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Submission by BlackRock, Inc.

Committee on Ways and Means

U.S. House of Representatives

Hearing entitled "Improving Retirement Security for America's Workers"

February 20, 2019

Chairman Neal, Ranking Member Brady, and members of the Committee, thank you for the opportunity to provide comments on the important topic of retirement policy. BlackRock, Inc. (together with its affiliates, "BlackRock") manages assets on behalf of individual and institutional clients across equity, fixed income, real assets, and other strategies. Two thirds of the assets we manage are retirement assets. The assets we manage represent our clients' futures and the investment outcomes they seek, and it is our responsibility to help them better prepare themselves and their families to achieve their financial goals.

BlackRock appreciates the attention being paid to retirement issues, and we believe it is timely for Congress to move forward with legislation that makes it easier for Americans to plan for a secure retirement.

The U.S. retirement system is complex, with a patchwork of different programs covering different workers, using different funding sources, investing in different products, and with different tax treatments and distribution mechanisms.

Broadly, there are three pillars for retirement funding in the U.S.: (i) Social Security, (ii) employer-sponsored plans, and (iii) personal savings. Based on today's longevity expectations and projected needs in retirement, all three of these critical building blocks need to be strengthened. Individuals are living longer and are increasingly responsible for funding their own retirement. Many Americans are not saving and investing enough to meet their retirement needs.[1] While Social Security provides a critical retirement

[1] US Government Accounting Office (GAO) studies found that increases in life expectancy has contributed to longevity risk in retirement planning, which creates a risk that Social Security and employer-sponsored DB plans will be unable to meet obligations over their beneficiaries' lifetimes. Further, 60% of all households are without any defined contributions savings in 2013. See GAO, Report to the Ranking Member, Subcommittee on Primary Health and Retirement Security, Committee on Health, Education, Labor, and Pensions, US Senate: Shorter Life Expectancy Reduces Projected Lifetime Benefits for Lower Earners (Mar. 2016), available at http://www.gao.gov/assets/680/676086.pdf; GAO, Report to the Ranking Member, Subcommittee on Primary Health and Retirement Security, Committee on Health, Education, Labor, and Pensions, US Senate: Low Defined Contribution Savings may Pose Challenges (May 5, 2016), available at http://www.gao.gov/assets/680/676942.pdf.

benefit, it is does not provide sufficient income for many beneficiaries and in fact was never intended to be the sole source of retirement income for retirees.[2]

How to address the projected depletion of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, or the funding issues impacting Medicare, is beyond the scope of our comments, but we emphasize the importance of addressing these issues as part of comprehensive retirement reform. We encourage Congress to work with the Administration to discuss potential bipartisan policy solutions addressing these issues.

We are commenting today on the private employer-sponsored retirement system, which is the focus of many legislative initiatives. In the last thirty years, defined contribution (DC) plans have become the primary source of retirement savings for many Americans, as many employers have moved away from defined benefit (DB) plans.[3] Much has been written about the shift from DB to DC plans. At their peak in the 1990's, private DB plans covered approximately 35% of the US workforce.[4] Many employers moved from DB to DC as a way to shift costs and risk away from their income statement and balance sheet. While shifting the risk, this approach also provided employees with a benefit that was portable as it can be rolled from job to job. The average American worker today will hold 12 jobs between ages 18 to 50,[5] making this portability important. However, in this shift from DB to DC, we have lost the ability to pool longevity risk, which is increasingly important given longer life spans and the shift in responsibility in retirement planning to individual employees.

Over a third of Americans don't have access to a public or private employer-sponsored plan of any kind,[6] and that percentage is even higher for individuals who work for small businesses.[7] For individuals who do have access to a plan, many simply aren't contributing enough.[8] For those with adequate retirement savings, it can still be challenging to figure out how best to spend down their savings during retirement, especially given uncertain health and life expectancy. In fact, many retirees who have saved during their working years aren't spending as much as they can early in retirement, for fear of running out of money.[9]

Make it Easier. In thinking about how to address these challenges, our overarching principle is *make it easier.* By definition, retirement legislation is complex, as it cuts across many areas of policy, as well as tax, fiduciary, and other statutes and regulations. With that said, we believe the goal of any

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[2] For more on the three pillars of retirement security, see BlackRock, *ViewPoint*, Addressing America's Retirement Needs: Longevity Requires Action (2013), available at https://www.blackrock.com/investing/literature/whitepaper/viewpoint-retirement-needs-092013.pdf.

