Testimony to the United States Senate

Committee on Health, Education, Labor, and Pensions

Hearing On "Rise and Shine: Improving Retirement and Enhancing Savings"

Tuesday, March 29

Introduction

Thank you, Chair Murray, Ranking Member Burr, and all Committee Members for the opportunity to provide testimony in support of retirement security in America.

My name is Petros Koumantaros, and I am the Managing Director and Chief Executive Officer of Spectrum Pension Consultants, Inc. ("Spectrum"), a retirement plan administration firm and retirement plan platform provider; a Co-Founder and the Chairperson of GROUPIRA, Inc., a financial technology company focused on individual retirement accounts; and a Financial Consultant with intellicents investment solutions, Inc. ("intellicents"), an SEC Registered Investment Adviser.

I am a principal and shareholder in seven closely held financial service and retirement plan consulting, administration, and technology businesses. Collectively, these businesses work with 2,200 retirement plans, representing $9.2 billion in retirement plan assets, and support over 97,000 retirement plan participants. I have consulted with employers on the design, administration, compliance, governance, and investments of their retirement plans for over 16 years, with principal focus on small employers having 100 or fewer workers.

My testimony today focuses on:

1. the impact of the COVID-19 pandemic on defined contribution plans and the need for participants to have access to emergency savings,
2. the need for worksite financial planning and increased financial education, and
3. views on how best to expand defined contribution retirement plan coverage.

Emergency Savings

The COVID-19 Pandemic illustrated how ill equipped many Americans were to manage financial emergencies. Among Spectrum's retirement platform clients during the first year of the COVID-19 pandemic the incidence of financial hardship withdrawals increased by 280%, and the total dollar amount of financial hardship withdrawals increased by 490% when compared with 2019.[1]

Financial emergencies can impact all Americans, but they disproportionately harm those with little savings. A 2021 report from the U.S. Federal Reserve found that 36% of Americans could

[1] Authors calculations. Source data extracted from Spectrum's retirement platform management system.

not afford a $400 emergency expense.[2] The same report also found that while 55% of respondents had set aside money specifically as emergency savings or "rainy day" funds, those who experienced a layoff may have dipped into those funds or not had them in the first place.[3]

Financial emergencies can take many forms, but catastrophic events and loss of income, are among the most disruptive. When providing financial consultation services to individuals, we recommend people save between three to six months of income for financial emergencies. The U.S. Census Bureau reported 2019 median U.S. Household Income at over $68,000.[4] Accordingly, based on our financial planning recommendations, the median U.S. Household should try to save $17,000 to $34,000 for emergencies. We recognize this emergency savings target is high, particularly for the working Americans who live paycheck to paycheck, but it is important that people start somewhere. Emergency savings should be highly liquid and separate from funds intended for day-to-day needs.

While current legislation allows certain retirement plans to offer financial hardship withdrawals and participant loans, such options are not always suitable for true financial emergencies. Financial hardship withdrawals are limited in scope and bring with them a 10% excise tax penalty on participants who are below age 59½, in addition to regular income taxes on the distribution itself. Meanwhile, participant loans require repayments to commence soon after loan origination – deferring, rather than resolving, the financial emergency, and in a way incredibly challenging for those facing financial emergencies.

To ameliorate these challenges, we encourage Congress to consider Financial Emergency Savings legislation. The principles behind Financial Emergency Savings should be to:

- provide workers with ready penalty-free access to a Financial Emergency Savings Withdrawal in the event of financial emergencies,
- limit the amount of Financial Emergency Savings Withdrawals to mitigate excessive retirement plan leakage and ensure participants do not significantly and prematurely deplete their retirement savings, and
- enable participants to repay Financial Emergency Savings Withdrawals without penalty when their financial circumstances improve.

Administratively, Financial Emergency Savings could be part of participants' retirement plan accounts or separately tracked "sidecars" to participant retirement plan accounts. In all instances, since emergency financial circumstances can occur with little warning, participants should be able to self-certify financial emergencies and have ready and timely access to

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[2] United States Federal Reserve. "Report on the Economic Well-Being of U.S. Households in 2020 - May 2021, https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-dealing-with-unexpected-expenses.htm." Accessed March 21, 2022.

[3] Id.

