Gaps in Retirement Savings Based on Race, Ethnicity and Gender

Aon Testimony to the ERISA Advisory Council

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Introduction

My name is Barbara Hogg and I am a Fellow of the Society of Actuaries and a partner in Aon's U.S. Retirement Practice. I am honored to be providing testimony to the ERISA Advisory Council and look forward to the work this Council is doing to understand retirement savings gaps, how those gaps are connected to race, ethnicity, and gender, and what can be done to reduce or eliminate those gaps. At Aon, we have a strong commitment to diversity, equity, and inclusion (DE&I) which influences how we operate as an employer and the work we do with our clients.

As background, Aon plc is a leading global professional services firm providing a broad range of risk, retirement, and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

In my role at Aon, I spend a great deal of time focused on retirement plan design and retirement readiness. I've worked on research on employee behavior and been part of many Aon retirement and financial wellbeing research activities. For a period of time, I led our retirement communication practice. As a Fellow of the Society of Actuaries (SOA), I participate in the SOA's Committee on Post-Retirement Needs and Risk. I had the pleasure of speaking to this group on two separate occasions—in 2005 as the Council explored communications to retirement plan participants and in 2010 when you studied disparities for women and minorities as it relates to retirement savings.

Given that background, my focus today will be on the opportunities that exist within employer-sponsored programs. The good news is that many employers are focused on DE&I. In May, Aon published the results of a global survey of HR professionals.[i] The North American results, representing about 1,000 respondents, found that nearly one-half of organizations have DE&I metrics or goals and another one-third plan to create them. Approximately one-half of organizations also reported that they were reviewing their compensation and benefit programs to strengthen their DE&I initiatives.

While my focus is on employer programs, I do want to acknowledge the importance of other efforts outside of employer-sponsored benefits including education, community support, broadly available resources, consumer protections, and better opportunities for individual retirement savings to cover those without access to an employer-provided program. These are important components to closing the retirement savings gap as employer-based programs cannot be the only answer.

Recent data shows that employer-sponsored defined benefit and defined contribution plans held over $9 trillion in assets for 140 million individuals).[ii] With this expansive reach, there are many efforts that will go a long way towards addressing diversity, equity, and inclusion in retirement savings—some directly, such as initiatives around pay equity and others indirectly, such as career development and the creation of inclusive cultures that could help build longer tenure within organizations.

Executive Summary

The lack of adequate retirement savings is real for millions of Americans. For a variety of reasons, certain segments of the population tend be more vulnerable to experiencing a savings gap.

Employer-sponsored retirement plans are a major avenue to accumulate retirement income for many Americans. The workplace may also be one arena where incremental change is possible to help close the

gap. However, it can't be the only avenue to explore because the issues are broad and one major limitation is that not all individuals are covered by an employer-sponsored plan.

The Council has already explored the issues surrounding the retirement savings gap and the data that shows variations by race, ethnicity, and gender. We want to provide the Council with eight action areas, focused on employer-sponsored programs, that can play a part in improving outcomes. These eight actions are:

1. **Greater support for short-term financial needs.** Encourage employers to expand support and services to address immediate financial needs. It is difficult to expect employees to save more when they are having issues with debt or are living paycheck-to-paycheck.
2. **Emergency savings through after-tax contributions.** Modify rules so that after-tax savings in a defined contribution plan can better serve as emergency savings. This may pave the way to use an employer-sponsored defined contribution plan, a current vehicle, to help employees accumulate emergency funds and save for the future.
3. **Roth defaults for automatic enrollment.** Clarify that automatic enrollment can be done using Roth contributions rather than pre-tax contributions and encourage employers to consider whether this is a better approach for their workforce. With the 10% extra tax for early distribution, an employee can actually lose money when their contributions are made on a pre-tax basis, and they leave before they are vested in any employer contributions.
4. **Nonelective contributions.** Support greater use of nonelective retirement contributions that do not depend on an employee's ability to save. One way to do this is to expand the actual deferral percentage (ADP) safe harbor rules.
5. **Automatic backsweeps.** Expand the use of automation in defined contribution plans by outlining how a backsweep can be a regular part of plan design. This could be a simple backsweep where employees who opt out of automatic enrollment are re-enrolled after a period of time. The backsweep could use the original default savings rate or a lower rate.
6. **New programs and ideas to support accessibility.** Continue efforts to expand accessibility by broadening coverage and curbing leakage. As an example, the new pooled employer plan (PEP) concept has been a great move in this direction. Finding new concepts and expanding current use can provide valuable, cost-effective ways to make sure more individuals have retirement savings.
7. **Lifetime income incentives.** Find ways to incent more lifetime income offerings and usage. Much progress has been made making it feasible to offer lifetime income. What is needed is creativity to find ways to encourage employers to adopt and individuals to use these vehicles.
8. **Effective communication.** Rethink how communication is provided to participants so they understand concepts and information can be filtered to what is relevant for their situation. There is an opportunity to infuse more creativity in providing clear and useful content to participants.