[3] Brendan McFarland, Willis Towers Watson, Retirement offerings in the Fortune 500: A Retrospective (Feb. 2018), available at https://www.towerswatson.com/en/Insights/Newsletters/Americas/Insider/2018/02/evolution-of-retirement-plans-in-fortune-500-companies. Notes that in 2017, only 16% of Fortune 500 companies offered a DB plan (traditional or hybrid) to new hires, down from 59% among the same employers back in 1998.

[4] Estimates of the maximum coverage rate of DB plans vary from 35% to 38%. See William J. Wiatrowski, Bureau of Labor Statistics, Monthly Labor Review, The last private industry pension plans: a visual essay (Dec. 2012), available at https://www.bls.gov/opub/mlr/2012/12/art1full.pdf; Howard Iams, Barbara Butrica, Karen Smith, and Eric Toder, Social Security Bulletin, The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers (Oct. 10, 2009), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1480848.

[5] U.S. Bureau of Labor Statistics, Number of Jobs, Labor Market Experience, and Earnings Growth Among Americans at 50: Results from a Longitudinal Survey (Aug. 24, 2017), available at https://www.bls.gov/news.release/pdf/nlsoy.pdf.

[6] U.S. Bureau of Labor Statistics, Employee Benefits in the United States (Mar. 2017), available at https://www.bls.gov/news.release/pdf/ebs2.pdf.

[7] Pew Charitable Trusts, Employer-Sponsored Retirement Plan Access, Uptake and Savings (Sep. 14, 2016), available at http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/09/employer-sponsored-retirement-plan-access-uptake-and-savings (Pew Issue Brief).

[8] Stanford Center on Longevity, Seeing Our Way to Financial Security in the Age of Increased Longevity (Oct. 2018), available at http://longevity.stanford.edu/sightlines-financial-security-special-report-mobile/.

[9] BlackRock and EBRI, Spending retirement assets…or not? (Nov. 2018), available at https://www.blackrock.com/us/financial-professionals/literature/whitepaper/retirement-spending-whitepaper-final-stamped.pdf.

comprehensive retirement bill should be to simplify the system for both employers and employees. Simplicity and flexibility are essential, especially for small business employers and employees, which is where many of the access and participation issues are most acute. With this in mind, we approach each potential retirement policy change from the lens of: Will this address the challenges of ensuring a secure retirement for all? Is there a measure in place today that is meant to accomplish the objective, and is it as effective as possible? Where can we improve or streamline?

We also look at the retirement issues facing the U.S. from both a top down and a bottom up perspective, as well as by what levers we can pull to address these issues.

Top down, our philosophy is based on the following principles:

- **Start early** – the power of compounding is the biggest advantage savers have;
- **Invest long term** retirement savings in the capital markets;
- **Minimize the amount of money taken out** of the system before retirement; and
- **Manage longevity risk** by having options that generate sufficient lifetime cash flow.

Bottom up, we look at the issues we need to solve for through three lenses, as outlined in our July 2018 *ViewPoint* Roadmap for Improving US Retirement Savings: Make it Easier:

1. **Expand access** to employer sponsored retirement savings plans;
2. **Increase participation**, both quantity and quality; and
3. **Improve outcomes** throughout retirement.

Finally, we believe that there are four "levers" to pull in order to achieve these principles: (1) incentives; (2) behavioral finance; (3) education; and (4) mandates. The optimal employer-based retirement system will use all four of these levers, depending on what works best for the goals that have been established. These top down and bottom up principles, as well as the four levers, are the basis for our comments today. We will categorize our comments by the three bottom up issues that we are all trying to solve for: Access, Participation and Outcomes.

Expand Access

The list of reasons why approximately half of the U.S. population will use Social Security as their primary source of retirement income is long and well documented.[10] One of those reasons is that over a third of America's employees don't have access to an employer sponsored plan.[11] Workplace access to a retirement plan is among the most important long term, structural drivers of retirement security in our voluntary system.[12] There have been a number of positive steps taken to increase access in the last 20 years, but a gap remains, especially in our small businesses.[13] If our goal is for every American to have access to an employer sponsored plan, while maintaining individual choice, we believe that all four levers should be considered.

