

A Comprehensive Plan to Confront the Retirement Savings Crisis

By Teresa Ghilarducci and Hamilton “Tony” James

*What the Retirement Savings **Plan Is***

It is a pragmatic solution to ensure that all workers can save enough to retire.

It is a personal savings plan, not a handout. The Plan relies on individually owned retirement accounts and existing government infrastructure to deliver results.

It is built on personal responsibility, personal choice, and effective investment. You accumulate your money in your own account where you have full control. If you die before retirement, your savings are passed on to your spouse.

It is lifelong retirement security. Annuitized returns ensure a consistent standard of living for as long as retirees live.

It is mandatory—but cost-neutral for almost all below median income employees. The Plan creates a \$600 tax credit for every worker who contributes to their Guaranteed Retirement Account (GRA). This means that households earning up to \$40,000 per year will have their yearly retirement savings fully reimbursed.

It is deficit neutral. The tax credit is fully paid for by redirecting existing government subsidies away from the wealthiest Americans and spreading it evenly over the entire income distribution.

*What the Retirement Savings **Plan Is Not***

It is not another form of Social Security. This is your own money in your own account. The government can't ever get at the money. Each individual will buy their own annuity with their accumulated retirement savings—and the system relies upon private insurance company payers.

It is not another new government bureaucracy. The Retirement Savings Plan utilizes existing government infrastructure.

It is not another program run by the government. You contribute to a pooled trust managed by an entity of your choosing, so the returns are higher and fees lower than in an individual directed account. You decide when to retire and convert your savings into lifelong income.

It includes ***no*** new taxes.

It will not increase the deficit.

Executive Summary

You do not need to look very hard or dig very deep to find the crisis in American retirement. You only need to ask the American people.

According to a 2015 survey by the National Institute on Retirement Security, 86% of Americans “believe that the nation faces a retirement crisis.” And they’re right. If nothing changes, by 2050, 25 million American retirees will be either in poverty or very close to it. It’s no wonder that 84% of Americans want “national policymakers to give more attention to retirement issues.”¹

It’s time to listen to their voices. We propose a solution that would comprehensively and sustainably solve America’s retirement crisis:

- Our solution provides universal retirement savings coverage for all workers—in a way that is cost-neutral for median income employees and taxpayers. (p. 14)
- It provides every worker an individually owned, effectively invested retirement savings account with a guaranteed rate of return. (pp. 16–18)

- It redirects government retirement savings support toward the bottom 90% of the income distribution—workers who need help the most—replacing a regressive system of subsidies with a simple tax credit. (p. 16)
- It provides a federal solution to a massive problem—and it guarantees lifelong annuitized income for all retirees, using existing government infrastructure. (p. 18)
- While empowering workers to retire without sacrificing their standard of living, the Plan also incentivizes able Americans to work as long as they choose. (p. 19)
- The Plan brings together ideas that both parties can support—government-backed accounts under individual control that don’t impact the budget, raise taxes, or alter existing programs.

It’s called the **Retirement Savings Plan**—a national retirement system so simple that it could be enacted tomorrow. This paper explains why its time has come.

Figure 1:

The growth of poor and near-poor retirees over the next 35 years.

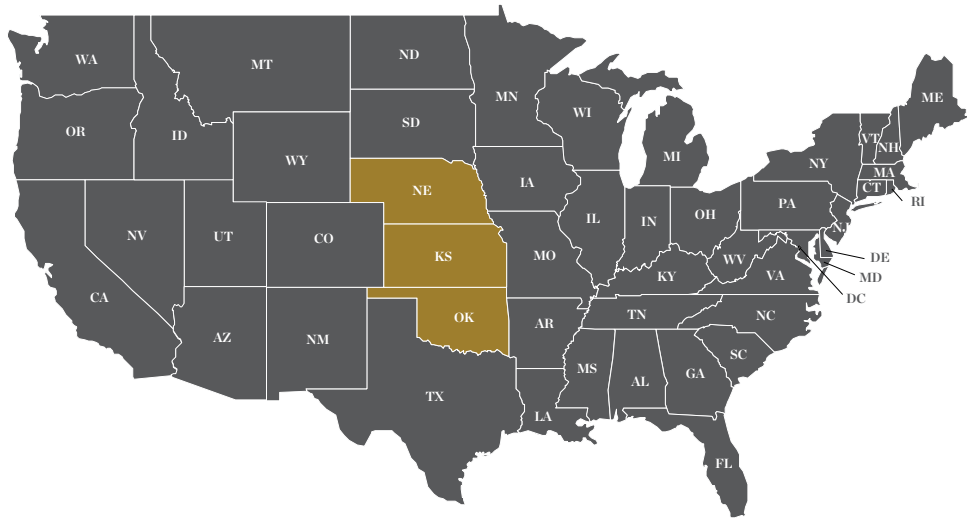


Source: Ghilarducci, T. and Z. Knauss. (2015) “More Middle Class Workers will be Poor Retirees.” Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series.

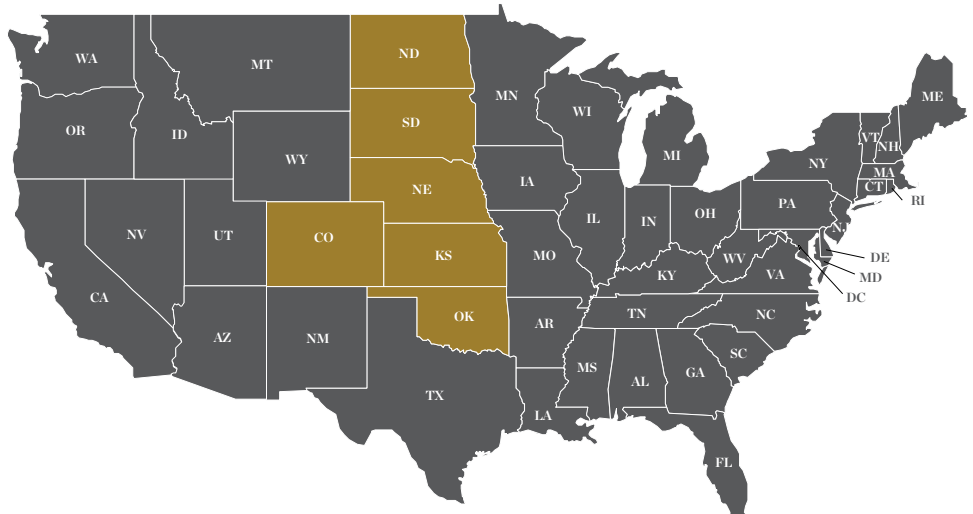
Figure 2:

If the status quo continues, over the next 35 years, the population of retirees living in or near poverty will grow to the equivalent of the population of the shaded states.

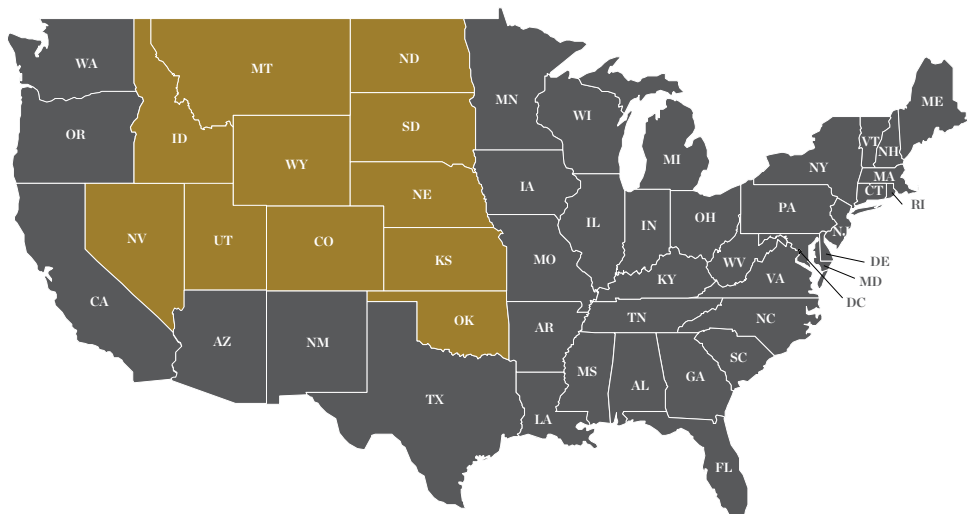
2012



2022



2050



Source: U.S. Census Bureau (2010) "2010 Resident Population Data."

The first and most obvious reason to act is demographic. If we don't find the political will for reform, we will soon face rates of poverty among senior citizens not seen since the Great Depression. If we do, this problem can be solved relatively painlessly.

If current trends continue, of the 18 million workers who were between the ages of 55 and 64 in 2012, 4.3 million will be poor or near-poor when they turn 65 years old.² This number will include 2.6 million workers who were part of the middle class before reaching retirement age. By 2050, as we noted at the outset, there will be nearly 25 million retirees living in poverty or near-poverty.

If these senior citizens made up a state, it would surpass Florida as the third most populous state in America—but its rate of poverty and economic deprivation would exceed that of every state in the union. Meanwhile, the strain that this newly poor population will place on our social safety net will devastate federal, state, and local budgets for decades.

As this crisis escalates, even many people who don't slip into actual poverty will still experience a dramatic reduction in quality of life when they reach retirement. Over half of working people near retirement right now won't have enough savings to maintain their standard of living.³ People between the ages of 40 and 55 have an average retirement account balance of just \$14,500. Experts including Fidelity Investments and Aon Hewitt say workers need 11 to 20 times that amount to maintain their standard of living in retirement!^{4, 5} This disparity is especially difficult for women. Women face lower wages and interrupted careers that impact savings, as well as longer lifespans that require them to do more with less in retirement.

This isn't just about older Americans, either. Young people in their 20s and 30s no longer have access to the same kind of workplace retirement plans as their parents and grandparents. They face a retirement future wholly dependent on personal savings and anemic 401(k)s. At a moment when entry-level wages are stagnant; health, rent, and childcare costs are escalating; and outstanding student loan debt remains above \$1 trillion; they face almost insurmountable obstacles to building a strong retirement foundation.

Simply put, America is grappling with an across-the-board retirement savings gap.

This savings gap is the product of a retirement system that is broken in six key ways:

1. *Of those workers offered a retirement savings plan through their workplace, nearly two thirds don't accumulate enough in savings during their working lives.*

2. *People who save in defined contribution plans like 401(k)s are likely to withdraw savings before retirement—incurring high fees and taxes in the process.*
3. *Under the current system, those participating in defined contribution plans experience sub-par investment returns because of high fees and a structural bias toward short-term liquid stocks and bonds. Employees are forced to pay for liquidity they don't need, and they sacrifice larger returns in the process.*
4. *The system loses because the short-termism favored by 401(k)s and IRAs prevents long-term investment in assets like infrastructure, real estate, and private equity. A recent Aon Hewitt study found that these types of investment products both enhance returns and provide significant downside protection in bad markets, reducing overall portfolio risk.⁶*
5. *The current system features costs that are upside down—the wealthy and financially sophisticated pay lower fees and receive higher tax subsidies than those who need them most.*
6. *Finally, even for sophisticated retirees, the current system offers no cost-effective means to convert retirement savings into life-long income when they stop working.*

The Retirement Savings Plan offers a solution to each of these challenges—and it tackles the retirement savings gap immediately.

The Retirement Savings Plan shifts the retirement system away from the current inefficient patchwork of programs and policies, and toward a single, sustainable, high-performing, and pro-growth framework.

Under this plan, everyone—from Uber drivers to CEOs—would have their own Guaranteed Retirement Account (“GRA”) managed by professional portfolio managers, with lifelong, post-retirement annuity payments administered with the existing Social Security infrastructure.