This list of eight actions is a mix of concrete suggestions and broader aspirational ideas. Each has its place in improving outcomes and making employer-sponsored programs one part of the solution to close the retirement savings gap.

Observations on Race, Ethnicity, and Gender and the Retirement Savings Gap

In June, the Council heard testimony about the facts of the retirement savings gap based on race, ethnicity, and gender. My points today will not go deep into the data, but they are based on some key observations that are worth noting:

- **Access to employer-sponsored retirement programs vary greatly by race, ethnicity, and gender. Differences exist in the ability to save for retirement.** Clearly income is a contributing factor, but these differences exist across income brackets. The 2021 Retirement Confidence Survey included additional analysis based on an oversample of Black and Hispanic Americans and found that White Americans were more likely than their Black and Hispanic counterparts to have saved for retirement (excluding Social Security or employer-provided contributions). This was true across all three income categories summarized in the survey.[iii]
  - **One contributing factor may be disparities in wealth.** It is intuitive to see that saving for retirement is more difficult when you have less accumulated wealth. Data from the 2019 Survey of Consumer Finance[iv] showed that the median White family had nearly eight times the wealth of the median Black family and over five times the wealth of the median Hispanic family.
  - **Another contributing factor is debt.** It's not surprising that less wealth can translate to greater amounts of debt. The 2021 Retirement Confidence Survey demonstrated notably higher percentages of Black and Hispanic Americans than White Americans who said debt is a problem across all three income categories.[iii] Aon's data from our 2021 employee survey shows that among full-time workers, nearly one-half of women said that outstanding debt makes it hard to save for retirement compared to only one-third of men.[v] When debt is problematic, it can be much harder to save, whether those savings are for an emergency or retirement.
- **Fewer working years and greater longevity create additional challenges for women.** The 2013 Retirement Risk survey sponsored by the Society of Actuaries looked at specific risks faced by women.[vi] Among pre-retirees, only 74% of women expected to have at least 30 years of full-time work compared to 87% of men. In addition, women have longer life expectancies. A woman retiring at age 67 has a 50% chance of living to age 89 and a 10% chance of living to age 99. For men, the comparable numbers would be two years younger—age 87 and age 97.[vii] This may be one reason that women were less confident they would have enough money to live comfortably in retirement than men in the 2021 Retirement Confidence Survey.[viii]

The issue is clear. The retirement savings gap exists. We will now focus on actions to alleviate this gap. When looking at this from an employer perspective, incorporating the following four benefit program characteristics can reduce current disparities and improve outcomes:

- **Accessibility.** Is the benefit broadly available to individuals? In this case, we mean accessibility in terms of not only eligibility and requirements to participate in the program. For retirement programs, we should also consider whether the plan was appropriately promoted and whether features like automatic enrollment are used. In a broader sense, accessibility can also mean whether the medium through which participants access the plan (e.g., computer, smart phones, phone lines) is broadly available and used by certain groups.
- **Affordability.** Can individuals easily use the program or are there financial barriers to entry? In a retirement savings plan, nonelective benefits are most equitable. When the value of a benefit depends heavily on employee contributions, a potential affordability barrier is added, contributing to the current observable inequities.
- **Flexibility.** Does the plan work for a diverse workforce with employees in a wide range of financial, familial, and social circumstances? For retirement savings, this could be flexibility in types of contributions and flexibility in withdrawals and distributions.
- **Allocation.** Is the employer's allocation of dollars for retirement benefits consistent with their DE&I goals? If the allocation of the value is heavily skewed to certain groups, then it is important to understand why, and address the imbalance, if needed. Nondiscrimination tests of retirement plans are meant to look at this allocation by comparing benefits of highly compensated employees to others. Employers may want to look at how their benefits provide value across race, ethnicity, and gender as well.