We support a comprehensive solution that *makes it easier* for both employers to provide their employees access to a retirement plan, and for their employees to use that plan. Provisions that utilize the first three levers – incentives, behavioral science, and education – are contained in several proposed

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[10] PRNewswire, Over Half Of Future Retirees Will Rely On Social Security As Their Main Source Of Retirement Income (Apr. 26, 2018), available at https://www.prnewswire.com/news-releases/over-half-of-future-retirees-will-rely-on-social-security-as-their-main-source-of-retirement-income-300637039.html.

[11] Pew Issue Brief.

[12] U.S. Government Accountability Office, The Nation's Retirement System: A Comprehensive Re-evaluation is Needed to Better Promote Future Retirement Security (Oct. 2017), available at https://www.gao.gov/assets/690/687797.pdf.

[13] Ibid. Only a third of individuals who are employed by businesses with less than 50 employees had access to an employer-sponsored plan in 2012.

retirement bills, and we express support for a number of these provisions in our submission today. Given that the goal of increasing access applies mainly to the small business segment, we believe it is even more important to focus on simplicity and flexibility, so we view each provision through this lens: will it *make it easier* for small businesses to provide access to a plan, and for their employees to actually use it?

One of the most important retirement policy goals is to meaningfully increase access to a plan, mainly among employees in small businesses. Other countries[14] and some states[15] have been aggressive, with mandatory savings programs requiring that employers and employees contribute a minimum amount to retirement savings. The Automatic Retirement Plan Act,[16] proposed by Chairman Neal, includes a requirement that all employers with over 10 employees offer some form of retirement plan, such as a 401(k), SIMPLE IRA or automatic IRA, as well as automatic enrollment at 6% and automatic escalation to 10%, all with opt outs for employees. There are other provisions in the bill (and other proposed bills[17]) which seek to *make it easier* for employers to offer a plan – including incentives and behavioral "safe harbors" targeted to small business. In addition, the bill "grandfathers" existing plans, provided they were in place for more than one year prior to enactment of the bill. If the overall solution is comprehensive, and *makes it easier* for employers and employees, then such a requirement makes sense within the existing system to help solve our access issue. We discuss some of the proposed enrollment provisions in our section below on improving participation.

We believe there are a number of additional policy measures that should be considered in conjunction with this kind of approach in order to achieve a comprehensive solution.

Open MEPs. BlackRock has long advocated for open multiple employer plans (MEPs) as one way to *make it easier* for small employers to offer retirement plans. Open MEPs allow businesses to share administrative and other responsibilities associated with establishing and maintaining a retirement plan, while delegating the overall fiduciary responsibility to the MEP sponsor. Given the reduced fiduciary responsibilities for the employer, open MEPs reduce the time, complexity, and fiduciary risk associated with offering a plan.

To facilitate greater adoption of these plans, we recommend legislation (such as the Retirement Enhancement and Savings Act (RESA)[18]) that eliminates the "nexus" or commonality requirement, as well as the "one bad apple rule". The Department of Labor has proposed a rule that would expand the commonality requirement to allow for a geographic nexus by state or metropolitan area,[19] which we believe is a positive step. We encourage legislators to take RESA's even more expansive view, eliminating the commonality requirement to allow businesses to benefit from economies of scale, which is especially important for small businesses located in rural areas and less populous states. We also recommend policy makers revisit the "one-bad-apple" rule for open MEPs,[20] under which a failure by one employer to meet qualification rules would disqualify the entire MEP. Revising the Internal Revenue Code or regulations to limit disqualification to only the plan engaging in the disqualifying conduct would make

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[14] For example, the National Employment Savings Trust in the UK, Australia's Superannuation system, and New Zealand's KiwiSaver program.

[15] Some states have enacted mandatory retirement programs for employers that meet certain employee count thresholds, including Oregon, Connecticut, California, Illinois, and Maryland. These programs are in various stages of implementation.

[16] H.R. 4523, 115th Congress, Automatic Retirement Plan Act of 2017.

[17] See e.g., S.3221, 115th Congress, The Retirement Security Flexibility Act; S.3781, 115th Congress, Retirement Security and Savings Act of 2018.

[18] S. 2526, Retirement Enhancement and Savings Act of 2018.

[19] Department of Labor, Employee Benefits Security Administration, Definition of ''Employer'' Under Section 3(5) of ERISA—Association Retirement Plans and Other Multiple-Employer Plans (Oct. 23, 2018). See 83 Fed Reg 53534-53561.