The Retirement Savings Plan is a four-pronged solution to the retirement crisis.

First, the Retirement Savings Plan ensures that all workers can save enough to retire.

Our plan would build upon Social Security, which already mandates that workers contribute about 12.5% of their income. We've calculated that full-time workers need an additional 3% of their pay invested and earning a decent return to maintain their standard of living in retirement. So the first step is to mandate this 3% contribution, splitting it between workers and their employers. This mandate will apply to all workers, including those who work part time and/or are self-employed.

For employees, this mandated contribution would be offset by a revenue-neutral federal tax credit designed to make it virtually costless for families at or below the median income. And for most employers, this 1.5% contribution would be largely offset by no longer having to administer or contribute to other retirement plans.

The employee contribution would be automatically deducted from their payroll. Workers would also be strongly encouraged to contribute additional funds into their accounts if they are able. A GRA, in fact, would be one of the best places for a person to save extra income that they want to put away for the future. Unlike other options—like depositing this extra income into a savings account—a GRA would have the benefit of a professional portfolio manager investing for the greatest possible return.

Second, the Retirement Savings Plan invests those savings in lower-risk, longer-term ways that generate a higher rate of return.

Under the current system, savers can withdraw 401(k) funds at any time. As a result, these plans are required to invest in short-term vehicles. These savings are supposed to be long-term, so in effect, savers are forced to pay for liquidity they don't need. These plans are also complex to administer and have high fees. As a result, 401(k)s typically earn 3–4% annually, while defined benefit plans—which do invest in long-term vehicles—earn significantly more, without increased portfolio risk.

When institutions making use of this longer-term investment strategy are surveyed, the superior returns are clear. A brief by the National Association of State Retirement Administrators found that public pension funds delivered an 8.5% median rate of return over a 25-year investment period. A Vanguard survey of university endowments—which have a similar long-term investment horizon—found

similar success: an average return of 8.4% over a 25-year period.

Simply by fixing this problem and investing in longer-term vehicles under the Retirement Savings Plan, a 25-year-old saving \$1000 per year would see their retirement savings go from \$75,000 to \$200,000 at age 65.

Third, the Retirement Savings Plan guarantees lifelong annuitized benefits, no matter how long a retiree lives.

Most people do not have the expertise to invest and annuitize their savings—and since no one knows precisely how long they'll live, they're essentially rolling the dice and hoping their retirement savings last.

This plan fixes that, too. When a worker retires, their savings would be automatically annuitized so they get a guaranteed yearly amount for the rest of their life. In a nationwide retirement pool, actuarial risks are shared and mitigated, costs are spread—and everyone benefits. Although it is strictly an individual's own annuity bought with their own savings, the actual monthly payments would be physically made by the Social Security Administration, leveraging existing infrastructure.

Fourth, the Retirement Savings Plan would make it easier for older Americans to work longer, if they so desire.

Through a combination of employer incentives and employee savings bonuses, the Retirement Savings Plan empowers older workers to stay in the workforce if they want to. That way, they would have more time to save for retirement and accumulate returns.

Today, America faces a generational choice, not unlike the choice we faced before the enactment of Social Security. Either we will stick with the status quo and allow millions of our most vulnerable citizens to end their lives in poverty—or we will seize the important opportunity that this moment represents to solve this problem relatively painlessly.

This paper explores how the Retirement Savings Plan would work—explaining how it would address crucial problems in the current retirement system, addressing key questions, bringing in relevant case studies, and exploring the current prospects for legislative action.

First, though, we begin with an exploration of the current retirement system, and how it has set the country on a path to crisis.

Retirement Fast Facts

Status Quo:

\$14,500

Average retirement account balance of Americans age 40–55

\$290,000

Estimated balance necessary to maintain standard of living in retirement

16

Million

Retirees living in or near poverty by 2022

25

Million

Retirees living in or near poverty by 2050

The Retirement Savings Plan:

\$75

What it would cost the median-income family annually, after tax credits, for secure retirement

6–7%

Expected annual return for GRA savings—versus 3–4% for traditional 401(k)s and IRAs

**Universal
Coverage**

Every worker will have a workplace supplement to Social Security. This especially helps older women

\$75,000

Additional lifetime return on savings that a 25-year-old saving \$600 a year could expect by age 65 under the Retirement Savings Plan.

That \$600 per year would be completely offset by a tax credit, and thus costless, for a saver earning median income or less

The Six Key Threats to American Retirement

To understand and solve America's retirement crisis, the first critical step is recognizing that the current national retirement "system" is actually just an inefficient (and somewhat accidental) patchwork of programs.

There was a time when retirement was simple. Most workers relied on a guaranteed pension from their employers. Indeed, as recently as 1983, nearly two thirds of workers had traditional pension plans administered by their employers.⁷ These plans work well for retirement planning and have long been preferred by workers, but, unfortunately, most private employers phased out the traditional pension in recent decades. Today, only 15% of workers—mostly government employees—have access to these defined benefit plans.

This means that the vast majority of American workers find themselves stuck cobbling together a retirement agenda on their own, dependent on increasingly insufficient retirement instruments—at a time when they are also struggling with years of stagnant incomes and growing debt.

The more fortunate of this majority—about 53% of private sector workers—can make use of 401(k)-type defined contribution plans. Despite the wide spread of the 401(k), it's important to remember that the 401(k) was never intended to be an omnibus retirement solution.^{8, 9}

If the 401(k) was meant to be the American Retirement Plan system, it would have been clearly positioned as such, rather than being hidden away, as it is, in an obscure section of the tax code. In fact, from their beginning, savings vehicles like 401(k)s had some fundamental problems. Individual retirement savings accounts depend on voluntary individual contributions by the worker, which they may or may not make throughout their lives. However, in order to be effective, these contributions must be made steadily throughout a worker's career, starting in their mid-twenties. Often, but not consistently, these contributions are matched by the employer. And, for reasons discussed below, 401(k)s also earn subpar returns on these insufficient savings.

Yet despite its shortcomings, today the 401(k) is the primary retirement vehicle for many Americans—because in most cases, it's the only option they have.

Unfortunately, another 40% of private sector workers do not have access to any employer retirement plan. As these individuals approach retirement age, they must rely on personal savings, which are near historic lows, options like Keogh plans and myRA, which function similarly to 401(k) plans but lack employer contributions, and Social Security, which was designed as a social insurance program, not something that could realistically maintain a middle class retirement. Today, we have reached a point where Social Security provides more than 90% of the income for 36% of current retirees; 24% of retirees rely on Social Security as their only source of income. This is the case even though the average monthly Social Security benefit is an insufficient \$1,300.¹⁰

This patchwork retirement "system" has six key problems—and, taken together, these problems create an existential threat facing our nation's retirees.

1. Of those workers offered a workplace defined contribution plan, nearly two thirds don't accumulate enough in savings.

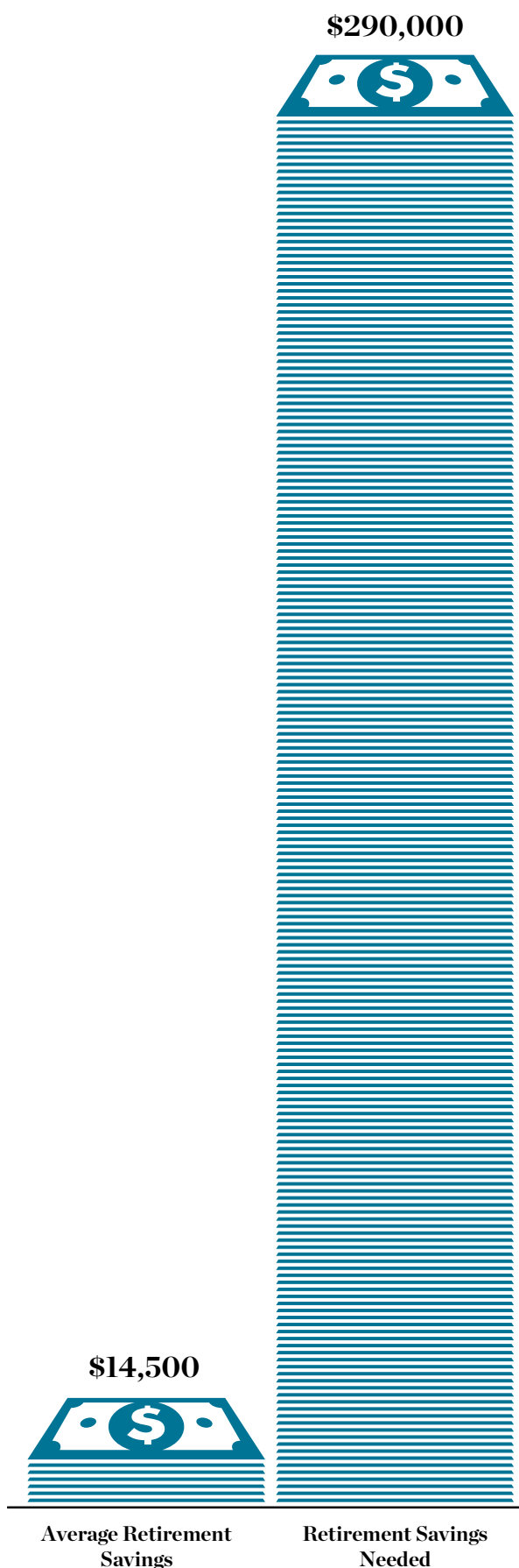
We've calculated that people require income replacement of 70–85% to maintain their standard of living in retirement. (The exact percentage depends on their level of preretirement earnings. Lower income people will need a greater replacement rate, higher income workers less to maintain their standard of living.) But according to the National Retirement Risk Index, less than half of workers are on track to achieve this.¹¹

People between the ages of 40 and 55 have an average retirement account balance of just \$14,500. Experts including Fidelity Investments and Aon Hewitt say workers need 11 to 20 times that amount to maintain their standard of living in retirement.^{12, 13}

Those much nearer retirement age also fall far short. According to a recent Government Accountability Office study, 52% of households that include someone over 55 have no retirement savings.¹⁴ The median balance held by retirees between 55 and 64 is only about \$80,000. If converted to an annuity, \$80,000 in retirement savings would require a person retiring in their mid-60s to live on an income of only \$2,000 per year!

Figure 3:

Visualizing the savings gap for Americans 40–55 years old.



Source: Center for American Progress (2015) “The Reality of the Retirement Crisis.” Aon Hewitt (2012) “Retirement Income Adequacy at Large Companies: The Real Deal.”

It may be tempting to blame the savers, but the fact is that most people simply cannot afford to save enough for retirement. This is partly because, for the last 40 years, median household income in America has been largely stagnant. In addition, the U.S. has allowed its real minimum wage to plummet. In real terms, our minimum wage today is back where it was in the 1940s. In many ways, the obstacles to saving for retirement are even greater now than they were then. For young savers and parents, education, childcare, rent, and healthcare costs are surging and student loans are a much bigger burden than they were a half century ago. And for older savers, household debt is back on the rise after dipping in the wake of the Great Recession—recently reaching its highest levels since 2010.¹⁵ Women face an especially challenging path to retirement security, as lower wages and interrupted careers make it difficult to save consistently.

In part because of challenging trends, savings rates continue to stagnate, even during the recent period of economic recovery.¹⁶ Last year, for instance, a Federal Reserve survey asked Americans what they would do if faced with an emergency expense of just \$400 tomorrow. Nearly half—47%—said they wouldn’t be able to cover it unless they sold something or borrowed the money.¹⁷

2. People who do contribute to defined contribution plans are likely to draw savings before retirement—incurring high fees and taxes in the process.