Evaluating and improving programs across these four key characteristics will make a difference to improve outcomes while reducing the gaps. Our goal is to find ways to recalibrate our systems through changes—big and small—to help make it happen.

Actions to Improve Outcomes

Addressing the gaps in retirement savings based on race, ethnicity, and gender cannot be accomplished by focusing exclusively on retirement and financial wellbeing programs. But retirement actions can move the needle. As a simple example, look to the power of automatic enrollment and how it has driven retirement plan participation across all pay levels. I want to provide the Council with eight action ideas that are a mix of broad directions as well as specific improvements.

Action 1: Provide Support to Address Employees' Immediate Financial Needs

The data shows that a vast number of Americans do not have adequate emergency savings. The 2021 Retirement Confidence Survey showed about 1 in 4 Americans did not feel they had enough money to handle an emergency or other large expense. This uncertainty was much higher for Americans who were Black (1 in 2) or Hispanic (1 in 3).[iii] The concerns are also somewhat higher for women than men.

The need for emergency savings—or emergency assistance—is high and employers have an opportunity to help in this area. Outside of the retirement savings plan, some employers are providing a number of resources to help individuals. Based on recent data that Aon has collected on over 700 benefit program provisions for salaried employees[ix]:

- 15% offer some type of emergency savings program;
- 13% have emergency assistance funds; and
- 3% provide support getting personal loans.

In addition, we see an emergence of tools that employees can use to budget and plan for the future. And a few employers (less than 1%) are offering their employees earned wage access programs to give employees faster access to their pay which helps avoid expensive payday loans.

The reality is that we cannot expect employees to save for their future if they have difficulty making ends meet or are burdened by debt. Employers can take action to help employees and alleviate the financial stress they are under by providing more financial support via resources, tools, and education. We see this as an area of ongoing interest for employers and believe strong support for more emphasis in this area is warranted.

The bottom line: Recognize the role employers can play to help build emergency savings or provide emergency assistance and find ways to encourage implementation in a cost-effective way.

Action 2: Modify Rules to Make After-Tax Savings in Retirement Plans a Better Emergency Savings Vehicle

Within retirement savings today, there is another opportunity to help with emergency savings: after-tax contributions. With after-tax contributions, employees can save for the future, but still retain simple access to withdraw their savings if they need it. (Withdrawals from pre-tax and Roth savings generally are subject to narrowly defined financial hardships.)

However, right now only about 30% of employers offer after-tax contributions.[x] Furthermore, when after-tax contributions are allowed, they are often not matched. Aon's database indicates that about one-third of those offering after-tax contributions do not match those amounts. Without a match, after-tax savings tends to be more of a tax planning strategy for higher earners than an avenue for paycheck-by-paycheck savings for less wealthy earners.

Two concerns should be addressed to better facilitate using after-tax savings to meet emergency savings needs: (1) make after-tax savings simple so fewer decisions are needed to start saving and determining how to invest it to ensure availability for an urgent financial need, and (2) modify some old rules that pre-date the Employment Retirement Income Security Act of 1974 (ERISA).

The first concern is something we have heard from employers when they consider using after-tax savings for emergency savings. Retirement plans often allow only one investment election that applies to all employee contributions. Yet, it makes sense to put emergency savings in less risky assets while other retirement savings should be invested for the long-term. To do this effectively, there needs to be a way to make it easy for participants who have shown they respond well to simple decisions and defaults. It also needs to be feasible administratively and not overly complicate the tracking of various accounts within a plan.

An example of a potential solution is to allow employers to automatically enroll participants into after-tax contributions for a period of time (e.g., the first six months of savings or until the after-tax savings exceed $500 or a different amount determined by the employee). After-tax savings would be invested in a conservative investment with a very low principal risk. After the initial period, the savings deferral would convert from after-tax to pre-tax or Roth contributions and the investment election would change to the regular qualified default investment alternative (QDIA), typically a target date fund.