[20] The President directed the Secretary of the Treasury to consider proposing amendments to regulations or other guidance addressing the one-bad-apple rule. See Executive Order on Strengthening Retirement Security in America (Aug. 31, 2018), available at https://www.whitehouse.gov/presidential-actions/executive-order-strengthening-retirement-security-america/.

open MEPs a more attractive option. We appreciate the focus in Congress on legislation that would facilitate open MEPs.[21]

SIMPLE IRAs. The SIMPLE IRA was introduced in 1996 for the purpose of providing access to a retirement plan for employees of small businesses. These plans have low start-up and maintenance costs, as they are not subject to many of the administrative burdens that apply to most qualified plans, while still having higher contribution limits compared to traditional or Roth IRAs. While assets in these plans have grown, they are relatively small compared to other retirement plans.[22] We believe SIMPLEs should be a primary tool for *making it easier* to provide access to employer-sponsored plans.

There has been some Congressional focus on SIMPLEs, with proposals for change across different pieces of legislation.[23] One bill from Senators Collins and Warner is specifically focused on SIMPLEs, and includes provisions to increase the maximum employee contribution, tied to an increase in the employer contribution, and would direct Treasury to study the use of SIMPLE plans and report on such use.[24] We support the commitment of Senators Collins and Warner to look at SIMPLEs in a broader way, and we respectfully suggest several additional provisions to maximize the impact SIMPLE IRAs can have on access.

One difference between a SIMPLE IRA and most qualified plans is that the employer must make a contribution.[25] Currently, this mandatory contribution equals either matching contributions up to 3% of employee compensation or a non-elective contribution of 2% of employee compensation up to the annual limit.[26] There is some flexibility built into this requirement, allowing the employer to reduce the contribution to 1% for two years out of a five year period.[27] We encourage Congress to consider even more flexibility for mandatory employer contributions for new businesses or existing businesses that are offering a plan for the first time, provided the SIMPLE utilizes automatic enrollment into a qualified default investment alternative (QDIA).[28] Flexibility can be accomplished either by waiving or reducing the employer mandate for a specific period, or through an additional annual tax credit equal to the employer contribution. The tax credit could be consistent with the tax credit proposed in the Retirement Security and Savings Act of 2018 introduced by Senators Portman and Cardin (Portman/Cardin bill)[29] and in Chairman Neal's Retirement Plan Simplification and Enhancement Act of 2017.[30]

We also support the provision in the proposed Portman/Cardin bill that allows for Roth tax treatment of contributions in SIMPLE IRAs, as Roth IRAs may be more attractive to younger workers who

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21 Senators Susan Collins and Maggie Hassan introduced the Retirement Security Act of 2019. See Press Release (Feb. 4, 2019), available at https://www.collins.senate.gov/newsroom/bill-help-americans-save-retirement-introduced-senators-collins-hassan.

22 Investment Company Institute, The US Retirement Market, First Quarter 2018 (Jun. 2018), available at www.ici.org/info/ret_18_q1_data.xls.

23 See e.g., H.R. 5160, 110th Congress, Small Businesses Add Value for Employees (SAVE) Act of 2008; S. 3197, 115th Congress, the SIMPLE Plan Modernization Act of 2018; S.3781, 115th Congress, Retirement Security and Savings Act of 2018.

24 S.322, 116th Congress, A bill to amend the Internal Revenue Code of 1986 to promote retirement savings on behalf of small business employees by making improvements to SIMPLE retirement accounts and easing the transition from a SIMPLE plan to a 401(k) plan, and for other purposes.

25 This requirement also applies to SIMPLE 401(k) and other safe harbor plans. See, e.g., Sections 401(k)(11), (12), and (13).

26 IRS, SIMPLE IRA Plan FAQs – Contributions, available at https://www.irs.gov/retirement-plans/simple-ira-plan-faqs-contributions.

27 Ibid.

28 Senator Young proposed legislation intended to provide additional flexibility for non-elective and matching contributions for automatic contribution arrangements. See S. 3221, 115th Congress, Retirement Security Flexibility Act of 2017.

29 S.3781, 115th Congress, Retirement Security and Savings Act of 2018.

30 H.R.4524, 115th Congress, Retirement Plan Simplification and Enhancement Act of 2017.

can benefit the most from starting early in saving for retirement. To expand access to employees who may not otherwise be eligible to participate in a 401(k) plan, such as new, contingent or temporary workers, we recommend modifying the requirement that the SIMPLE IRA be the only retirement plan at a company and instead allow it to be offered alongside other plans,[31] and for employees, once eligible, to transition from the SIMPLE to the more established qualified plan.