The United States is one of the only nations that allows tax-preferred retirement savings to be withdrawn before retirement. In most countries, you can’t withdraw your untaxed retirement funds early for any reason. In some countries, you can withdraw for serious emergencies like life-altering illness. But in the U.S., you can withdraw your retirement savings whenever you want, for whatever reason—and pay hefty penalties.

A quick Google search of the term “withdraw 401k” reveals how ubiquitous this skimming phenomenon is.



On its face, that might sound logical enough. It’s your money, after all. But when American workers withdraw their retirement savings early, that comes with high costs and taxes that eat away at their savings. For savers, it is just too tempting to make withdrawals before retirement. As we discuss below, the option to withdraw early also forces those assets to be invested in shorter-term, less productive ways. This disincentive to long-term saving has lifelong repercussions for workers, and there is a reason why this harmful access is not a feature of any sensible national retirement system.

The Accidental Birth— and Unintended Spread— of the 401(k):

America's primary retirement vehicle, in fact, emerged largely by accident.

In 1980, a benefits consultant named Ted Benna was assigned to create a savings program for his employer. So he did what anyone would do in that situation: he pulled out a copy of the Internal Revenue Code.

Looking through the code, he found a little-noticed portion that gave employers special tax status for encouraging workers to save for retirement. He ran with the idea.

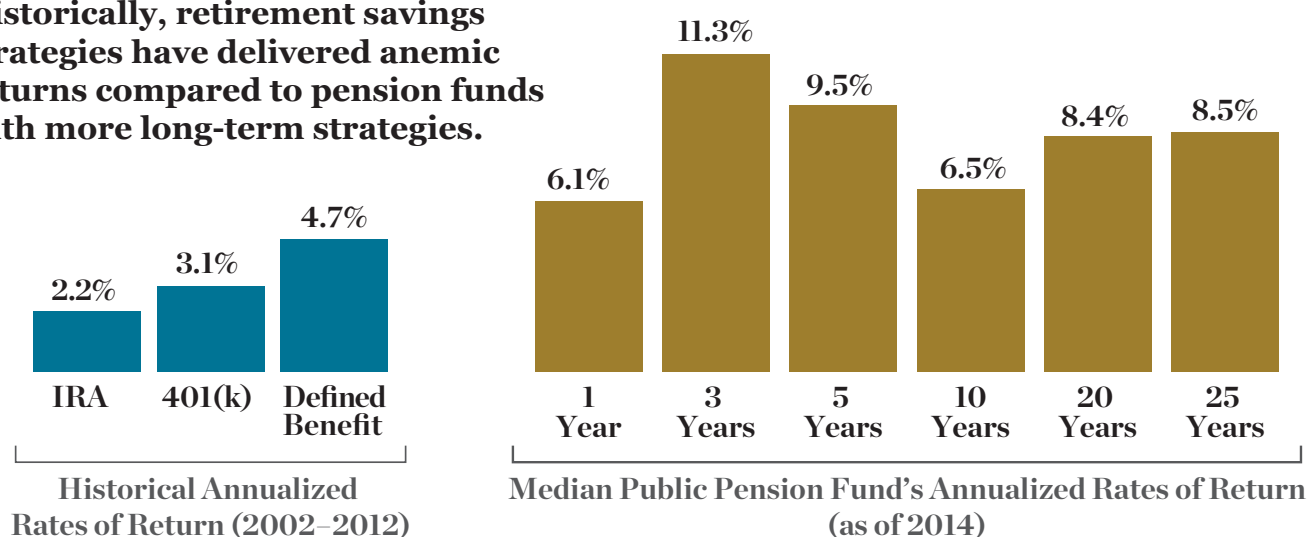
“Well, how about adding a match, an additional incentive?” Benna recalled thinking at the time, in an interview with American Public Media's Marketplace. “Immediately, I jumped to, ‘Wow, this is a big deal!’” The section of the tax code he found? Section 401(k).

Benna later went on to serve as the president of the 401(k) Association, but, three decades later, even he is surprised by the ubiquity of his creation.

“I knew it was going to be big,” he said, “but I was certainly not anticipating that it would be the primary way that people would be accumulating money for retirement 30-plus years later.”

Figure 4:

Historically, retirement savings strategies have delivered anemic returns compared to pension funds with more long-term strategies.



Source: Center for Retirement Research at Boston College (2015) "Investment Returns: Defined Benefits vs. Defined Contribution Plans." National Association of State Retirement Administrators (2015) "Issue Brief: Public Pension Plan Investment Return Assumptions."

3. **Under the current system, those participating in defined contribution plans experience subpar investment returns because of high fees and a structural bias toward short-term liquid stocks and bonds. Employees are forced to pay for liquidity they don't need, and they sacrifice larger returns in the process.**

401(k)s earn subpar returns, largely because they have a structural bias toward short-term investments. Why? Because workers can withdraw retirement savings at any time, and 401(k) administrators are required to offer only short-term instruments that offer a lot of liquidity.

This bias means retirement strategies like 401(k)s and IRAs don't invest in longer-term, illiquid alternatives such as hedge funds, private equity, and real estate. As a result, these plans deliver subpar returns compared to more alternative-focused strategies like pension funds and endowments.

The drawbacks of this system are clear. When you compare anticipated rates of return across a variety of asset classes, shorter-term options like Treasury bonds, high-yield corporate bonds, and a 60/40

stock and bond portfolio are all expected to deliver lower returns than longer-term public pension and university endowment investments.

In other words, biasing investment portfolios toward high-liquidity investments is hurting workers by making it even more difficult to accumulate sufficient retirement savings.

4. **The overall economy misses the full benefit of this capital because the short-termism favored by 401(k)s and IRAs inhibits long-term capital formation.**

Excessive short-term investing is not just bad for America's retirees. It's bad for the entire nation.

Absent its structural bias toward short-term, high-liquidity investments, America's retirement system could enhance long-term capital formation. The accumulated retirement savings of the American people represent a huge amount of potential—an enormous amount of capital that could be invested in everything from infrastructure to venture capital, real estate, and private equity.

Figure 5:

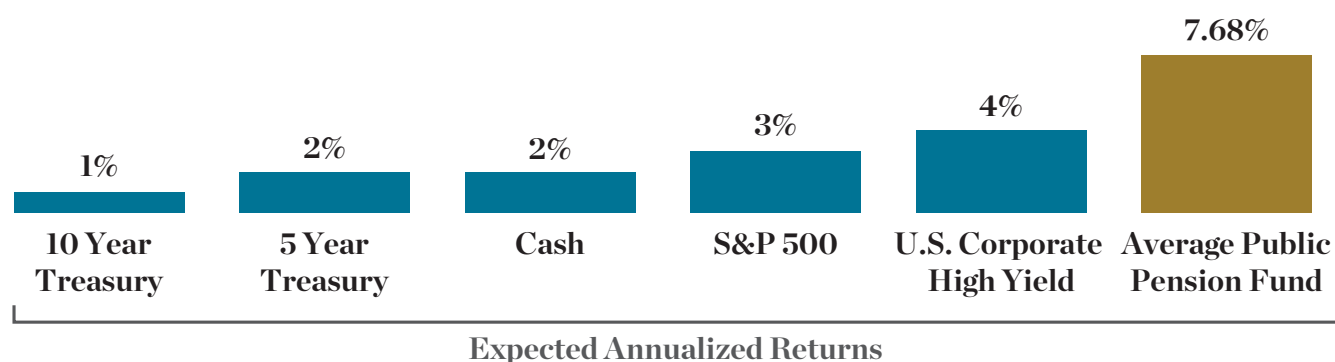
Over time, endowments have also outperformed traditional short-term strategies, especially larger endowments with great allocations to alternatives.

	5 Years	10 Years	15 Years	20 Years	25 Years
Endowments over \$1 Billion	3.8%	8.5%	8.1%	10.1%	10.4%
All Endowments	3.8%	6.8%	5.6%	7.7%	8.4%
All Active Balanced Mutual Funds	5.1%	6%	4.9%	7%	7.9%

Source: Vanguard Research (2014) "Assessing Endowment Performance: The Enduring Role of Low-Cost Investing."

Figure 6:

The expected 5-year returns across traditional asset classes means a typical stock and bond strategy will underperform compared to public pension funds.



Graph shows expected 5-year returns for key asset classes and assumed average rate of return for Public Pension Plans.
Source: Goldman Sachs (2016) “2015 Outlook: The Last Innings.” Investment Management Division, Investment Strategy Group National Association of State Retirement Administrators (2015) “Issue Brief: Public Pension Plan Investment Return Assumptions.”

What’s more, countries that have enacted national retirement plans similar to to what we propose report greater economic stability. In Australia (which we highlight as a case study later in this paper), national retirement savings exceed GDP, creating an economic ballast that helped the country avoid a recession in 2008. Susan Thorp, a professor at the University of Technology Sydney, explains how:

If you have people making regular contributions from their wages, there’s always this steady stream of inflows into the capital markets... It’s money that comes into the market to purchase securities regardless of conditions.¹⁸

There’s no reason why the United States cannot adopt a similar approach. As a Dow Jones Private Equity Analyst Sources of Capital Survey recently found, public sector pension funds in the United States—which, as we noted earlier, do invest for the long term—made up 20% of venture capital in 2014.¹⁹ But right now, defined contribution funds are not playing this same important role in our economy.

5. The current system features incentives that are upside down—the wealthy and financially sophisticated receive higher tax subsidies.

In 2014, federal and state governments spent \$120 billion to subsidize workers’ pensions.²⁰ But these tax benefits do little to benefit workers most at risk.

Retirement tax deductions are regressive deductions against income, which means they directly and disproportionately benefit the wealthiest Americans. In 2014, the most affluent Americans got over 79% of the benefit from retirement tax deductions. Low-income workers who needed the help got almost nothing.

What’s more, high net worth individuals benefit from better access to sophisticated, longer-term

investment vehicles. These vehicles usually require a high minimum investment, so in practice, they are only available to those who can afford such a large investment.

Again, the incentives are entirely backward here. Our national retirement system should not be structured—intentionally or otherwise—to provide additional benefits for individuals who already enjoy a reliable path to a comfortable retirement.

6. Finally, even for sophisticated retirees, the current system offers no cost-effective means to convert retirement savings into life-long income.

The current retirement system is simply not well set up for rising life expectancies. In 1950, the average woman lived for 15 years in retirement after reaching 65. The average man, 13. Today, women live for an average of 20 years in retirement, and men can expect to live for 17.²¹

This means that retirement savings have to last for longer than ever—but most people aren’t able to plan for that because they don’t have the expertise to invest and annuitize savings properly. In fact, under the current system, retirees are disincentivized from pursuing annuities because of their high price tags and resulting bias toward high net worth individuals.

The annuity plans that are currently available carry high costs because of the process of adverse selection. In the current annuity marketplace, insurers anticipate that those who purchase annuities do so because they expect to live longer than average—and in anticipation of this longevity risk, insurers increase the cost of the annuity.²²

Given these high costs—and the relatively complex process required to attain annuities—those who purchase annuities are generally more sophisticated investors. They tend to be more affluent individuals.²³

The Solution: Guaranteed Retirement Accounts

Under the Retirement Savings Plan (the “RSP” or “Plan”), all those who don’t have access to a workplace pension plan would be enrolled into a Guaranteed Retirement Account (“GRA”)—and those with 401(k)-type and all other plans would roll their savings over to a more suitable GRA. This includes part-time and self-employed workers.

This system would require all businesses with over five employees to provide a pension or the GRA. The GRA features the smallest costs, so we presume that most businesses will choose this option. And by waiving employer contributions for businesses with fewer than five employees, we are providing a safe haven for small business.