This would not make sense for all employers. But for employers looking to improve the emergency savings of their employees, it may be a powerful way to leverage the retirement savings plan mechanisms to build long-term wealth while addressing those emergency savings needs.

The second concern is anti-manipulation rules that were enacted before ERISA. In simplified terms, these rules require a six-month suspension of deferrals following the withdrawal of matched after-tax contributions. They also restrict the withdrawal of any match made on after-tax contributions on a 24-month rolling basis or until the participant has five years of participation, reached a stated age, or experienced a qualifying event. The complexity of these rules is confusing, making after-tax contributions less appealing for those who may need access, and discouraging employers from adopting features due to the administrative complexity.

The bottom line: Rethink what restrictions, if any, would protect against abuse while still encouraging employers to offer—and match—after-tax contributions. Reconsider the QDIA rules in limited circumstances to recognize that after-tax accounts may serve as emergency savings. Be creative in how we think about automation and employees who may have pressing short-term needs.

Action 3: Encourage Automatic Enrollment into Roth 401(k) rather than Pre-tax

Recent data for large employers shows that nearly 2/3rds of employer-provided savings plans use automatic enrollment.[x] The default savings rate typically ranges from 3% to 6% of pre-tax contributions. While about 70% of plans offer Roth 401(k) contributions, automatic enrollment rarely has Roth contributions as the default.

It may be time to step back and rethink this strategy. There are advantages to Roth contributions, and encouraging that as the default would benefit many participants. While automatic enrollment is a great way to boost retirement savings, the 10% extra tax for early distributions of pre-tax contributions can create a scenario where it puts participants behind if they have short tenure or need to access their money for emergencies or other hardships. In addition, Roth contributions may be a smart tax move for participants who do not receive much tax benefit from pre-tax savings.

The 2021 Retirement Confidence Survey showed that among savers, Black and Hispanic employees were more likely to have taken a hardship withdrawal or an early distribution. This was true across many income categories.[iii] When this happens, the extra 10% tax on contributions plus any investment gains erodes many advantages of the plan.

For short-service or lower balance employees in this scenario, the outcome can actually be worse than if they never saved. The Bureau of Labor Statistics indicates that women, Black, and Hispanic workers are more likely to have less than a year of service[xi] and therefore are at greater risk of leaving their employment with a small balance likely to be cashed out.

Example

Take a very simple example. Assume an employee has an income of $2,500/month or $30,000/year. If the employee is automatically enrolled at 4% of pay, that is a contribution of $100 per month. After six months, they will have $600 accumulated. For simplicity, ignore any gains or losses and expenses.

If this employee was immediately eligible for a $0.50/$1.00 match, the employee would have another $300 in their account. However, assume the match is subject to a three-year cliff vesting schedule.

If the employee leaves or is terminated after working six months, the employee forfeits the $300 match and the plan is likely to force out the $600 which would be taxable (unless rolled over). Assume at this pay level the employee has a federal and state tax rate of 8%, plus an additional 10% extra tax for early distributions, for a net distribution of $492. If, instead, the employee puts $92 a month ($100 less $8 in taxes) into an emergency savings account outside of the plan (again, assuming no gains or losses), the employee would have accumulated $552, or $60 more.

If plans used automatic enrollment to default into Roth 401(k) contributions instead, the dynamics change quite a bit. An early withdrawal from a Roth 401(k) account is considered an “unqualified” distribution. Any contributions an individual made would still come out without paying taxes because the Roth 401(k) contributions were made with after-tax dollars, but any earnings on the account would be taxable and potentially subject to the 10% extra tax for early distribution. In other words, the 10% can only reduce gains, it cannot cut into actual contributions. Plus, anyone who prefers to contribute on a pre-tax basis has the option to change how their contributions are made.

This strategy is already taking place with state-sponsored programs like California’s CalSavers and Illinois’ Secure Choice. While there are a variety of reasons for the decision, both of these programs have an automatic enrollment default into a Roth IRA.