[4] United States Census Bureau. "Income and Poverty in the United States: 2019, https://www.census.gov/library/publications/2020/demo/p60-270.html." Accessed March 23, 2022.

withdrawal transactions. To address leakage concerns, we suggest limiting Financial Emergency Withdrawals to $2,000 per year.

Although Financial Emergency Withdrawals could result in increased retirement plan leakage, Financial Emergency Withdrawals would likely mitigate the need for retirement plan participants to turn to financial hardship withdrawals or participant loans. Moreover, any leakage that might result could be offset by increased participant savings rates. A 2010 study on "The Impact of 401(k) Loans on Saving," found that retirement plan participants who have access to participant loans are more likely to participate and may contribute more to their retirement plans.[5] We infer that people are likely to set aside more towards retirement if they know that funds are accessible should financial emergencies arise. With the introduction of Financial Emergency Withdrawals, new individuals might well start to save for retirement, who would have never saved previously.

Worksite Financial Planning and Education

This Committee could dedicate a separate hearing to financial literacy, and why it remains largely absent in primary and secondary education, but that is a conversation for another day. The fact is -- children do not learn about money in school. Yet, money is something everyone uses -- every day. Those children become adults, who enter the workforce ill equipped to budget, invest, manage debt, and save.

That lack of knowledge contributes to the financial stress that plagues millions of Americans, particularly those less likely to learn about good money habits at home. According to a 2019 survey commissioned by Salary Finance, employees with financial worries are:

- 8.1 times more likely to have sleepless nights,
- 5.8 times more likely not to finish daily tasks,
- 4.3 times more likely to have troubled relationships with work colleagues, and
- 2.2 times more likely to be looking for a new job.[6]

The costs of financial stress in terms of lost worker productivity and increased staff turnover equates to 11% to 14% of total salary costs for employers -- almost $500 billion annually.[7]

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[5] National Bureau of Economic Research. "The Impact of 401(k) Loans on Saving, https://www.nber.org/sites/default/files/2020-08/orrc09-05.pdf." Accessed March 22, 2022.

[6] Salary Finance. "The Employer's Guide to Financial Wellness 2019, https://resources.salaryfinance.com/hubfs/Campaigns/USGuide19/Employers_Guide_to_Financial_Wellness_2019_Salary_Finance.pdf." Accessed March 24, 2022.

[7] Id.

tomorrow's money...

the American worker is not prepared for retirement

- **1-in-3** Americans has $0 saved for retirement
- **28%** of people over the age 55 have no retirement savings
- **50%** of workers age 60+ plan to work until age 70 or later
- **>50%** of Gen Xers have less than $10,000 saved for retirement

today's money...

Americans can't save for retirement tomorrow because they aren't financially fit today.

- **54%** of Americans are stressed out about their finances
- **37%** of employees can't meet monthly expenses
- **49%** carry a credit card balance, with **41%** of those finding it difficult to make the minimum payments
- **25%** of workers say financial stress impacts their job performance, with **43%** of those spending at least 3 hours a week at work worrying about finances

Figure 1 - Summary of retirement planning and financial wellness analytics compiled by intellicents

American workers struggle to focus on tomorrow's money if today's money is a mess. Indeed, our experience engaging with hundreds of employers and thousands of their employees confirm worksite financial planning enhances both worker financial and emotional security.

In one specific case study, a leading Midwest manufacturing company engaged our firm, intellicents, to deliver comprehensive retirement planning services to its workforce of 3,000 employees. This heavy manufacturing company adopted an education policy that emphasized employee retirement readiness through plan design, high-touch communication, and advice services to educate and empower retirement plan participants. It also mandates an annual benchmarking of retirement readiness scores at both the aggregate retirement plan level and individual participant level.

Critical success metrics were defined and monitored to evaluate the program's success. The results were significant:

- retirement plan participation rose from 75% to 98%,
- employee retirement plan contributions nearly doubled -- from 4.7% to 8.8%, and
- the number of employees on track for adequate retirement income rose from 19% to 58%.

	on track for retirement	needed income being replaced	average income gap	participation rate	average deferral rate	contributing 6% or more	contributing 10% or more
2011	19%	63%	37%	75%	4.7%	42.3%	9.8%
2015	43%	78%	22%	95%	7.7%	63.4%	12.9%
2019	58%	83%	17%	98%	8.8%	84.6%	34.5%

Figure 2 - Summary Results of Midwest Manufacturing Company Adopting Comprehensive Worksite Retirement Planning Benefits from intellicents

Congress could expand access to similar financial literacy, retirement readiness programs, and worksite financial planning through a couple of methods.