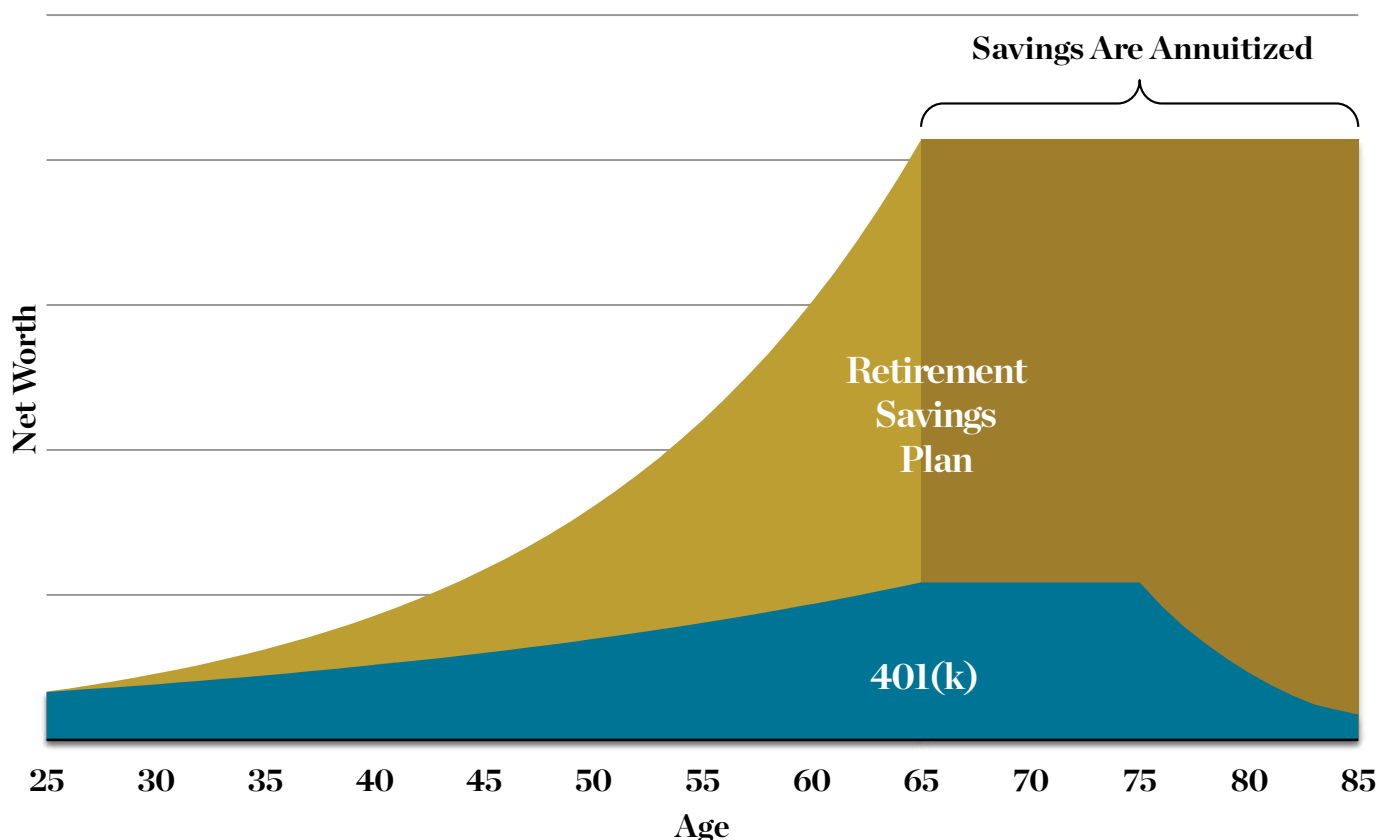
This new system represents a four-pronged solution to the retirement crisis.

- First, the RSP ensures that all workers can save enough to retire.
- Second, the Plan’s GRAs invest those savings in lower-risk, longer-term strategies that generate a higher rate of return.
- Third, the Plan guarantees lifelong annuitized benefits, no matter how long a retiree lives.
- Fourth, the Plan offers incentives to stay in the workforce longer for those who want to.

In the remainder of this section, we take those prongs one at a time.

Figure 7:

The GRA model provides both greater expected returns and more secure financial stability throughout retirement.



Yes, Social Security works!

But on its own it is not enough.

- Social Security is the basis of retirement security for most Americans. It has many strengths.
- But Social Security was designed as a redistributive safety net for those facing poverty in old age. Prefunded pensions were supposed to supplement Social Security to guarantee a middle class retirement.
- Social Security is the foundation on which this plan is built; they work together.

Why not just “fix” Social Security?

- First, expanding Social Security would likely focus on lifting up the poorest and oldest elderly. GRAs are add-on accounts that provide the tools for a secure and comfortable retirement for people at all income levels.
- Second, unlike Social Security, GRAs rely on actual cash in every person’s individually owned retirement savings account. Real capital means real, high-performing investments that can close the retirement savings gap without adding to the deficit.
- Third, expanding Social Security would require adding to FICA taxes. Under the GRA model, employees would be placing their own money in their own account. And for those earning less than the median wage, their contribution would be offset by a tax credit. For employers, their contribution would be offset by the savings from no longer administering retirement plans.
- Finally, there is no political consensus on either the problems or the fixes for Social Security. GRAs work within the existing system to guarantee retirement security.

i. Ensure that all workers can save enough to retire.

The Retirement Savings Plan accomplishes this goal by functioning as an addition to, not a replacement for, Social Security. Currently, workers save 12.5% of their annual income through Social Security. We calculate that full-time workers over the course of their careers need to save at least an additional 3% per year, invested correctly and earning an annual return, to retire with some comfort. Part-time workers will need to contribute more to have enough for retirement.

This is a much smaller gap to fill than most people assume, but there is only one way to fill it: the savings have to be mandated.

This may be a politically loaded approach, but research and experience have made clear that nothing short of a mandate will provide future generations of Americans enough income for a secure retirement. And the Retirement Savings Plan makes this mandated contribution nearly costless—for the government and for most individual Americans alike—in a number of ways.

The Retirement Savings Plan model splits this mandated 3% savings between an employee contribution and an employer contribution.

For employees, the 1.5% contribution would be offset by a new \$600 federal tax credit—essentially covering the contribution for households below median income. For a family earning \$40,000 a year or less, the Plan would be costless. For a family earning the median income of \$45,000 a year, the effective cost of retirement security would be just \$75 per year to get \$675 in your account—a nine to one multiple!

This new tax credit would be both deficit-neutral and revenue-neutral. By ending the more than \$100 billion in federal tax deductions for defined contribution plans—deductions that disproportionately benefit the wealthiest Americans—the government can provide much fairer support for retirement savers. The GRA tax credit would give every worker, rich or poor, up to a maximum of \$600 per worker, per year.

For high-income workers, the obligation to contribute would be capped, as it is in Social Security. The RSP would only mandate contributions of 1.5% of the first \$250,000 of an individual's annual compensation, after which they would not need to make further contributions to their GRA.

Similar to current retirement plans, the employee contribution would be automatically deducted from their payroll. On top of the 1.5% mandate, all savers would also be encouraged to contribute additional funds to their GRA each year, if they would like to and are able. After a person has established a rainy day fund that they can access anytime—usually in a standard savings account or a myRA—a GRA would be one of the best places to

save additional income that they want to put away for the future. Unlike depositing that extra income into a savings account, putting it into a GRA would mean it has the benefit of a professional portfolio manager investing for a higher return.

This leaves the employer's 1.5%. The cost of this contribution would be substantially offset by ending burdensome workplace administration of existing retirement plans. The employer would also only need to make its contribution to the first \$250,000 of an employee's wages. For low-wage hourly workers, the Plan sets the employer contribution at a minimum of 20 cents per hour. For businesses with fewer than five employees, the employer contribution would be waived.

However, for those who are self-employed, or in partnerships or Subchapter S corporations, the individual is responsible for both the employer and employee contribution—just as in Social Security. This is because in most cases, these workers are individuals who average high earnings or for whom earnings are supplemental income.

This would be a modest increase in costs for most businesses, which could often be covered with a modest price increase of 1–2%. With inflation widely regarded as too low and corporate profits as a percentage of GDP at an all-time high, this retirement contribution for employers should be readily affordable. Furthermore, by forestalling the need for much higher corporate taxes in the future to deal with the retirement crisis that would otherwise overwhelm government finances, the Plan is a smart tradeoff for employers.

ii. Invest those savings to earn significantly higher returns.

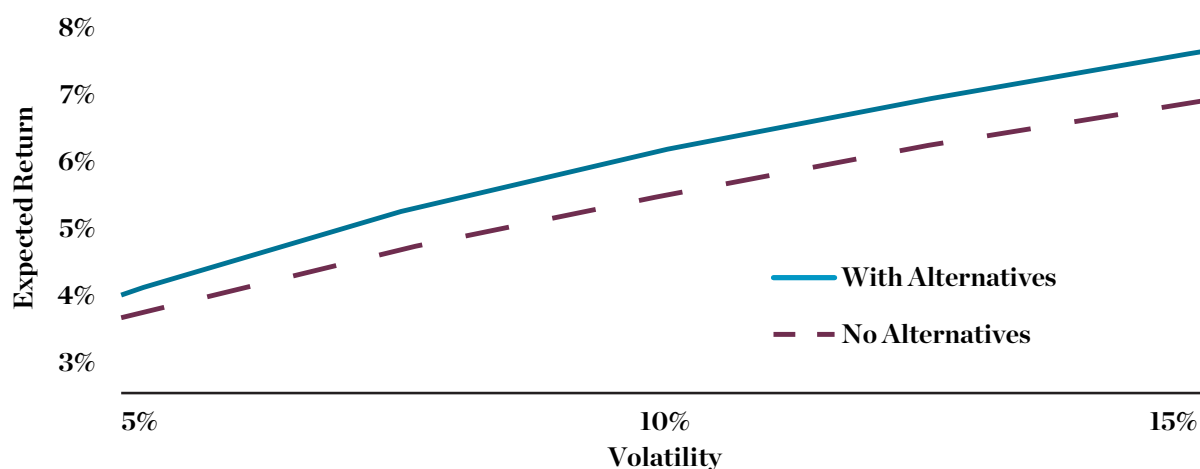
The second feature of the Retirement Savings Plan is that savers stand to earn meaningfully higher rates of return on their GRAs than they do with existing 401(k) and IRA plans, without increased risk. Peoples' money can—and must—work harder for them.

Each person's guaranteed retirement account would be legally owned by the specific individual. But that money would be invested as part of pooled strategies, combining the retirement savings with other GRAs across the country. Individuals would be able to choose their own manager from a national exchange. Managers could include traditional money management firms, state agencies that manage public pensions, or possibly a self-funded federal entity. By combining their funds—and their investing power—investors can build stronger portfolios than any one individual would be able to on their own.

Individual holders would select their "GRA pension manager" based on fees and investment performance. They would be able to choose their preferred manager or change from one to another at the beginning of each year. Accounts would be fully portable and the assets would transfer based on the account balance. A national exchange

Figure 8:

Alternatives reduce risk for a given level of return.



Source: Aon Hewitt Investment Consulting (2013) “Alternative Assets: The Next Frontier for Defined Contribution Plans.” Idea Development Forum.

of managers, administered by a federal agency housed in the Treasury, the Department of Labor, the Social Security Administration, or the Federal Reserve, would be the best way to facilitate this process.