It may make sense to bring the same ideas to employer-sponsored programs to help those who are in and out of the workforce and more likely to take early distributions. Employers should understand that defaulting to Roth savings is a viable choice and be encouraged to consider their workforce to determine whether a Roth 401(k) default would be a better overall design. As with any plan defaults, employers will

want to point out the ability to proactively make an election and key considerations (e.g., take-home pay) that may be reasons to choose a different type of savings.

The bottom line: Publish examples that incorporate a Roth contribution default to educate employers that auto-enrolling into Roth contributions is a viable design option and may be appropriate for their workforce.

Action 4: Encourage Nonelective Benefits in Retirement Programs

Nonelective employer contributions—which can be provided through either a defined benefit or a defined contribution plan—are a great way to ensure that employees have some level of savings for retirement despite personal barriers to saving. These nonelective contributions can go a long way to helping close the retirement savings gaps. However, the 2020 Plan Sponsor Council of America survey indicates that over one-half of defined contribution plans only offer matching contributions.[xii]

Taking this a step further, the nonelective contribution could be a flat dollar amount or a percent of pay with a flat dollar minimum to help address broad needs. Compared to plans that have contributions that are purely a percent of pay, a flat dollar contribution or minimum amount directs employer contributions toward lower-paid employees where they may be needed most to close the gap.

One opportunity to support nonelective contributions is to modify the current ADP safe harbor rules.

Nondiscrimination testing rules are in place to help ensure that benefits provided by employers do not overly skew toward highly compensated employees when measured as a percent of pay. To help ease the complexity of these rules and to provide some certainty for plan sponsors and participants, plans can adopt ADP safe harbor designs. Aon's data shows about one in every three retirement savings plans is an ADP safe harbor plan.[x]

Plan sponsors can offer either a traditional ADP safe harbor or a qualified automatic contribution arrangement (QACA). Both options offer a choice of a minimum employer matching contribution or an employer nonelective contribution of at least 3% of compensation.

Considering the greater good and the intent of the nondiscrimination rules, we should consider a hybrid safe harbor design as well. The concept is relatively straight forward; simply allow a plan to be safe harbor with a combination of nonelective and matching contributions.

Another possible modification to the safe harbor rules is to let employers meet the minimum of 3% of compensation requirement considering a flat dollar amount, if the flat dollar is at least 3% of pay for the lowest paid 20% or 25% of the workforce.

Example

Consider a potential hybrid formula that could meet the regular safe harbor standards if nonelective and matching contributions are combined. The following chart compares a hybrid formula with 2% of pay (nonelective) plus a match of $0.50/$1.00 on 4% of pay to the basic safe harbor matching formula of $1.00/$1.00 on the first 3% of pay contributed and $0.50/$1.00 on the next 2% of pay contributed. In each case, the hybrid formula provides as much or more than the current safe harbor requires.

	Regular Safe Harbor Match		**Hybrid Formula**		
Amount Contributed by Employee	**Formula**	**Employer Contribution Received**	**Formula**	**Employer Contribution Received**	**Does the hybrid formula provide at least as much as the regular safe harbor match requires?**
0%	N/A	0.0% of pay	2% nonelective contribution	2.0% of pay	Yes
1%	$1.00/$1.00 on 1%	1.0% of pay	$0.50/$1.00 on 1%	2.5% of pay	Yes
2%	$1.00/$1.00 on next 1%	2.0% of pay	$0.50/$1.00 on next 1%	3% of pay	Yes
3%	$1.00/$1.00 on next 1%	3.0% of pay	$0.50/$1.00 on next 1%	3.5% of pay	Yes
4%	$0.50/$1.00 on next 1%	3.5% of pay	$0.50/$1.00 on next 1%	4.0% of pay	Yes
5%	$0.50/$1,00 on next 1%	4.0% of pay	$0 on next 1%	4.0% of pay	Yes
6%	$0 on next 1%	4.0% of pay	$0 on next 1%	4.0% of pay	Yes

Note: This example only looks at the formula. Other aspects of the safe harbor requirements would also need to be met.

Nonelective contributions would benefit communities that have the most difficulty saving and that are overwhelmingly non-highly compensated. From that perspective, the hybrid approach may do more good while giving employers who would like to be safe harbor the opportunity to both encourage saving and provide a minimum benefit to all employees.