Logically, expenses related to financial literacy, retirement readiness programs, and worksite financial planning, should be payable, if the employer elects, from retirement plan assets that benefit from these measures. However, in the current regulatory environment, as these programs are not legally required, they are considered discretionary. Accordingly, expenses arising from financial literacy, retirement readiness programs, and worksite financial planning are not payable from retirement plan assets, causing employers, especially small employers, to forego them entirely, even though such services create tremendous benefits for workers.

We recommend that Congress act and clarify that expenses arising from financial literacy, retirement readiness programs, and worksite financial planning can be paid from retirement plan assets, at the option of the employer. Naturally, to the extent such expenses are paid from retirement plan assets, employers would be accountable to prudently monitor the service providers to ensure the fees are reasonable.

In support of those measures, we applaud recent proposed legislation that would allow incidental expenses related to plan design to be treated as a plan expense. While this proposed legislation does not include financial literacy, retirement readiness programs, and worksite financial planning to be paid directly from plan assets, it would at least eliminate the burden imposed on an employer under current rules in discussing with the retirement plan's financial advisor or consultant whether such programs should be implemented.

As a related concern, while some employers can afford to underwrite the costs of financial literacy, retirement readiness programs, and worksite financial planning, under current law such benefits are taxable to employees unless the benefit is de minimis. Another method of expanding access to these programs is to enact legislation making such programs tax-deductible expenses for employers and tax-free benefits to workers.

Coverage Expansion and Other Retirement Plan Enhancements

Tens of millions of Americans save for retirement through workplace retirement plans. When retirement planning is decoupled from the workplace, Americans are much less likely to save. In fact, U.S. Workers are 12 times more likely to save in a workplace retirement plan than to save on their own.[8] Workplace retirement plans offer convenience by facilitating savings through payroll deduction. This, coupled with employer matching incentives and automatic enrollment features, make workplace retirement plans the retirement savings vehicle of choice in America. Therefore, public policies to broaden retirement plan coverage should focus on expanding workplace retirement plans.

However, the current coverage gap is almost exclusively found among small business workers. According to March 2021 data from the Bureau of Labor Statistics, among employers with more than 100 employees, 87% of workers had access to retirement benefits.[9] In contrast, among employers with fewer than 100 employees, only 58% of workers had access to retirement benefits.[10] And yet, there are 32.5 million small businesses in the United States which employ 61.2 million people or 46.8% of the U.S. workforce.[11]

A Pew Survey of Small Businesses in 2017 found the greatest barriers to retirement plan adoption are first, the costs of workplace retirement plans and second, the lack of organizational resources.[12] Accordingly, two guiding principles to expand small employer retirement plan coverage should be to reduce the costs and administrative complexity of workplace retirement plans.

A. *Universal Coverage Automatic Safe Harbor*

There are 25.8 million part-time workers in America, nearly two-thirds (63%) of whom are female.[13] Under current law, employers can permissibly exclude certain part-time workers from retirement plan coverage, putting part-time workers at a disadvantage for retirement security. We applaud the efforts of this Committee to extend coverage to part-time workers through the

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[8] Employee Benefit Research Institute IRS tabulations and Vanguard. "How America Saves" (2018).
[9] U.S. Bureau of Labor Statistics. "Employee Benefits in the United States - March 2021, https://www.bls.gov/news.release/pdf/ebs2.pdf." Accessed March 21, 2022.
[10] Id.
[11] U.S. Small Business Administration, Office of Advocacy. "2021 Small Business Profile, https://cdn.advocacy.sba.gov/wp-content/uploads/2021/08/30143723/Small-Business-Economic-Profile-US.pdf." Accessed March 24, 2022.
[12] The Pew Charitable Trusts. "Employer Barriers to and Motivations for Offering Retirement Benefits, https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/06/employer-barriers-to-and-motivations-for-offering-retirement-benefits." Accessed March 24, 2022.
[13] U.S. Department of Labor. "Full-Time / Part-Time Employment, https://www.dol.gov/agencies/wb/data/latest-annual-data/full-and-part-time-employment." Accessed March 21, 2022.

long-term part-time employee rules. Such efforts have gone a long way towards coverage expansion, but more can be done.