Managing the Guaranteed Retirement Accounts in a pooled fashion is beneficial for savers for a few reasons. First, pooled investments leverage that scale to pay lower fees. Indeed, as a recent Aon Hewitt study found, “[f]or some plans, the annual savings from transitioning from retail to institutional shares may be as high as 65 basis points per year.”²⁴

The larger pool of capital would also offer greater access to high-quality, private sector asset portfolio managers who will compete to generate the best return. Right now, individuals with 401(k)s are left on their own to determine their investment strategy, even though almost no one has the experience or expertise to do this effectively. The RSP will change that, empowering every American with a GRA to pick a professional portfolio manager to chart their investment strategy. The benefits here have been well documented, as the same Aon Hewitt study found that when plan participants have access to professional asset managers, their portfolios earn a median annual return 3.32% higher than those who do not.²⁵

Most importantly, these investment strategists would also be able to adopt long-term investment horizons that generate the best results. The GRA pool could be invested in opportunities typically reserved for institutional investors—less liquid, higher return asset classes. These include high-yielding and risk-reducing alternative asset classes like real estate, managed futures, and commodities.

As we have noted, another recent Aon Hewitt study found that moving toward these types of investment products not only enhances returns, but it provides significant downside protection in bad markets—reducing overall portfolio risk. In

other words, they can both increase return and decrease risk.

As mentioned above, the structure of today’s 401(k) plans makes all of this impossible right now. These plans are required to be invested in ways that force excess liquidity, with short-term investment horizons, lots of volatility, and high administrative costs. Beneficiaries are supposed to choose from a narrow selection of managers—often without the expertise to do so.

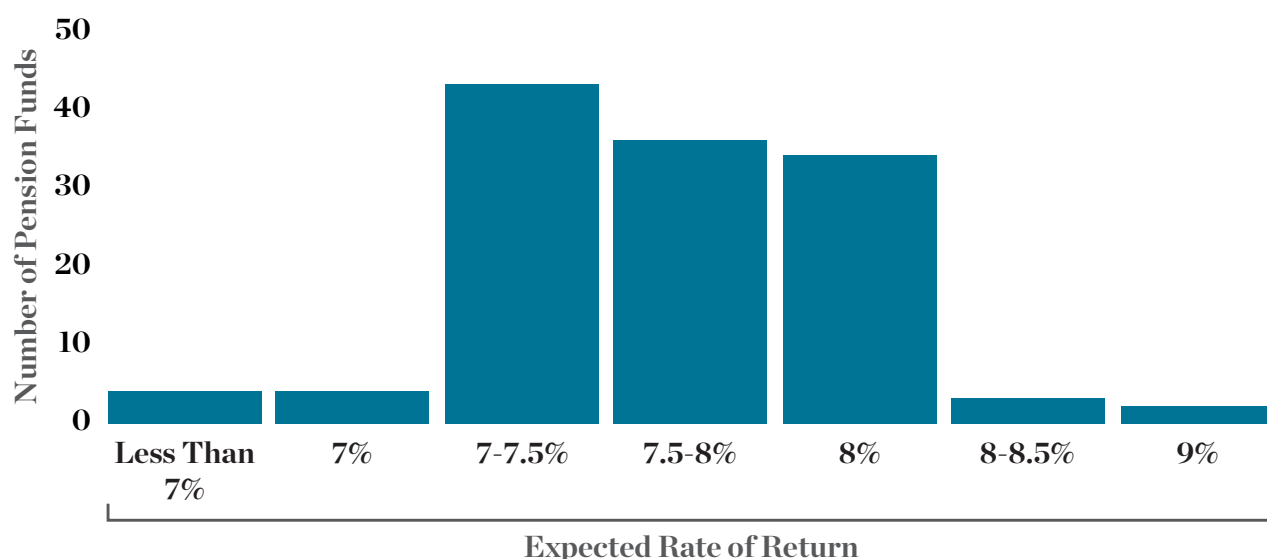
Because savers would make similar-sized contributions, which would be invested every year, GRAs would have the benefit of the long-term dollar averaging investment strategy. With the same amount of capital put to work each year, investors automatically buy more in weak markets (prices are lower) and less in peak markets (when prices are high). This pattern of investing runs counter to most people’s natural tendency, and dampens swings in investment returns over time.

As a result of these misaligned investment strategies, existing defined contribution plans tend to only earn 3–4% annually. But by investing with a longer-term approach, the GRAs can target a rate of return of 6–7%. In addition, the overall economy would benefit from long-term capital formation and longer investment horizons.

The beauty of investing more effectively is that higher returns would go a long way toward closing the retirement gap without taking any extra money out of a saver’s paycheck, meaningfully increasing the employer’s cost, or adding to the government deficit. For a 25-year-old worker saving \$1,000 per year, for instance, a shift in investment strategy which raised the return from 3% to 6.5% would mean the difference between \$200,000 and \$75,000 in savings by the time he or she reaches age 65. Over long periods of time, even seemingly modest differences in rates of return have a powerful effect on the ultimate amount of retirement savings.

Figure 9:

A survey of the largest public pension funds shows the majority have investment return assumptions between 7% and 8%.



Graph shows the distribution of investment return assumptions from NASRA's Public Fund Survey, 2015.

Source: National Association of State Retirement Administrators (2015) "Issue Brief: Public Pension Plan Investment Return Assumptions."

What's more, the GRAs would be risk free. At the time of an individual's retirement, the federal government would guarantee that each individual has earned a minimum return of 2%. This would both smooth the threat of market volatility if someone retires at a bad time in the markets—as well as engender confidence in the system. It is also a promise that will be essentially costless, because the accounts are highly likely to perform significantly better than 2% over the long term. The government could charge a modest insurance premium to cover this cost if desired.

This guarantee is not an option which gives a worker the ability to exercise when he or she wants to. The worker has no discretion over when the guarantee comes into play. It is a one-time test at the time of retirement when the GRA is being annuitized. The minimum cumulative return does not protect the GRA from losses in any single year or even in multiple years. It simply means that over the forty to fifty year lifespan of the account, the worker would be entitled to a minimum compounded return of at least 2% on their contributions over that period. Regular annual contributions will dampen volatility through dollar averaging of investments in good markets and bad. In addition, all these accounts will be professionally managed with balanced, pension-style portfolios. These factors, and the one-time test at the end of the long 40-50 year marking period, mean it is very unlikely that the guarantee will have much in the way of actual cost to the government.

iii. Guarantee lifelong annuitized retirement benefits.

Third, the Retirement Savings Plan would help savers make the right choices to guarantee

lifelong income when they retire—and will end the challenge posed by rising life expectancies.

Today, retirees have to stretch their savings almost 20 years, on average. But under the current defined contribution model, retirees are on their own if savings run out. This is a real threat.

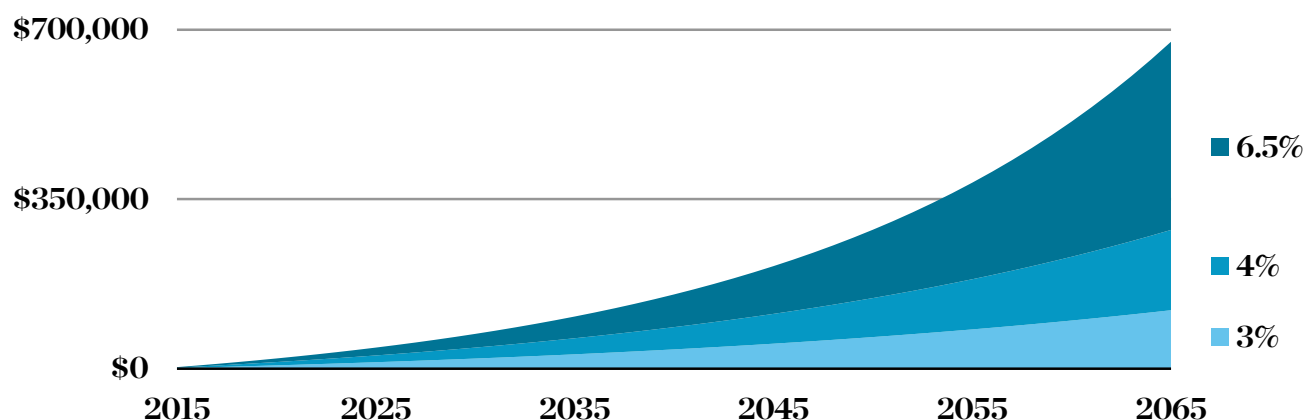
Because no one knows how long they will live, it makes sense to buy annuities at retirement. That way, people can convert their retirement savings into guaranteed yearly income that will last as long as they live. However, the current 401(k) model puts the burden on individuals to determine how best to invest and annuitize their retirement savings, which is a complex decision. Moreover, because of structural features of the annuity marketplace, most come with higher price tags that often scare off more modest savers.

The Retirement Savings Plan would address this burden by automatically annuitizing everyone's accumulated savings when they retire or become disabled. Individuals then receive a guaranteed amount based on their savings for as long as they live. Individuals could annuitize their GRA at the age of disability, at 62—Social Security's early retirement age—or at any age up until age 70 when Social Security benefits are at their maximum. Individuals can annuitize their GRA without collecting Social Security. This makes waiting to collect Social Security in order to get a higher benefit affordable. If a retiree returns to work, he or she would start a new GRA, while continuing to receive his/her old annuity payments. Upon retiring a second time, the value of the second GRA would be added to the existing annuity.

Each worker's annuity would take into account their age and family structure at the date of retirement. A single, older retiree would get larger

Figure 10:

Modest differences in rate of return can create significantly different savings over time.



Source: Based on author's calculations.

annual payments than a younger couple from the same GRA balance. This approach means every worker gets the full value of their GRA, taking into account their particular circumstances.

A pooled system makes this possible, because you don't just pool your savings—you pool your risk of running out. In this case, we're essentially insuring against outliving our retirement savings. Few of us will live to 110. But those of us who do should be able to count on a continuous standard of living for their whole lives—instead of worrying, right up to the end, that we might not have enough. This approach is especially beneficial to women who on average live longer than men and must make do with less savings.

Under the RSP, affluent retirees who receive an income of at least \$250,000 from sources other than their GRA in a given year would not be eligible to receive that year's GRA annuity payment. Instead, they would be entitled to deduct the amount forgone from their other taxable income that year. Those unused distributions could be used to fund annuity payments for retirees who worked for companies with fewer than five employees, which were not required to contribute to their plan, or to help pay retirement income to low-wage and part-time workers who can't accumulate enough retirement savings during their working lives. They could also be used to compensate the government for its 2% GRA guarantee or to fund the double credit for workers who opt to work past age 65.

Because the physical payments piggyback on the existing Social Security infrastructure, this system can be implemented without adding to the federal bureaucracy or creating a new government agency.

This may sound too good to be true, but the government infrastructure already exists for this plan. Making these annuity payments and tracking the GRA balances and inflows could easily be done through the existing Social Security system. This should be a relatively simple add-on to what is being done already. In fact, with more assets under administration, costs per person should actually decrease.

iv. A meaningful incentive to work longer and retire later.

Finally, the Retirement Savings Plan recognizes that accumulating more savings by working longer and shortening the retirement period has powerful effects on financial security for retirees. To that end, the Retirement Savings Plan provides employer and employee incentives to keep workers in the workforce longer.

Retiring later would be entirely optional, and we are in no way suggesting raising the Social Security age.

We also recognize that working longer is not a viable option for everyone. People with medical issues or those working dangerous or physically demanding jobs, for instance, may not be able to work later in life. But for many, working longer has financial, emotional, and health benefits. The Retirement Savings Plan would facilitate the option of working longer for many more people.