Reporting and Disclosure. Across all plan types, we are supportive of efforts to reduce reporting and disclosure burdens on plans and their sponsors. Over the years, Congress has created a number of notices that must be provided to participants in 401(k) and other DC plans. BlackRock has long advocated for simplification of these requirements to *make it easier* for plan sponsors. Specifically, we believe Form 5500 could be simplified to only include essential data and could be eliminated, at least in part, for certain types of plans with simple investment options.

We support efforts to make disclosures more effective for individuals, while reducing the burden for plan sponsors, including modifications to target date fund disclosure. We support the proposed Portman/Cardin provision that *makes it easier* for individuals to understand their target date fund disclosure. The provision would modify the DoL regulations so that an investment that uses a mix of asset classes can be benchmarked against a blend of broad-based securities market indices, provided (a) the index blend reasonably matches the fund's asset allocation over time, (b) the index blend is reset at least once a year, and (c) the underlying indices are appropriate for the investment's component asset classes and otherwise meet the rule's conditions for index benchmarks.

Finally, to *make it easier* for individuals to receive and understand the disclosures they receive, we strongly support provisions to expand the use of electronic delivery for required plan disclosures. As of 2016, approximately 93% of households with DC plans have internet access, a number that has increased dramatically over time.[32] Given that plan participants could opt-in to continue to receive paper documents, there are significant benefits of this change with little potential downside. Electronic delivery would *make it easier* for individuals to receive plan information in real time and would save costs for plan sponsors and participants.[33] Savings like these can compound over time and help employees accumulate assets for a more secure retirement. In addition, electronic delivery has clear environmental benefits including reducing landfill waste.

Increase Participation

In order to increase retirement security, individuals must both have access to a plan and must adequately participate in that plan – both in terms of the quantity of participation, as well as the quality. Using three of the four levers (incentives, behavioral science, and education), Congress, regulators, employers and the industry have led to improvements in both the quantity and quality of participation. Behavioral science has shown that automatic enrollment is a very effective tool to get people to participate in an employer-sponsored plan and has improved the quantity of participation in employer plans.[34] In addition, Congress and the DoL's provision of a safe harbor for the automatic default into a

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[31] Section 403(p) of the Internal Revenue Code permits a SIMPLE IRA to sit alongside another plan, but only if that plan was collectively bargained.

[32] Investment Company Institute tabulations of the Federal Reserve Board Survey of Consumer Finances (2016). See Paul Schott Stevens, ICI, Testimony before the House of US Representatives Committee on Education and the Workforce Subcommittee on Health, Employment, Labor, and Pensions (May 16, 2018), available at https://www.ici.org/govaffairs/ret_sec/401k/18_house_cew_mep_oral.

[33] This was proposed in a 2017 bill. See H.R. 4610, 115th Congress, Receiving Electronic Statements to Improve Retiree Earnings Act of 2017.

[34] David Laibson, Lecture at the American Economic Association, "The Psychology and Economics of The Psychology and Economics of Household Investment Decisions Household Investment Decisions" (Jan. 2010), available at http://scholar.harvard.edu/files/laibson/files/thepsychologyandeconomicsofdefaults_laibsonaealecture3.pdf.

QDIA has improved the quality of participation and increased the use of diversified retirement investment strategies.[35]

Automatic Enrollment, Escalation and Re-enrollment. We are supportive of encouraging best practices, such as automatic enrollment, automatic escalation, and permitting re-enrollment every three years. Both of Chairman Neal's bills strongly encourage these behaviors, which we support. Research has shown that the current commonly used default contribution rate of 3% is too low to get Americans the retirement outcomes they want,[36] and an increased rate could be one way to address this issue. With that said, we are concerned that a 6% automatic deferral, while appropriate for many, could be somewhat challenging for employees in small businesses, where the impact of higher automatic default rates has not yet been studied. In order to avoid opt outs and leakage, it is important to make it clear that employees can "drop down" to a lower contribution amount rather than simply opting out.

We also believe in providing companies greater flexibility in determining the rate of escalation of contributions, while maintaining the ability for employees to opt out or modify these escalations. Similarly, companies should have more flexibility in matching contributions. For example, an employer may not want to match 100% up to 1% of compensation and then 50% for 1%-6% of compensation, but may be willing to match 50% up to a higher percentage of compensation, say 3%, which could encourage individuals to put more into their plans while giving employers more flexibility in providing matches.