The bottom line: Expand the safe harbor rules to encourage greater use of nonelective contributions.

Action 5: Encourage Automatic Backsweep Programs

Automatic enrollment is extremely effective at driving higher participation rates and the impact is most dramatic at younger ages, shorter service, and lower pay. But, even with automatic enrollment, a relatively significant number of people opt out. Vanguard's 2021 How America Saves[xiii] shows an average participation rate under automatic enrollment at 92%. While that is significantly higher than the 62% participation under voluntary enrollment, there is still 8% of the population that made the active decision to opt-out.

There could be a variety of reasons for the opt-out—not earning enough to make ends meet, having short-term financial concerns, changes in job status, not understanding the program, not trusting the

program, expecting employment to be short-term, etc. The reasons people opt out can be very personal and very real. Further, once someone makes the initial decision to opt out, there may be a much greater chance that they stop making contributions entirely rather than reduce their contributions to something affordable, but less than the original default.

But circumstances change and future proactive nudges to encourage retirement savings should be considered. One idea is the basic backsweep—to periodically re-enroll participants into the plan under the automatic enrollment features. Since they proactively opted out, perhaps it makes sense to do this after a period of time (e.g., three years) and make the backsweep a regular plan feature.

Alternatively, employers can consider a modified backsweep. With over half of employers offering a default automatic enrollment rate of 4% or more[x], employers could consider a backsweep that defaults to a lower savings rate, such as just 1% of pay with, potentially, automatic escalation by 1% per year or every other year until the individual receives the full match. Given the backsweep is a lower default, it could be done more frequently. With less strain on their paycheck, employees may be less likely to opt out. Employers can also consider the messaging that goes with the backsweep to demonstrate concern about saving, but also understanding that the higher default rate is not feasible.

The bottom line: Use examples in official guidance and clarify to the employer community that a backsweep can work and as a way to encourage employers to consider this approach.

Action 6: Expand Accessibility Through New Programs and Provisions

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) made great strides to expand access to employer-sponsored retirement programs. Long-term part-time employees are guaranteed the ability to save in the plan after three years of service. And pooled employer plans (PEPs) were created to offer employers a new way to deliver retirement benefits to employees. PEPs can reduce the employer burden while providing employees with an opportunity to gain large plan efficiencies.

More legislation has been proposed to provide even greater access, coverage, and protections which, to the extent enacted, will help close gaps in retirement savings. For example:

- The Securing a Strong Retirement Act (known as "SECURE 2.0") includes reducing the eligibility requirement for long-term part-time employees to two years and allowing 403(b) plans to participate in a PEP.
- The proposed Women's Retirement Protection Act also suggests an earlier required entry for long-term part-time employees and takes steps to give more protections to a participant's spouse.
- The issue of barriers to saving due to immediate financial needs is starting to gain some traction. For instance, SECURE 2.0 includes the opportunity to match student loan repayments.

Accessibility is a critical need to help close the retirement savings gap and should encompass both expanding access to build retirement savings **and** helping to preserve retirement savings. Given the dynamics of today's workforce with gig workers and movement among employers, broad actions beyond employer programs may be needed. Two concepts to consider are outlined below.

- **Concept 1: Define a streamlined retirement savings vehicle that consolidates various options currently available to the self-employed and small employers.** This streamlined plan could combine features of the options that are currently available within SEP IRAs and SIMPLE IRAs and take away the complexity of making the right choice.

- **Concept 2: Create a cost-effective vehicle to receive automatic distributions under $5,000.** Most often employers automatically distribute balances under $5,000 from their retirement programs because tracking former employees can be burdensome when there is no longer a connection between the employer and the individual. If the balance is $1,000 or less, it can be distributed in cash; otherwise the balance must be rolled into an IRA, generally with ongoing fees at "retail" rates. To slow leakage and help ensure the savings are not eaten away by administrative costs or expensive fees, some type of broad retirement savings pool should be explored.