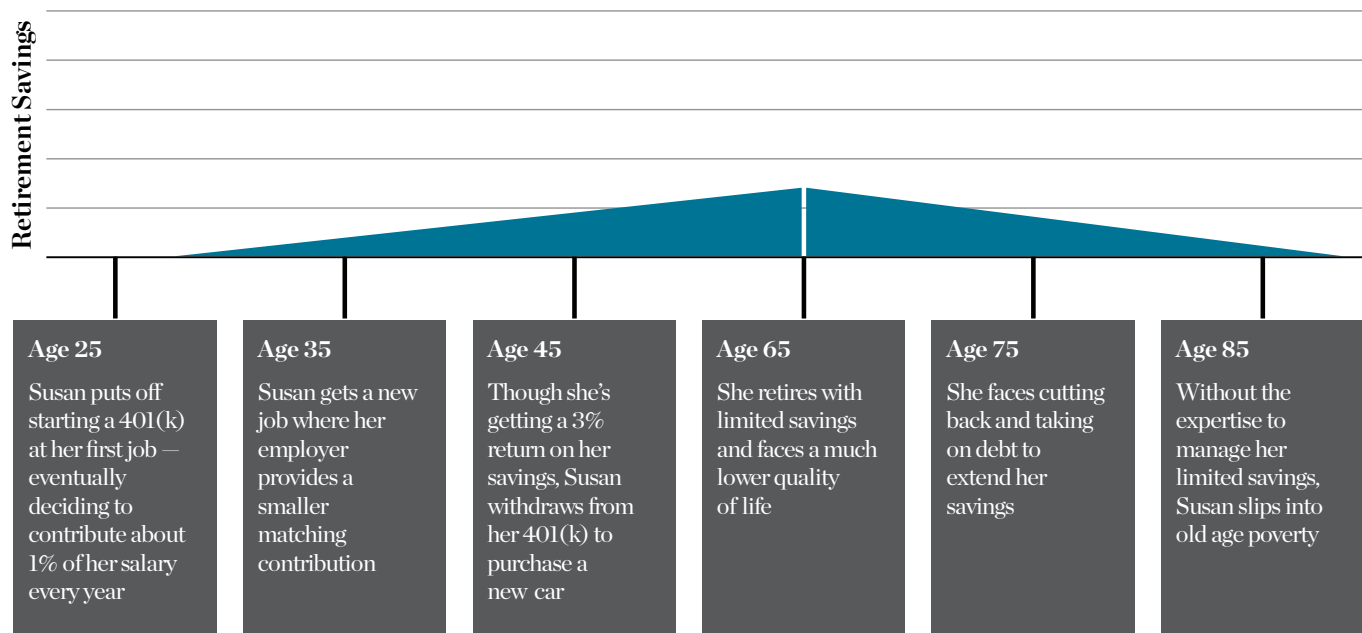
On the employee end, the Plan would provide that all GRA and Social Security contributions made in years worked past the age of 65 would enjoy a doubled credit. This incentive would stay in effect as long as a worker remains in the workforce, up to age 72. This has the benefit of providing older workers both a reason to delay collection of Social Security and GRA payments as well as a significant boost to their overall retirement savings.

On the employer end, the Plan would make Medicare the primary health coverage for workers over 65 even if they keep working. This is a simple change that comes without significant cost to the government—after all, Medicare would be paying anyway, were the worker retired.

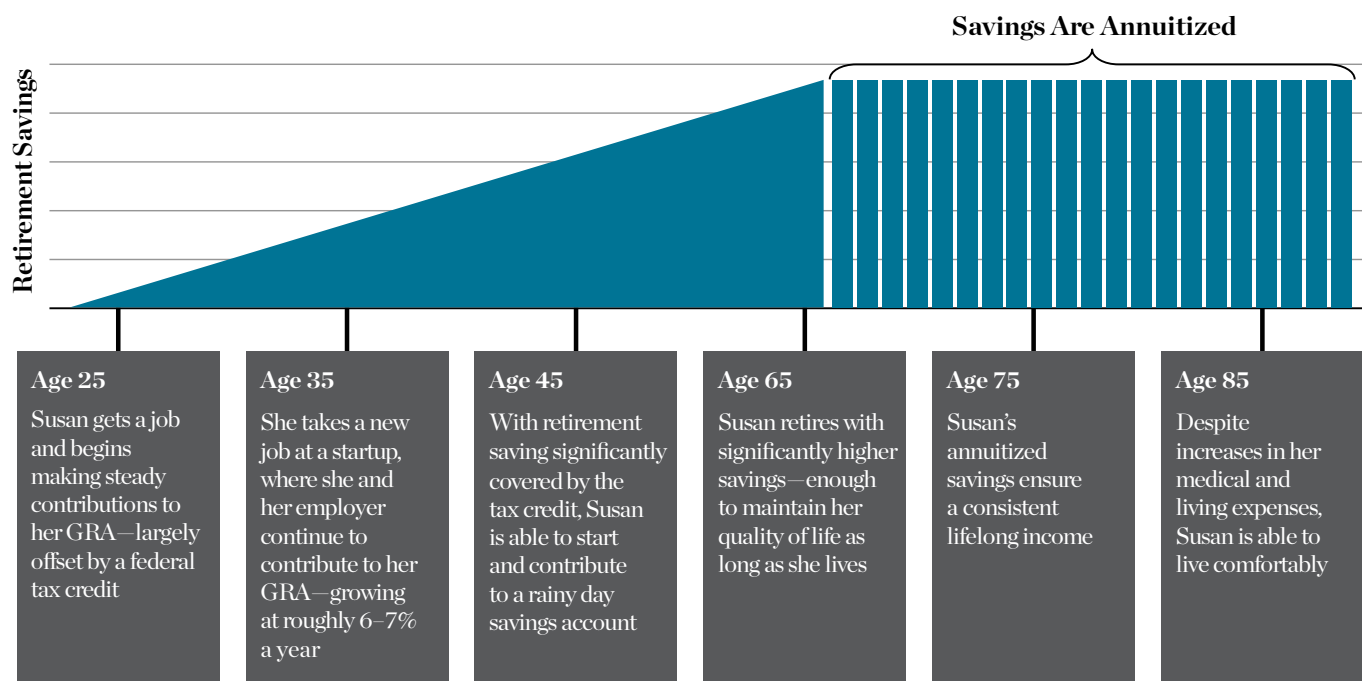
This way, employers who pay health insurance will get a large break on their insurance cost for every employee past Medicare age. Instead of paying about \$25,000 for an older worker's health insurance costs, the employer would pay \$2,000 to \$5,000 for a Medicare supplement. That is a significant incentive for them to keep older employees on the payroll longer.

Two Paths to Retirement for an American Worker

401(k) Savings Model



GRA Savings Model



Questions & Answers about the Retirement Savings Plan

Does this plan work for those approaching retirement age currently or within the next decade?

Because it relies on a lifetime of higher investment returns, this plan will be most effective for those who have several decades to save for retirement. However, everyone would benefit from saving more and earning higher returns in advance of retirement, no matter their age.

Even people in their fifties who start saving now can use those savings in retirement to delay collecting Social Security benefits. And when you delay collecting Social Security benefits between the ages of 62 and 70, you get a guaranteed increase in benefits when you do start collecting them. (The older the age you delay, the higher the reward. For example, if someone has \$20,000 and they can delay collecting Social Security from age 63 to 65 they will have lifetime increase in earnings of over 12%, and so will their dependents.)

The Plan also gives workers approaching retirement an enticing reason to stay in the workforce a little longer than they otherwise would have. The benefits they stand to gain from up to an additional seven years of work under the Retirement Savings Plan model vastly outstrip the current baseline.

Are low-wage workers treated fairly under this plan?

The Plan is significantly fairer to low-wage workers than the status quo, and would guarantee that greater retirement savings would be functionally costless for almost every household below the median income.

The Plan directly supports low-wage workers in three ways. First, the refundable tax credit offsets a worker's contribution into the GRA up to \$600 every year—significantly fairer than the current tax deduction model. Second, for low-wage earners, the Plan sets the employer contribution (normally 1.5%) at a minimum of 20 cents per hour, further augmenting their retirement savings. Third, the Plan redistributes annuity payments after retirement from high-income retirees who don't need them to lower-income workers with insufficient savings.

Will people be vulnerable if the market has a downturn?

Under the Retirement Savings Plan, the government will guarantee that each person retiring has earned at least a 2% return on their savings at retirement. This way, even if someone retires during a serious market downturn, their retirement savings will be protected. However, it is overwhelmingly likely that GRAs will earn much more than this—around 6–7%—so in practice, this guarantee should be virtually costless.

Could the 3% savings mandate be raised in the future?

Evidence suggests that a person saving 3% of their income, invested and earning a decent return over time, will have sufficient savings to continue their quality of life in retirement. However, if circumstances in the future indicate that greater baseline savings are necessary, policymakers will have the option to recalibrate the savings mandate.

Does a saver legally own their GRA?

Yes. It is important for savers to know the money in their GRA is truly theirs, and that ownership should be legally explicit. GRAs will be prevented from being garnished by a creditor as loan collateral.

Can a spouse inherit a deceased partner's GRA?

Pre-annuitization GRA accounts would be inheritable by the spouse. After annuitization, which occurs on the household level, the annuity would already reflect longevity assumptions and would not be inheritable.

Can a non-retiree withdraw from a GRA in the case of an emergency?

To function well, the GRA model must work similarly to Social Security and prevent pre-retirement withdrawals. However, the myRA provides an option for people seeking to establish a rainy day fund—and that option will continue under the Plan.

Is it fair to encourage people to work longer?

Participation in the labor force over the age of 65 would remain purely voluntary. This plan does nothing other than give older workers who might wish to work longer an incentive to do so.

What is truly unfair is giving Americans no effective means to save for retirement, then expecting them to find a way to get by for decades in retirement. That's what the current system offers. This plan is simply a recognition of a new retirement reality. At a time when people are living longer than ever, their retirement savings have to last longer, too. Delaying retirement makes this feasible by giving workers more time to accumulate savings, and more time for those savings to earn returns and grow. It also means that their ultimate Social Security benefits will be greater.

Is enacting this plan politically feasible?

Retirement worries pervade all segments of American society, including among many people with seemingly high incomes. In fact, surveys show a stunning 86% of Americans believe America faces a retirement crisis. A significant majority of Americans—including those most at risk of retirement insolvency—would benefit from the enactment of this plan. America's retirement crisis will become a huge political issue if not addressed—and, as we discuss below, the American people are calling for a retirement solution.

A 2015 survey by the National Institute on Retirement Security found that 84% of Americans want “national policymakers to give more attention to retirement issues,” and 67% say that they “would be willing to take less in salary increases in exchange for guaranteed income in retirement.”²⁶

This plan achieves that goal—and it has the benefits of simplicity, efficiency, sustainability, and a low overhead that makes use of existing governmental infrastructure. If implemented correctly, the costs should be very low and the benefits widely spread. In terms of political viability, this plan intentionally does not touch or attempt to alter Social Security, address underemployment, mitigate wealth disparity, or raise stagnant middle class incomes. However, it provides an actionable solution to one the most daunting threats to our economic future. It will relieve our welfare programs from undue strain and free up revenue for other pressing needs. And this solution will have resounding impact on more than one half of all working Americans. Not many other significant policy reform proposals can say the same thing.

Does annuitizing benefits discriminate against those more likely to die younger?

All insurance plans depend on pooling risk. Rather than having every retiree roll the dice and hope their savings will last long enough, pooling risk allows everyone to know they will be secure for as long as they live.

Who would be responsible for investing the funds? Is this plan way to get more money for Wall Street to manage?

This plan will increase competition among retirement investment managers, which will be good for retirement savings. The individual saver will choose their own manager, and there will be many to choose from—including traditional money management firms, mutual fund companies, state agencies that now manage public pension plans, a self-funded, national entity that could potentially be set up by the Federal Government, and maybe even Berkshire Hathaway—all competing for your business.