Re-enrollment. Re-enrollment is an effective behavioral finance lever for a plan sponsor to encourage non-participating employees to begin to contribute to company plans, as well as have individuals more meaningfully contribute. There is not much use of re-enrollment in the U.S.,[37] perhaps in large part due to a lack of a specific voluntary safe harbor for re-enrollment. To increase the quantity and quality of participation, we support Congressional efforts to provide a voluntary safe harbor for the use of re-enrollment in all cases, which would address employer concerns about potential fiduciary risk associated with re-enrollment and facilitate greater use of this tool.

Student Loan Payments. We keep emphasizing that starting early is one of, if not *the* critical principle for success of our retirement system. However, many young workers do not contribute to their retirement plan because they are overwhelmed with student debt, and thus do not receive matching contributions from their employers. We believe employers should be permitted to treat qualified student loan payments as elective deferrals for purposes of matching contributions under a 401(k) plan, 403(b) plan, or SIMPLE IRA. This would allow individuals to receive company matches by reason of repaying their loan, if the company chooses to offer this flexibility. Legislation allowing for this was recently proposed,[38] and the IRS paved the way for such a program in its May 2018 letter to Abbott Laboratories allowing an employer to make contributions based on student loan repayments.[39]

Lifetime Income Disclosure. An important element of education that will drive participation is the translation of savings into the estimated income it will produce in retirement.[40] BlackRock supports

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35 Public Law 109-280, Pension Protection Act of 2006; 72 FR 60452 (Oct. 24, 2007).

36 See e.g., Brigitte C. Madrian, Harvard University and National Bureau of Economic Research, AARP Policy Spotlight, That Was Easy: The Importance of Auto Features in Promoting Retirement Savings (Oct. 2014), available at https://www.aarp.org/content/dam/aarp/ppi/2014-10/spotlight12-importance-auto-features-promoting-retirement-savings-AARP-ppi-econ-sec.pdf; Steven Sass, Center for Retirement Research at Boston College, Can we Increase Retirement Saving? (Sep. 2016), available at http://crr.bc.edu/wp-content/uploads/2016/08/IB_16-15.pdf.

37 BlackRock's 2016 DC Pulse Survey found that only a quarter of plans have recently conducted a re-enrollment.

38 S. 460, 116th Congress, A bill to amend the Internal Revenue Code of 1986 to extend the exclusion for employer-provided education assistance to employer payments of student loans

39 IRS, Private Letter Ruling 201833012 (released Aug. 17, 2018), available at https://www.irs.gov/pub/irs-wd/201833012.pdf.

40 Alison Salka, LIMRA, Do You Know How Much Income You Will Have In Retirement? (May 22, 2013), available at https://www.limra.com/Posts/PR/Industry_Trends_Blog/Do_You_Know_How_Much_Income_You_Will_Have_In_Retirement_.aspx.

including Lifetime Income Disclosure on statements – whether that be through a regulatory safe harbor for plan sponsors that such disclosure is classified as "education", or through a requirement, as contained in several pieces of proposed legislation, including RESA.[41] We believe that such a safe harbor or requirement should be product agnostic, as there are many ways to appropriately translate assets into income, from annuity-based methodologies to systematic withdrawal methodologies. An inflexible requirement would lock disclosures into place, and potentially prevent innovative methodologies – either in the form of disclosures or new products – to the detriment of participants. The bottom line is that this translation will provide employees with the positive reinforcement necessary to not only continue participating, but also to increase the quantity and quality of their participation.

Keep Money in the System. One of the requirements for success of a private, voluntary retirement system is to keep money in the system. It has been reported that 40 cents of every dollar contributed to DC plans is withdrawn or otherwise leaves the system.[42] This is often referred to as leakage, and it degrades the "quality of participation" in the retirement system, as keeping money compounding in the capital markets is critical to achieving better retirement security. U.S. regulators have recognized the importance of addressing leakage, as demonstrated by the DoL's proposed exemption[43] and advisory opinion[44] designed to facilitate the Retirement Clearinghouse's Auto Portability program.