There is also an opportunity to support these types of initiatives within employer-sponsored programs. Aon was an early entrant into the PEP marketplace and sees it as a win-win for employers and employees. Within that, we see additional opportunities that could be delivered efficiently through a PEP. To help stop leakage, the PEP rules could be expanded so that participating employers could transfer the accounts of terminated employees into a component of the PEP designed specifically for those inactive participants. The PEP would become responsible for this segment of PEP participants. Suitable provisions could be established for managing inactive accounts in a PEP. Under this type of solution, the PEP would maintain focus on tracking and targeting communication to inactive participants. Participating employers would focus on the needs of their current workforce and be relieved of duties regarding small dollar accounts of former employees.

The bottom line: Continue to focus on broad accessibility solutions, but also look for ways to more efficiently reduce leakage and keep retirement dollars secure for the future, such as standards for inactive accounts in a PEP.

Action 7: Encourage Lifetime Income Distributions

Over one-third of workers are not at all confident or not too confident they will have enough money to last their entire lifetime. As might be expected due to the retirement savings gap, the concern is higher for Black and Hispanic Americans and women.[iii and viii]

For several years, the industry has looked at lifetime income options for defined contribution plans as a way to replace the lifetime income benefit that was guaranteed by traditional pension plans. While a great deal of thought has gone into what's needed, the adoption rate of lifetime income by employers is low and the take-up rate of employees is even lower. In fact, we've seen a vast majority of defined benefit plans start offering a lump sum distribution option with a high take-up rate, indicating that individuals struggle with the trade-off between tangible cash and the less tangible security offered through lifetime income.

This is an area that will require ongoing creativity to try to add more protection. For instance:

- **Lifetime income as the default.** It might be time to encourage employers to adopt default investment options that include a lifetime income component, at least for some portion of retirement savings. Or, consider having employer contributions be put toward lifetime income.
- **Incentives for lifetime income.** A tax incentive to take a payout in lifetime income may help encourage greater use. For instance, could a modest level of income paid out periodically from a retirement plan be exempt from income tax? To avoid adding more tax loopholes, this exemption could be dependent on income.

To expect individual employers to enact creative new solutions may be unreasonable or have minimal reach, but there could be ways to leverage some of the programs outlined in Action 6 (new programs and provisions) to be the platform for innovation that can have broad impacts delivered in a cost effective way. It is also useful to monitor and learn from other countries, such as the growth of Collective DC plans in the United Kingdom and the Netherlands.

The bottom line: Much progress has been made in this area laying the groundwork for expanding lifetime income, such as the SECURE Act provisions to increase portability, provide fiduciary safe harbors for selecting annuity providers, and expanded education through lifetime income proposals. Yet, more work needs to be done and new incentives may need to be explored to drive meaningful, broader use of lifetime income.

Action 8: Simplified Education and Personalized Support

While I have already provided seven specific actions, I want to close with a broad appeal as the eighth—individuals need to have easier-to-understand information and we need to find ways to guide people with more relevant or personalized support.

Employer-sponsored retirement savings plans are complex, and a great deal of the required communication about the plans feels complicated and overwhelming. For instance, in reviewing the lifetime income disclosure rules, the simplicity of the illustrations makes sense when you think about what might be said when presenting the concept during a workshop or training session:

> *"Let's take a simple example of what it means to use this account balance to create retirement income. Suppose you are retiring today with your current account balance of $X. For this example, let's say you are age 67. If you wanted to take that account balance and buy an annuity that paid you a set amount per month, you might get about $Y/month for as long as you live. Or, if you are married and your spouse is also age 67, it would give you "$Z/month as long as either one of you is alive."*

It is an illustration to help people understand the value of what they have accumulated. Yet, some of this message can be lost when it is put into writing (with all the appropriate caveats) in a participant statement. Individuals may generally be put off by lengthy notices. Crafting messages with the right balance of simple, clear communication and the appropriate level of disclosure is difficult.

The Special Tax Notice is another example. The Notice is filled with helpful information, but it is very hard for the average individual to sort through because it needs to address everything and, in the process becomes hard for the average person to read and understand.