This new class of “pension managers” would work like endowment and pension plan administrators. They would focus on asset allocation, risk management, and the selection of individual investment managers and sub-advisors to handle the actual buying and selling of particular investments. These managers would have a fiduciary obligation to the GRA holders and would need to be federally licensed and regulated.

Individual GRA holders would select their pension manager based on fees and investment performance. They would be able to choose their preferred manager or change from one to another at the beginning of each year. Accounts would be fully portable and the assets would transfer based on the account balance. A national exchange of managers would be the best way to facilitate this process.

A cottage industry could even arise to advise GRA holders and rate different managers (similar to Morningstar and mutual funds).

Some states have enacted their own retirement plans. Isn't that enough?

While these efforts are admirable, there are several reasons why a true solution must be a national one. Retirement savings must be portable and consistent across state lines. The Plan is tied to federal taxation by redeploying federal tax deductions into federal tax credits, and uses the Social Security infrastructure for its administration. What's more, the economies of scale of a nationwide plan make the entire system cheaper to administer and likely to generate a significantly higher return for savers. Finally, federal action mitigates the risk of states that enact retirement plans putting themselves at a competitive disadvantage in relation to other states that do not have retirement plans.

Does the combination of mandating GRAs and ending tax breaks for 401(k)s and IRAs take retirement savings decisions out of the hands of individuals?

No. Each individual will control their own account. For too long, the American people have been left on their own when it comes to preparing for retirement. That's why almost no one is prepared for retirement today. The word "mandate" may be politically charged these days, but research and experience make it clear that it's the only thing that will work.

Is it more practical to simply expand Social Security or existing federal options like myRA?

Social Security does provide workers with a base level of security, and we don't propose changing that. That's why the Retirement Savings Plan would be an addition, not a replacement, for Social Security.

However, Social Security was designed as a safety net for those facing poverty in old age. It was never meant to be a vehicle to guarantee a middle class retirement—and it's not the best one to do so. There are four key reasons why.

First, expanding Social Security may help to take care of the very poorest members of society—but expanding Social Security doesn't help the middle class very much. Social Security is an entitlement, whereby savings are redistributed based on income. This is a worthy goal in and of itself, but not the focus of our plan.

In contrast to Social Security, the Retirement Savings Plan creates Guaranteed Retirement Accounts, where you get back what you put in, plus investment earnings. These accounts build on the money people put into their own accounts, giving back even more.

In other words, raising Social Security payments above the poverty line isn't the same as guaranteeing widespread retirement security. But implementing the Retirement Savings Plan would achieve this.

Second, unlike Social Security, GRAs depend on actual cash in each person's individually owned account. Because it is real capital that can be invested well, the higher returns fund a lot of the future needs without requiring larger contributions or adding to the deficit. Third, increasing Social Security would mean adding to FICA taxes. Under the GRA model, employees would be placing their own money in their own account. And for those earning under the median wage, their contribution would be offset by a tax credit. For employers, their contribution would be offset by the savings from no longer administering retirement plans.

Finally, on a political level, an expansion of Social Security would also be difficult to implement, since an increase in Social Security would have a detrimental impact on the deficit. Beyond that, Social Security is such a fraught issue that both sides are dug in with regard to their respective positions.

Is there a role for myRA accounts under the Retirement Security Plan?

Yes. As currently structured, the myRA program is limited to small amounts (less than \$15,000). That is not nearly enough to fund retirement.

However, the myRA program is a good option for people seeking to establish a rainy day fund. It could coexist well with the Retirement Savings Plan, where savings are protected until retirement. Coupled with the GRA, the myRA program is beneficial since people won't be able to raid their GRA in case of an emergency.

Won't the guarantee put the taxpayers on the hook if the financial markets crash like they did in 2008?

The cost to the government for a 2% guarantee is very small.²⁷ The guarantee places a floor beneath every account. The guarantee is such that over, say a 45 year lifespan of the GRA, workers at the end will have accumulated a credit toward their annuitization with an average return of no less than 2% over that period on their diversified, professionally managed retirement account. This basically insures the individual does not lose principle. This minimum credit would be utilized solely for computation of their annuity payments on the date they retire and their GRA rolls over into an annuity. No pension fund, ever, has not earned more than 2% over any 25 year period. Accordingly, we believe that it is very unlikely that the guarantee will ever cost the government much and should have de minimus actual economic value. However, if even this modest cost is not something legislators want to bear, we could have GRA holders pay a small insurance premium like depositors pay on savings accounts.

In any event, regardless of the likelihood of this minimum compounded return ever coming into play, the guarantee will not affect the portfolio risk and return because the portfolio would be managed by independent managers without regard to the guarantee. Instead, the guarantee would be part of the government's calculation of minimum annuity amounts when the account is terminated on retirement.

Case Studies: Similar Plans in Action

An Australian Case Study

Many observers have homed in on Australia's Superannuation Guarantee—a mandated retirement savings system that shares much with our proposed Guaranteed Retirement Accounts—as a solution to America's looming retirement crisis.^{28, 29} And with good reason. It has worked incredibly well.

As recently as the 1980s, Australia's retirement system was “similar to what it is in the U.S. now,” noted David Knox, an expert on the Australian retirement system, with “a little less than half the workforce [being] covered by pension plans.”³⁰

That changed as the country came to understand the threat posed by an aging population. Australia's solution, then relatively novel, was to mandate retirement savings.

As Julie Agnew notes in her brief for the Center for Retirement Research at Boston College, Australia has made use of means-tested national pension system since 1908. However, this system offers only partial coverage to Australia's workers, with only half of retirees receiving full benefits under the national pension.³¹ Many more were falling short in retirement, just as millions of American seniors are falling short today.³²

It was only in 1992 that Australia implemented its mandatory, national Superannuation savings program. Under this model, today employers automatically contribute 9.5% of a worker's salary to a long-term retirement savings account. That percentage is set to rise to 10% in 2021, and 12% in 2025. Workers are encouraged to contribute even more if they can.³³

Upon retirement, Australian savers have the option to structure their benefit either as a lump sum, a phased withdrawal, or an annuity. Agnew notes:

*Current statistics indicate that half of those who accessed their Superannuation Funds in 2012 received a lump sum distribution. Of the remaining half, almost all (98%) chose a phased withdrawal product over an annuity. This lack of annuitization makes older Australians heavily exposed to longevity, inflation, and investment risks.*³⁴

Even with this weakness, the success of the Australian model is clear. Before this system was enacted, less than half of Australian workers—and only 23% of low income workers like construction workers and clerks—had retirement pensions. Today, all Australian workers are covered by a pension. The program now has nearly

AU\$2 trillion in savings—almost as much as Australia's total gross domestic product.³⁵ User satisfaction is high and on the rise. In 2015, 59% of Australians said they were either very or fairly satisfied with the performance of their retirement savings—up from 53.3% in 2013.³⁶

According to the Melbourne Mercer Global Pension Index, Australia's retirement system now trails only Denmark and the Netherlands on key measures of effectiveness (are the benefits and savings generated sufficient?), sustainability (are the total assets and contribution rate at the rate needed to keep pace with demographics?), and integrity (is regulation efficient, oversight effective, and costs low?).³⁷ The American system lags far behind, joining countries like Mexico and South Africa in a tier designated for retirement systems with “some good features” but also with “major risks and/or shortcomings that should be addressed.”³⁸

Retirement Plans in the United States

It is important to note at this point that several states in the United States have also taken action, several toward a GRA-style model. States like Washington and Illinois have enacted plans that mandate (with an opt-out provision) retirement savings.

For its part, the Obama administration has worked hard to encourage this legislative approach—working to clear regulatory hurdles to their enactment. “We want to do everything we can to encourage more states to take this step,” President Obama said just last year. “We've got to make it easier for people to save for retirement.”³⁹

These state-based experiments are already poised for some promising success. “We know these plans work because people are 15 times more likely to save by having access to payroll deduction,” Sarah Mysiewicz Gill of the AARP noted in an interview with the *New York Times*.⁴⁰

But it's important to remember that states are being forced to act in the absence of federal legislation—and state systems do not benefit from the same economies of scale as a national model.⁴¹ These state efforts are important experiments, and their champions should be celebrated, but it must also be recognized that regulation, management, asset pooling, and risk management of these retirement accounts would all be cheaper and more effective on a national scale.

States remain the laboratory of democracy, but the scale and immediacy of the retirement crisis demand a federal solution.

The Public's Appetite for Federal Action and the Prospects for Legislative Action

As it stands currently, there is no active federal legislative proposal that would implement something like Guaranteed Retirement Accounts.

Congressman Joe Crowley, a Democrat from New York, has introduced legislation that would greatly expand federal retirement savings options.⁴² Legislation like this—with a few key adaptations like those discussed in our plan—would form a foundation for a comprehensive federal retirement solution.

The time has come for action like this. The retirement crisis is looming—and public appetite for strong federal action to tackle it is apparent.

According to a 2015 survey by the National Institute on Retirement Security, 86% of Americans “believe that the nation faces a retirement crisis,” 84% want “national policymakers to give more attention to retirement issues,” and 67% say that they “would be willing to take less in salary increases in exchange for guaranteed income in retirement.”⁴³

These results are echoed by Gallup, which finds that retirement is America’s top financial worry. In 2014, 59% said they were very or moderately worried about having enough money to retire.

Gallup also found big changes in workers’ retirement expectations. 37% expect to work past the age of 65, up from 14% in 1996.⁴⁴ Another poll found 36% believe Social Security will be a “major source of retirement income,” up 10% from 2005.⁴⁵

These are not numbers that favor the status quo—nor are they numbers that suggest Americans are unrealistic or nostalgic in their approach to retirement. The American people understand change is necessary, and they are prepared to embrace it.

But it will require federal legislation—and national leadership—to bring that change about.

Conclusion

America's retirement crisis may be daunting, but it is by no measure insurmountable. In fact, we already have access to a solution that is remarkably simple, immediately effective, and already has bipartisan support.

By enacting a national system of Guaranteed Retirement Accounts, we can guarantee most Americans comfortable retirement. We can help workers save enough to retire—delivering a higher rate of return and annuitizing benefits to protect retirees no matter how long they live. And we can do all this in a way that costs the government next to nothing and requires virtually no new bureaucracy.

All that is missing—at least for now—is political will to solve this crisis while we still can. Will we act now, while there is still time to solve this problem? Or will we wait for the next wave of chilling statistics that are surely up ahead?

If we act now, we have time to build up savings gradually and the cost will be modest. If we wait, there will be a crisis down the road and the cost will be huge.

The Retirement Savings Plan is a sweeping, practical, and effective proposal to rapidly address the retirement crisis. It offers a chance for millions of individuals to have a stronger, more stable retirement—and a chance to set this country on a sustainable retirement trajectory for generations to come.