Limit Withdrawals through Emergency Savings. Our system currently includes hardship withdrawals, non-confiscatory penalties, as well as a complicated and non-intuitive rollover processes, all of which facilitate individuals in taking money out of their retirement savings accounts. In some cases, withdrawals may be necessary, and the availability of withdrawals positively impacts the decision to participate, so there should be a certain degree of flexibility. However, there are some policy proposals that could maintain this flexibility while facilitating greater preservation of retirement assets. For example, there have been proposals to encourage emergency savings,[45] which can be used instead of hardship withdrawals from traditional retirement accounts. Oregon's auto-IRA plan requires that the first $1,000 of their Roth contribution be invested in a money market fund, effectively acting as an emergency savings vehicle. Further, more research should be done on potential additional limits than can be placed on withdrawals from certain accounts, which has been explored in other countries.[46]

Simplify the Rollover Process. As workers change jobs more frequently, it is important to keep money in retirement accounts during job changes and *make it easier* for individuals to keep track of their retirement savings. The current process for moving assets from one employer's plan to another or rolling over into an IRA is complicated, confusing and largely manual. There are no standardized requirements, processes (including timing), or paperwork. There are a number of different options for employees upon switching employers, many of which require action from the individual to move their accounts.

We recommend improving plan portability by simplifying the process for individuals to move DC plan balances between employers and between an employer and an IRA. The proposed simplification of

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41 S. 2526, 115th Congress, Retirement Enhancement and Savings Act of 2018.

42 Lee Barney, PlanSponsor, Leakage Is a Serious Problem for 401(k) Plans (Feb. 8, 2016), available at https://www.plansponsor.com/leakage-is-a-serious-problem-for-401k-plans/.

43 83 Fed Reg. 55741-55750.

44 DoL, Letter from Louis J. Campagna to J. Spencer Williams (Nov. 5, 2018), available at https://www.dol.gov/sites/default/files/ebsa/employers-and-advisers/guidance/advisory-opinions/2018-01a.pdf.

45 S. 3218, Strengthening Financial Security Through Short-Term Savings Accounts Act of 2018.

46 For example, some countries apply less favorable tax treatment to early withdrawals under certain situations, including Australia, Denmark, and Italy. Others impose restrictions on such withdrawals, including Germany, Singapore, and the UK. See OECD, Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries (2015), available at http://www.oecd.org/pensions/Stocktaking-Tax-Treatment-Pensions-OECD-EU.pdf; John Beshears, James J. Choi, Joshua Hurwitz, David Laibson, and Brigitte C. Madrian, Liquidity in Retirement Savings Systems: An International Comparison (May 2015), available at https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4504682/pdf/nihms676251.pdf.

model 402(f) notices is a step in the right direction to improve participants' understanding of their distribution options and tax consequences.[47] We recommend taking this a step further by educating participants through a single standardized description of their options when they leave an employer. This document should explain in plain language (and with examples), a participant's alternatives, the different factors that a participant should take into account in making a distribution decision (including investment options, fees, and tax impact), and the potential consequences of different decisions.

We support measures to allow automatic portability of plan assets, for example by establishing a retirement security clearinghouse, which would streamline transfers and rollovers among DC plans and IRAs.[48] Under this system, policy makers would work with industry stakeholders to develop standards for streamlining transfers and rollovers across DC plans and IRAs.

Improve Outcomes

In addition to getting money into retirement plans and keeping it there, we must consider how to improve outcomes once people get to retirement, both in terms of achieving the right asset allocation mix and in terms of spending down assets throughout retirement.

Plan sponsors should be permitted to choose investment products that will create the best outcomes for their plan participants. With this in mind, we recommend modifying the law and the Internal Revenue Code to allow 403(b) plans to invest in collective investment trusts and separate accounts. Currently, 403(b) plan investments are generally limited to annuity contracts and mutual funds. This limitation cuts off 403(b) plan participants – generally employees of hospitals, universities and other educational organizations – from access to collective investment trusts and separate accounts, which are often used by other qualified plans due to the fiduciary status of the manager, flexibility in choice of strategy, and lower fund expenses. We are supportive of the provision in the proposed Portman/Cardin bill that would permit 403(b) plans to invest in collective investment trusts, as 403(b) plan sponsors should have the option to select these investment options if they believe this selection will improve outcomes for their participants. This provision would democratize access to institutional investment vehicles for 403(b) plan participants.

