30th Anniversary of the Universal IRA:
A time to Look at All Retirement Savings Today and Going Forward
July 18, 2012

The Savings Coalition of America marked the 30th anniversary of the Universal IRA with a retirement policy forum featuring government officials and private sector industry experts who spoke about the successes of the current retirement savings framework and proposals to further improve the system and promote retirement savings into the future.

Randy Hardock, a partner at Davis & Harman LLP, moderated the event and provided an historical overview of IRAs, noting that the plans (and retirement savings proposals in general) have received bipartisan support since inception. Citing statistics demonstrating the success of IRAs, Mr. Hardock said that nearly 40% of all U.S. households currently own an IRA, with assets totaling $5.2 trillion in 2012. He added that over 100 million American have savings in workplace retirement plans and IRAs, with 73% of full-time employees having access to retirement plans through employers thus demonstrating that the basic retirement framework is working.

Representative Erik Paulsen (R-MN)
While stating that the tax code should promote savings, Representative Paulsen said that the government cannot shoulder the burden and called on the private sector to play a key role in helping Americans save for retirement. As a member of the Committee on Ways and Means, the Congressman mentioned the series of hearings that the Committee is holding to educate members as they prepare for fundamental tax reform and called the recent hearing on retirement savings issues especially productive.

Mark Iwry, Deputy Assistant Secretary for Retirement and Health Policy, US Department of the Treasury
Providing a brief history of 401(k) plans, Mr. Iwry said that the plans have gone through several stages since enactment – beginning with “do-ityourself” plans where decisions were left to individuals perhaps more than they liked, and then moving to the next stage which added features such as auto enrollment, QDIAs, rollovers, and auto payouts. Calling these advances positive, he added that more can be done and listed a number of ways to increase participation in 401(k)s (some of which employers are already utilizing or considering). These include auto-enrolling new hires at higher than 3%, auto enrolling existing employees, auto-escalation (which he said is spreading, but not enough), and educating workers about the amount of savings needed in retirement. Other examples mentioned include using unused vacation or sick pay to generate employer contributions, shortening the waiting period for 401(k) entry, allowing participation by part-time workers, and allowing workers to contribute their own funds prior to qualifying for employer contributions.

Representative Richard Neal (D-MA)
Representative Neal stated that there is a $6.6 trillion deficit between what individuals will need in retirement and what they have saved, and encouraged the retirement industry to develop products to help low-income individuals increase their savings since they are the

ones most in need. The Congressman described his Auto IRA bill, noting that it is estimated to increase retirement savings annually by $8 billion. A member of the Ways and Means Committee, Representative Neal discussed the Committee's review of tax code preferences and stated that tax incentives for retirement savings are critical for the millions of Americans trying to set aside funds for their retirement years. He added that the tax benefit is the key reason that employers offer retirement plans and said there would not be wide-spread retirement savings without tax incentives.

Peter Brady, Senior Economist, Investment Company Institute
Sharing statistics from his research regarding sources of income in retirement, Peter Brady said that the U. S. retirement system is a resounding success and retirees are generally able to maintain their standard of living in retirement. Mr. Brady said that the standard "three-legged stool" terminology often used to describe the most common sources of retirement (Social Security, employer pensions, and personal savings) is misleading and referenced instead the "retirement resource pyramid." The pyramid includes housing assets on the list of sources, an important and valid addition since 80% of households entering retirement own their own home according to Mr. Brady.

Commenting on the other retirement income sources, Mr. Brady said that Social Security continues to provide the bulk of retirement benefits for lower-income retirees -- at an income replacement rate of 71%. The income replacement rate is 30% for those at the highest income level. He also noted that over 80% of pre-retirees (ages 55-64) have retirement savings and those individuals are continuing to add to their savings since they are still in the workforce.

Mr. Brady disputed an often quoted statistic that 50% of workers do not have access to an employer-sponsored retirement plan. He said that 75% of workers have access to a plan either on their own or through a spouse. And 93% of those with access participate. Mr. Brady said that overall there is broad support for the U.S. retirement system because 401(k)s and other retirement programs work and people like them.

Representative Ron Kind (D-WI)
Ways and Means Committee member Kind said that it is appropriate to review and reform the tax laws periodically and added that Social Security also is in need of reform. The Congressman described the SAVE Act (H.R. 3561) which he introduced to make it easier for small business owners to provide retirement benefits to employees. The bill deals with the cost and liability exposure concerns that many small business owners have said prevents them from sponsoring a retirement plan.

Pamela Everhart, Senior Vice President, Fidelity Investments
Ms. Everhart shared data gathered from Fidelity's savings plans. Focusing on the automatic features of the plans, she said that good legislation and regulation can increase plan participation, noting that prior to enactment of PPA, only 2.2% of plans had auto enrollment. That number is now over 22%. For large plan sponsors, that number is 63% and many have also added auto escalation as a plan feature. Fidelity found that the employee participant rate is about 89% in plans with auto enrollment. Ms. Everhart also

said that for those plans with auto enrollment, 9% of employees opt out, 59% do nothing, and 32% increase their contributions above the 3% default rate. She added that 53% of younger lower-income workers generally participate in their employers plan, but that number increases to 80% in plans with auto enrollment. However, Fidelity also found that even with auto enrollment 40% of monies eligible for employer matches are left on the table. Ms. Everhart also discussed the value of auto escalation which she said will increase the deferral rate 32% across all plan participants and by 64% for younger lower-income workers. She added that employers are getting comfortable with automatic plan features.

Jack VanDerhei, Research Director, Employee Benefit Research Institute
Mr. VanDerhei shared statistics drawn from EBRI research, surveys, and simulations to assess the current state of retirement savings in the U.S. and the potential of 401(k)s to provide adequate retirement income. Mr. VanDerhei noted that it is misleading to assess 401(k)s by simply looking at average balances because the number includes younger individuals who are just beginning to save. The EBRI/ICI survey of 401(k)s breaks down the statistics by age and work tenure. While the overall average of 401(k) account balances at year-end 2010 was $60,329, the average balance for participants 55-64 with at least 30 years of tenure with the current employer was $296,142.

EBRI research found that having continuous access to an employer plan is the most critical factor in producing adequate retirement income. Research also anticipates that auto features will increase an individual's replacement income rate in retirement.

EBRI previously analyzed a proposal that would modify Federal income tax treatment of employer and employee contributions for 401(k) plans in exchange for an 18% match from the Federal government. To gauge the effect that this proposal might have on retirement savings, EBRI surveyed workers currently contributing to a 401(k) and employers currently sponsoring such plans. The simulated results indicate reductions in savings would occur across all quartiles, with the average reductions for lowest income employees ranging from 36 to 40%.