The Retirement Savings Plan Can Have Bipartisan Appeal:

- Addresses a massive issue that cuts across all demographics
- Not an entitlement
- Not a new bureaucracy
- Won't increase the deficit
- GRAs are individual accounts with personal ownership and oversight
- They are virtually costless for most individuals
- The Plan offers additional benefits of widespread capital formation
- Supports small businesses
- Politicians on both sides of the aisle have supported broadly similar policies

Sources

1. Oakley, Diane and Kelly Keanelly. 2015. "Retirement Security 2015: Roadmap for Policy Makers: Americans' Views of the Retirement Crisis." March National Institute for Retirement Security. <http://www.nirsonline.org/index.php?option=content&task=view&id=881.html>
2. Ghilarducci, Teresa and Zachary Knauss. 2015. "More Middle Class Workers will be Poor Retirees." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series. http://www.economicpolicyresearch.org/images/docs/retirement_security_background/Downward_Mobility.pdf
3. Aon Hewitt. 2012. The 2012 Real Deal Highlights. New York. http://www.aon.com/attachments/human-capital-consulting/The_2012_Real_Deal_Highlights.pdf
4. Miller, Keith, David Madland, and Christian E. Weller. 2015. The Reality of the Retirement Crisis. Center for American Progress. <https://www.americanprogress.org/issues/economy/report/2015/01/26/105394/the-reality-of-the-retirement-crisis.html>
5. Aon Hewitt. 2012. The 2012 Real Deal Highlights. New York. http://www.aon.com/attachments/human-capital-consulting/The_2012_Real_Deal_Highlights.pdf
6. Aon Hewitt. 2013. Alternative Assets: The Next Frontier for Defined Contribution Plans. New York. http://www.aon.com/attachments/human-capital-consulting/2013_Alternative-Assets_The-Next-Frontier-for-Defined-Contribution-Plans_WP.pdf
7. Fernandes, Deirdre. 2014. "A warning on realities of work, retirement." The Boston Globe. <https://www.bostonglobe.com/business/2014/11/30/economist-sounds-warning-reality-retirement/BmRipXkLpTWMdfjIXy4ELJ/story.html>
8. Tong, Scott. 2013. "Father of Modern 401(k) says it fails many Americans." Marketplace. <http://www.marketplace.org/2013/06/13/sustainability/consumed/father-modern-401k-says-it-fails-many-americans.html>
9. Anderson, Tom. 2013. "The Surprising Origins of your 401(k)." Nasdaq. <http://www.nasdaq.com/article/the-surprising-origins-of-your-401k-cm258685.html>
10. The Center on Budget and Policy Priorities. 2015. "Policy Basics: Top Ten Facts about Social Security." Washington, D.C. http://www.cbpp.org/research/social-security/policy-basics-top-ten-facts-about-social-security#_ftn18.html
11. Munnell, Alicia, Anthony Webb, and Francesca Golub-Sass. 2012. "The National Retirement Risk Index: An Update." Center for Retirement Research at Boston College. http://crr.bc.edu/wp-content/uploads/2012/11/IB_12-20-508.pdf
12. Miller, Keith, David Madland and, Christian E. Weller. 2015. The Reality of the Retirement Crisis. Center for American Progress. <https://www.americanprogress.org/issues/economy/report/2015/01/26/105394/the-reality-of-the-retirement-crisis.html>
13. Aon Hewitt. 2012. The 2012 Real Deal Highlights. New York. http://www.aon.com/attachments/human-capital-consulting/The_2012_Real_Deal_Highlights.pdf
14. United States Government Accountability Office. 2015. "Retirement Security: Most Households Approaching Retirement Have Low Savings." Report to the Ranking Member, Subcommittee on Primary Health and Retirement Security, Committee on Health, Education, Labor, and Pensions, U.S. Senate. <http://www.gao.gov/assets/680/670153.pdf>
15. Pramuk, Jacob. 2015. "New York Fed: Household debt at highest level since 2010." CNBC. <http://www.cnbc.com/2015/11/19/new-york-fed-household-debt-at-highest-level-since-2010.html>
16. Vasilogambros, Matt. 2014. "Americans Want to Save More Money. They Just Can't." National Journal. <http://www.nationaljournal.com/next-economy/big-questions/americans-want-save-more-money-they-just-cant.html>

17. Board of Governors of the Federal Reserve System. 2015. Report on the Economic Well-Being of U.S. Households in 2014. Washington, D.C. <http://www.federalreserve.gov/econresdata/2014-report-economic-well-being-us-households-201505.pdf>
18. Summers, Nick. 2013. "In Australia, Retirement Savings Done Right." Bloomberg Businessweek. <http://www.bloomberg.com/bw/articles/2013-05-30/in-australia-retirement-saving-done-right.html>
19. Schrager, Allison. 2014. "Behind the Venture Capital Boom: Public Pensions." Bloomberg Businessweek. <http://www.bloomberg.com/bw/articles/2014-09-23/are-public-pensions-inflating-a-venture-capital-bubble.html>
20. Ghilarducci, Teresa and Zachary Knauss. 2015. "More Middle Class Workers will be Poor Retirees." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series. http://www.economicpolicyresearch.org/images/docs/retirement_security_background/Downward_Mobility.pdf
21. National Institute on Aging. 2007. Growing Older in America: The Health and Retirement Study. U.S. Department of Health & Human Services. <https://www.nia.nih.gov/health/publication/growing-older-america-health-and-retirement-study/chapter-2-work-and-retirement.html>
22. Munnell, Alicia, Anthony Webb, and Francesca Golub-Sass. 2012. "The National Retirement Risk Index: An Update." Center for Retirement Research at Boston College. http://crr.bc.edu/wp-content/uploads/2012/11/IB_12-20-508.pdf
23. Epperson, Sharon. 2014. "Annuities for retirement: Good or bad idea?" CNBC. <http://www.cnbc.com/2014/10/24/annuities-for-retirement-good-or-bad-idea.html>
24. Aon Hewitt. 2015. Customize DC Investments for Participant Success. New York. <http://www.aon.com/attachments/human-capital-consulting/custom-dc-investments-for-participant-success-wp-july2015.pdf>
25. Aon Hewitt. 2015. Customize DC Investments for Participant Success. New York. <http://www.aon.com/attachments/human-capital-consulting/custom-dc-investments-for-participant-success-wp-july2015.pdf>
26. Oakley, Diane and Kelly Keanelly. 2015. "Retirement Security 2015: Roadmap for Policy Makers: Americans' Views of the Retirement Crisis." March National Institute for Retirement Security. <http://www.nirsonline.org/index.php?option=content&task=view&id=881.html>
27. Blackwell, K. and T. Ghilarducci. 2016. "The Guarantee's Cost to the Government: SCEPA Policy Brief" Schwartz Center for Economic Policy Analysis (SCEPA). the New School for Social Research: NY, NY.
28. Eisenberg, Richard. 2013. "To Solve the U.S. Retirement Crisis, Look to Australia." Forbes. <http://www.forbes.com/sites/nextavenue/2013/08/19/to-solve-the-u-s-retirement-crisis-look-to-australia/#1bea4396445f.html>
29. Summers, Nick. 2013. "In Australia, Retirement Savings Done Right." Bloomberg Businessweek. <http://www.bloomberg.com/bw/articles/2013-05-30/in-australia-retirement-saving-done-right.html>
30. Eisenberg, Richard. 2013. "To Solve the U.S. Retirement Crisis, Look to Australia." Forbes. <http://www.forbes.com/sites/nextavenue/2013/08/19/to-solve-the-u-s-retirement-crisis-look-to-australia/#1bea4396445f.html>
31. Munnell, Alicia, Anthony Webb, and Francesca Golub-Sass. 2012. "The National Retirement Risk Index: An Update." Center for Retirement Research at Boston College. http://crr.bc.edu/wp-content/uploads/2012/11/IB_12-20-508.pdf
32. Shorten, Bill. 2011. 20 Years of Superannuation. Address to ASFA Superannuation Guarantee Dinner. <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=speeches/2011/028.htm&pageID=005&min=brs&Year=&DocType.html>
33. Power, Trish. 2016. "Liberals slow down SG increase until July 2025." SuperGuide. <http://www.superguide.com.au/boost-your-superannuation/liberals-sg-lisc.html>
34. Munnell, Alicia, Anthony Webb, and Francesca Golub-Sass. 2012. "The National Retirement Risk Index: An Update." Center for Retirement Research at Boston College. http://crr.bc.edu/wp-content/uploads/2012/11/IB_12-20-508.pdf

35. The Association of Superannuation Funds of Australia. 2015. "Superannuation Statistics." Sydney. <https://www.superannuation.asn.au/resources/superannuation-statistics.html>
36. Stewart, Tim. 2015. "Super satisfaction increasing: Roy Morgan." Investor Daily. <http://www.investordaily.com.au/superannuation/37615-super-satisfaction-increasing-roy-morgan.html>
37. Australian Centre for Financial Studies. 2015. Melbourne Mercer Global Pension Index. <http://www.globalpensionindex.com/wp-content/uploads/Melbourne-Mercer-Global-Pension-Index-2015-Report-Web.pdf>
38. Australian Centre for Financial Studies. 2015. Melbourne Mercer Global Pension Index. <http://www.globalpensionindex.com/overall-index-results-2.html>
39. Peltz, James. 2015. "Obama wants to help California create more retirement-savings accounts." Los Angeles Times. <http://www.latimes.com/business/la-fi-0713-obama-retirement-savings-20150713-story.html>
40. Siegel-Bernard, Tara. 2015. "More States Are Initiating Programs to Encourage Retirement Savings." The New York Times. http://www.nytimes.com/2015/11/17/your-money/more-states-are-initiating-programs-to-encourage-retirement-savings.html?_r=0.html
41. Miller, Mark. 2015. "Can State auto-IRA plans improve retirement security?" Retirement Revised. <http://retirementrevised.com/can-state-auto-ira-plans-improve-retirement-security.html>
42. Crowley, Joseph. 2015. "Vice Chair Crowley Unveils New, Groundbreaking Plan to Address Savings Crisis in U.S. and Help American Families Save." Keynote at Center for American Progress Action Fund Event. <http://crowley.house.gov/press-release/vice-chair-crowley-unveils-new-groundbreaking-plan-address-savings-crisis-us-and-help.html>
43. Oakley, Diane and Keanelly, Kelly. 2015. "Retirement Security 2015: Roadmap for Policy Makers: Americans' Views of the Retirement Crisis." March National Institute for Retirement Security. <http://www.nirsonline.org/index.php?option=content&task=view&id=881.html>
44. Gallup. 2015. "Americans Settling on Older Retirement Age." Washington, D.C. <http://www.gallup.com/poll/182939/americans-settling-older-retirement-age.aspx>
45. Gallup. 2015. "More U.S. Nonretirees Expect to Rely on Social Security." Washington, D.C. <http://www.gallup.com/poll/182921/nonretirees-expect-rely-social-security.aspx>



TERESA GHILARDUCCI IS A LABOR ECONOMIST AND NATIONALLY RECOGNIZED EXPERT IN RETIREMENT SECURITY. SHE IS THE BERNARD L. AND IRENE SCHWARTZ PROFESSOR OF ECONOMICS AT THE NEW SCHOOL FOR SOCIAL RESEARCH AND THE DIRECTOR OF THE SCHWARTZ CENTER FOR ECONOMIC POLICY ANALYSIS (SCEPA) AND THE NEW SCHOOL'S RETIREMENT EQUITY LAB (ReLab).



HAMILTON (TONY) E. JAMES IS PRESIDENT, CHIEF OPERATING OFFICER OF BLACKSTONE, AND A MEMBER OF THE BOARD OF DIRECTORS OF THE FIRM'S GENERAL PARTNER, BLACKSTONE GROUP MANAGEMENT L.L.C. HE IS ALSO A MEMBER OF BLACKSTONE'S MANAGEMENT AND EXECUTIVE COMMITTEES AND SITS ON EACH OF THE FIRM'S INVESTMENT COMMITTEES.

*“Our plan would
guarantee millions of
Americans safe and
secure retirements that
would benefit them,
their families and the
nation’s economy.”*

The New York Times, December 2015

THE NEW SCHOOL

**RETIREMENT
EQUITY LAB**

Teresa Ghilarducci and Hamilton “Tony” James, 2016.

“A Comprehensive Plan to Confront the Retirement Savings Crisis: A White Paper.”

Schwartz Center for Economic Research, The New School, NY, NY