Decumulation and Annuities. While there has been significant focus on increasing the assets being put into retirement plans, less attention has been paid to how individuals manage withdrawals throughout retirement. Decumulation is a critical component of the retirement journey. Nobel Laureate Professor William Sharpe has characterized decumulation as the "nastiest" problem in finance.[49] And, if it's "nasty" for him, imagine the individuals who receive a lump sum when they retire. Many individuals don't know how to manage their 401(k) plan balance in decumulation, as they transition from saving to spending. BlackRock's 2018 DC Investor Pulse Survey found that 93% of plan participants are looking for guidance on annual and monthly retirement income.[50]

Annuities and other lifetime income products have an important role to play in providing a basic level of income security throughout retirement. Through the use of these products, individuals can set up periodic "paychecks" for the duration of their life, which can be valuable to people who are concerned about losing money during a market downturn or concerned about outliving their savings.

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[47] S.3781, 115th Congress, Retirement Security and Savings Act of 2018.

[48] Bipartisan Policy Center, Securing Our Financial Future: Report on the Commission on Retirement Security and Personal Savings (Jun. 2016), available at http://bipartisanpolicy.org/wp-content/uploads/2016/06/BPC-Retirement-Security-Report.pdf.

[49] Barry Ritholtz, Tackling the 'Nastiest, Hardest Problem in Finance' (Jun. 5, 2017), available at https://www.bloomberg.com/opinion/articles/2017-06-05/tackling-the-nastiest-hardest-problem-in-finance.

[50] 2018 BlackRock DC Pulse Survey, a major research study of over 200 large DC plan sponsors and over 1,000 plan participants executed by Market Strategies International, an independent research company.

Annuity Safe Harbors. Currently, annuities are not typically offered as an investment option in 401(k) plans, likely due to employer concerns with applicable regulatory requirements as well as cost and liquidity concerns. We are supportive of efforts to facilitate lifetime income products in DC plans and we support a better, simpler safe harbor for selection of an annuity provider that would provide greater comfort to plan sponsors in including annuities in their DC plans.[51] In addition, behavioral finance teaches us that difficult decisions are frequently not made – and we recognize that the selection of an annuity by an individual at retirement is very difficult. There can be significant interest rate risk when making that decision at a "point in time". That is why we support clarifying the QDIA safe harbor to specifically allow a plan sponsor to select an investment option with an embedded annuity strategy as a QDIA, thereby allowing an employee to be invested in such a strategy over time, and making a "paycheck" available to them during their retirement years.

Annuity Portability. In addition, we support provisions that would *make it easier* for individuals to transfer lifetime income investments. Portability is increasingly important as the workforce becomes more mobile, and distribution options should be available to prevent the loss of an accrued income benefit. For example, we support the RESA provision that would allow for enhanced portability of lifetime income options.

Revision of RMD Rules. We support updating required minimum distribution (RMD) rules to responsibly push back the beginning RMD age, to adjust the actuarial calculations to reflect current life expectancies, to provide an exemption for small aggregate qualified balances, and to encourage the use of deferred income annuities. Deferred income annuities allow a person to insure the tail risk of living past a certain age and, if they are Qualified Longevity Annuity Contracts (or QLACs), allow deferral of a portion of a participants RMD until age 85. Pushing back the RMD age, as well as adjusting the actuarial calculations, would reflect increased life expectancy since those standards were established. It would also give individuals more flexibility to manage their savings throughout retirement, allowing them to control their retirement more in the early years, primarily by continuing to work. Those with relatively small account balances are more likely to use the money sooner, making RMD rules less important. These retirees, in particular, should not be subject to the confiscatory penalty for inadvertently violating the RMD rules. We should be helping retirees mitigate longevity risk by allowing them to keep money in their plans consistent with longer life expectancies, and to use deferred income annuities as a relatively lower cost way of managing that risk.

Conclusion

In conclusion, we are grateful to Chairman Neal, Ranking Member Brady, and members of the Committee for their continued leadership on the issue of broadening retirement security for all Americans. *Make it easier* for both employers and employees is the central element of our comments. Ideally, looking at our system as a whole and simplifying all of the options for employers and employees would make the most sense to accomplish this objective. We need to get people to start saving for retirement early; invest long term in the capital markets; stop the leakage from retirement accounts; and increase opportunities for savers to create lifetime income. We are supportive of retirement legislation that would achieve these objectives and welcome the opportunity to continue this dialogue.

[51] BlackRock, ERISA Advisory Council 2018 Issue Statement on Lifetime Income (Aug. 10, 2018), available at https://www.blackrock.com/corporate/literature/publication/erisa-advisory-council-statement-lifetime-income-081018.pdf.