Clearly, there is no easy solution here, but we should encourage creative ways to explain concepts and personalize messages. Here are a few ideas:

- Use the graphic novel format to help explain basic concepts to participants. There would still be many caveats to any illustration, as personal financial circumstances vary. But helping people see the basic concepts of retirement saving, accumulation, and distribution may make it easier to understand their plan's specific details.
- Provide a dynamic resource (e.g., interactive tool, short streaming videos) to explain required communications like the Special Tax Notice. This resource could be built to answer the most relevant questions that apply to participants, regardless of their plan.
- Encourage participants to talk through decisions with a financial specialist, ideally someone independent, perhaps offered through an employer-sponsored program. Representatives can help walk through the pros and cons of options associated with specific decisions such as in-service distributions or opting in or out of the plan.
- Consider education that is designed for cohorts of employees that may have unique needs. This could be based on race, ethnicity, or gender. Or, it could be based on circumstances, such as single parents, multigenerational households, or mid-life entry to the workforce. The goal with this segmentation is to make content more relevant and inviting for individuals.

The bottom line: Retirement programs are complex, and we need to find ways to help individuals understand how to use them, how to benefit from them, and how to make smart choices with their money. Rethinking requirements for necessary communication is part of this. And while we can hope that employers do more in this space, broader support is critical.

Closing

Again, I thank the Council for having me here today and look forward to your work in this area. The issue of disparities in retirement savings is real and those with less could face significant struggles when they reach retirement age.

To truly improve retirement outcomes and close the retirement savings gap will require broad action, and employer-sponsored programs offer one avenue for change. The reality is that many individuals look to their retirement plan as a major source of retirement income and take cues from plan design and communication about how much to save and how to invest. And, within the construct of this space, we have the opportunity to use a combination of factors to address barriers to saving, expand availability, encourage greater savings, prevent leakage, and offer greater protections for individuals. In doing this, we must also balance flexibility with ease and complexity with understandability. What I've offered is a mix of concepts and more concrete actions that help address the issues of access, affordability, flexibility, and allocation that can create barriers for individuals or groups of individuals.

Yet, we also need to be realistic about how far we can go with employer retirement programs. We need to recognize the broader influences that drove us to this current state of inequality—historical differences that created an unequal playing field, a shift from paternal protection to individual accountability, and changes to the employment landscape. We can make incremental movement forward in employer retirement programs, but we will need broad systemic changes to change the story for future generations.

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[i] Aon plc, "Global HR Pulse Survey: North America; Preparing for the Future: How COVID-19 is Changing How and Where People Work Forever", May 4, 2021

[ii] Employee Benefits Security Administration, U.S. Department of Labor, Private Pension Plan Bulletin, Abstract of 2018 Form 5500 Annual Reports

[iii] Copeland, Craig, and Lisa Greenwald, "2021 Retirement Confidence Survey: A Closer Look at Black and Hispanic Americans," EBRI Issue Brief, no. 530 (Employee Benefit Research Institute, June 10, 2021)

[iv] Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu (2020). "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 28, 2020, https://doi.org/10.17016/2380-7172.2797

[v] Aon DC and Financial Wellbeing Employee Survey 2021 (United States), preliminary results.

[vi] Society of Actuaries, 2013 Risks and Process of Retirement Survey Report of Findings, prepared by Mathew Greenwald & Associates, Inc.

[vii] Calculations based on the immediate mortality assumptions in the 2020 Social Security Trustees report.

[viii] Employee Benefit Research Institute and Greenwald Research, *2021 Retirement Confidence Survey*

[ix] Aon Benefit SpecSelect™; prevalence data of salaried employee benefit programs for new hires at large employers; based on 2021 benefit specifications available as of August 8, 2021

[x] Aon Benefit SpecSelect™; prevalence of salaried benefit programs for new hires across over 1,000 large employers; 2019 data

[xi] Bureau of Labor Statistics, Table 3. Distribution of employed wage and salary workers by tenure with current employer, age, sex, race, and Hispanic or Latino ethnicity, January 2020; **Note:** Overall, 22.2% of workers age 16 and over have 12 months of service or less; women (23%.3) are more likely than men

(21.2%) to be in their first year of service, and Black/African American (25.8%) and Hispanic/Latino (25.5%) are more likely to be in their first year of service than White workers (21.5%)

[xii] Plan Sponsor Council of America, *63rd Annual Survey of Profit Sharing and 401(k) Plans,* 2020

[xiii] Vanguard, *How America Saves 2021*