Security (GAO 16-408). First, workers are much more likely to save when they have access to a savings plan at work rather than being left on their own. Indeed, according to the GAO, average non-Social Security retirement income would increase by almost 20 percent for all workers and 35 percent for low-earning workers if there was universal plan coverage. Although uncovered workers could help themselves today by contributing to an individual retirement account (IRA), albeit with lower limits than a DC plan and

no possibility of employer contributions, few individuals take advantage of IRAs. Thus, the 40 percent of working households without access to any employer retirement plan are simply not saving on their own. Not surprisingly, low-income and minority employees are the most likely to not be covered by any retirement plan.

Of course, being eligible does little good if participants do not actually contribute. While on average most eligible employees do contribute, they do not contribute nearly enough.

Auto enrollment is the second key to getting workers to save. Even with the ability to opt out of contributing or to choose a lower savings rate simply by calling a toll-free number or visiting a Web site, most participants take no action. Indeed, the effectiveness of putting saving on auto pilot has been firmly established since 2006, when Congress expressly authorized it under the Pension Protection Act. And automatic savings has been shown to be highly effective in encouraging people at all income levels to save. But to harness the power of human inertia, the default savings and escalation rates must be set sufficiently high so that participants who simply follow along will accumulate enough to meaningfully improve their retirement income. As Vanguard's classic annual survey of their clients, *How America Saves*, illustrates, setting the bar too low has the unwanted effect of discouraging adequate saving.

Putting it all together, according to the GAO estimates, universal DC participation (eligibility plus enrollment) over the average person's working life could fund monthly retirement income of almost $4,000 per month while even low-income workers would accumulate enough to make a significant improvement in their finances. Importantly, these savings would come solely from the worker's own pocket; a successful savings program is not dependent on employer contributions.

Universal participation can only happen with an assist from government. Currently, the states, worried that unprepared citizens unable to scrape by on Social Security alone would overwhelm already challenged resources, are busy crafting their own solutions. California, Connecticut, Illinois, Maryland, and Oregon are working on statewide employer-based IRA savings programs with auto enrollment to close the coverage gap. Other states and cities also are exploring other alternatives, including establishing a 401(k) marketplace where small employers can "shop" for low-cost providers. The US Department of Labor (DOL) has helpfully issued guidance making it easier for the states to act.

State and city efforts are important and can make a meaningful difference; however, this is a national problem begging for a uniform nationwide solution. Employers should be required to offer all employees the opportunity to save a portion of their earnings into a DC program with auto enrollment and escalation. Employers should

be free to choose the type of DC program to offer, including individually designed or an off-the-shelf prototype. However, employers not wishing to be involved in establishing a DC plan should have the option of joining a government pre-approved savings program run by the private sector. The federal government's role should be limited to requiring universal coverage and setting minimum program standards. Besides connecting its payroll to the program administrators and supplying basic employee census data, the employer should have no responsibility. Importantly, employer contributions should be optional.

What's needed is a simple, flexible, low-cost workplace-based program that employers can easily offer workers to nudge them into saving their own money for their own retirement. In addition, a creative solution should be sought to extend the benefits of automatic savings to the growing number of self-employed individuals.

Washington appears finally to be taking notice. A June report by the bipartisan Commission on Retirement Security and Personal Savings joined the chorus that the lack of retirement savings and the plan coverage gap are intertwined and to get people to save, especially those with lower incomes who need access to a workplace-based retirement plan. People in red, blue, or purple states have identical needs to save and are deeply concerned about their retirement. Some 60 percent of Americans report being worried about having enough money for retirement. (The other 40 percent may be in denial.)

Saving is most effective over a lifetime, not a late-in-the-game attempt to catch up from years of profligacy. It is too late to do much for aging baby boomers beyond encouraging those who can to continue working and at least put something aside. But there is time to help younger cohorts prepare.

And every year that passes without action leaves more people behind.

If not now, when?

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