COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, DC 20515

September 2, 2020

The Honorable Eugene Scalia
Secretary of Labor
200 Constitution Avenue, NW
Room S-2018
Washington, DC 20210

Dear Secretary Scalia:

The passage of the Setting Every Community Up for Retirement Enhancement Act of 2019 ("SECURE Act") last year was groundbreaking as it was the most significant change in pension law in over a decade. The SECURE Act will enhance retirement security for American families for years to come.

As a part of the SECURE Act, I was very pleased that we were able to take major steps forward regarding lifetime income. One of the lifetime income provisions requires 401(k) plans to provide employees with an estimate of how much lifetime income their account balance could generate. This provision is extremely important because it will give employees a better understanding of what their 401(k) account balance "translates" into in terms of a monthly payment in retirement.

For example, for most of us, $100,000 seems like a tremendous amount of money. However, when you project what that means in terms of a monthly benefit in retirement, depending on your age that may only mean a few hundred dollars per month. This information is critical for workers in planning for their retirement and studies have found that including this projection on 401(k) benefit statements has resulted in workers saving more for retirement.

Therefore, I was disappointed in the recently issued interim final rules implementing this provision. Under the rules, the projection must assume that an employee is age 67 (or the employee's actual age if older). So, for example, a 31-year old is assumed to be age 67. The effect of this is that her retirement income is estimated as if her account balance at age 31 will earn nothing from age 31 to age 67, resulting in a far smaller estimate of her lifetime income than is realistic.

One of the critical challenges we face is convincing young employees to contribute to retirement plans. Because of the time value of money, assuming a mere 4% rate of return, a contribution at, for example, age 31 produces an age 67 benefit that is four times as great as the same contribution made at age 67. This is why it is so important to encourage our young people to contribute.

The interim final rules instead assume that the 31-year old will earn zero between age 31 and age 67. From a financial and economic perspective, there is no basis for this assumption. And this assumption is certainly not required in any way by the statutory provision in the SECURE Act, which expressly authorized the Department to use any appropriate assumptions. In my opinion, an assumption that a 31-year old will earn nothing on her account balance over the next 36 years is hardly an appropriate assumption.

Therefore, I urge you to correct this aspect of the interim final rule. Projecting that employees' 401(k) accounts will earn zero over 30 or 40 years was not the type of assumption Congress intended the Department to require. I ask the Department to include a reasonable conservative earnings assumption in the final rule.

Thank you for your consideration of this matter. If you have any questions, please feel free to reach out to me or my staff (Kara Getz at kara.getz@mail.house.gov).

Sincerely,

The Honorable Richard E. Neal
Chairman