An Open Letter To Congress

TIME IS NOT ON OUR SIDE: HOW TO GET MORE AMERICANS SAVING FOR RETIREMENT

The Government Accountability Office’s recent report on retirement security is just the latest confirmation that far too many Americans — nearly 40% of working households — still have no access to an employer-sponsored defined contribution (DC) plan, which has become the foundation for retirement savings in the U.S.1 Meanwhile, the Employee Benefit Research Institute (EBRI) estimates Americans face more than a $4 trillion shortfall in what they need to retire.2

America’s looming retirement crisis has several causes: low savings rates; failure to start saving early in life; lack of effective asset allocation; and increased longevity. Fixing this crisis will require multiple remedies and hard choices. But we cannot afford to delay acting any longer. Starting early to save for retirement and enjoying the wonder of compound returns are a key to success. Moreover, game-changing medical breakthroughs mean that today’s young people have a realistic chance of living to more than 100. The good news is we are living longer. The sobering news is that we have to pay for longer retirements.

Time is not on our side, and the cost of inaction is great: generations will be unable to retire with dignity and our country’s economic and social fabric will be at risk. Every day we fail to act is another day that Americans fail to save for the future and the crisis deepens.

We believe the time has come for federal legislation to ensure all working Americans have access to a retirement savings plan. Indeed, expanding access to workplace plans is the precondition to address this crisis. Our solution builds on the behavioral success drivers of existing workplace-based plans with the following key elements:

1. Require private employers to auto-enroll all workers into a defined contribution (DC) plan
2. Require use of auto-escalation and default investments such as target date funds to help employees maximize retirement savings
3. Enact tax credits for small employers to cover the administrative costs of implementing these plans
4. Eliminate barriers to open Multiple Employer Plans (MEPs) to allow businesses to band together and offer affordable retirement savings plans

We applaud efforts by the White House, Congress, and many states to expand workplace retirement savings opportunities through auto-IRAs and open MEPs. However, patchwork initiatives will lead to a complex and inefficient set of retirement savings programs that perversely could lead to lower savings levels. Countless studies have highlighted the savings inadequacies of IRA approaches due to constraints on participant and employer contributions.

By contrast, our plan extends the best practices of the current DC workplace system, which has used behavioral insights and natural participant inertia by employing sound fiduciary automatic features to enroll workers and escalate savings rates. According to EBRI, our proposal could reduce the expected retirement savings shortfall by as much as $740 billion, or nearly 18 percent.3

While this is only a starting point for solving the retirement crisis, enacting a national framework will extend access to retirement plans exponentially. More importantly, by using existing programs that have already received bipartisan support, we believe this is a workable plan both parties can act on now. It is a solution that allows us to put aside our differences, avoid making the perfect the enemy of the good, and work toward a common goal of greater retirement security for millions of working Americans.

For more information on our proposal, visit ssga.com/access.

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3 Estimate based on EBRI analysis of SSGA’s proposal for expanding access to retirement savings plans.