We suggest broadening retirement plan coverage by creating a Universal Coverage Automatic Safe Harbor ("UCASH"). A UCASH would be a single employer 401(k) plan targeted to small employers, with the goal of broadening coverage and providing meaningful retirement benefits, while preserving administrative simplicity.

As its name suggests, a UCASH would require universal coverage of all workers -- including all part-time workers. A UCASH should also require immediate retirement plan participation without any waiting periods, commencing with an employee's start date. Employers would automatically enroll employees in a UCASH at 6% of their pay, but employees would retain opt-out rights. Every three years, we suggest requiring employers to automatically re-enroll employees who opt out, to help encourage future participation.

Employers sponsoring a UCASH 401(k) Plan would commit to a required fully vested employer contribution, which would ladder into effect over the first four plan years:

- 0% of eligible compensation in the first year,
- 1% of eligible compensation in the second year,
- 2% of eligible compensation in the third year, and
- 3% of eligible compensation in the fourth year.

Laddering the required employer contributions over a 4-year implementation period makes UCASH 401(k) Plans more approachable to budget sensitive small employers.

UCASH 401(k) Plans would be deemed to satisfy the average deferral percentage and top-heavy compliance tests, making UCASH 401(k) Plans easier for small employers to administer. Reasonable UCASH successor plan rules should mitigate the risk of potential abuses.

We recognize our UCASH proposal also has Senate Finance Committee implications. Accordingly, whether it is our specific UCASH proposal or others, we hope the principles of:

- broadening part time worker coverage,
- encouraging small employers to adopt retirement plans,
- minimizing small employer retirement plan startup costs, and
- reducing small employer retirement plan administrative complexity are all achieved in a largescale retirement plan package.

B. Enhance Automatic Individual Retirement Account ("IRA") Rollovers

Inactive retirement plan participants who keep their accounts in a former employer's retirement plan can drive up the administrative costs for those employers. While employers can allocate expenses to the accounts of inactive participants, doing so in small employer retirement plans can be administratively challenging. Thankfully, Automatic IRA Rollovers are alternative solutions to this issue.

Retirement plan participants who are eligible to receive a distribution of their account, and who do not respond to a distribution notice within 30 days, may have their accounts automatically rolled over to an IRA. Such Automatic IRA Rollovers are applicable only to retirement plan account balances less than $5,000 or in the case of retirement plan terminations.

Under current law, Automatic IRA Rollovers must be invested to preserve capital and provide a reasonable rate of return. However, over long time periods, investors in Automatic IRA Rollovers are harmed, because investments designed to preserve capital do not offer the upside investment return potential as do well-diversified equity and fixed income portfolios.

We suggest Automatic IRA Rollovers follow similar investment standards to a Qualified Default Investment Alternative ("QDIA") inside participant directed defined contribution plans, which are currently defined as:

- A product with a mix of investments that takes into account the individual's age or retirement date (an example of such a product could be a life-cycle or targeted-retirement-date fund),
- An investment service that allocates contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date (an example of such a service could be a professionally-managed account),
- A product with a mix of investments that takes into account the characteristics of the group of employees as a whole, rather than each individual (an example of such a product could be a balanced fund), and
- A capital preservation product for only the first 120 days of participation (an option for plan sponsors wishing to simplify administration if workers opt-out of participation before incurring an additional tax).

We note our recommendation is consistent with a 2014 U.S. GAO Report which identified issues for long-term investors in Automatic IRA Rollovers.[14] Specifically, the report identified a $1,000 Automatic IRA Rollover would be depleted over 30 years if invested conservatively, consistent with current law, but would grow to over $2,500 if invested in a target retirement date fund.[15]

[14] U.S. Government Accountability Office. "401(k) Plans: Greater Protections Needed for Forced Transfers and Inactive Accounts, https://www.gao.gov/assets/gao-15-73.pdf." Accessed March 25, 2022.
[15] Id.

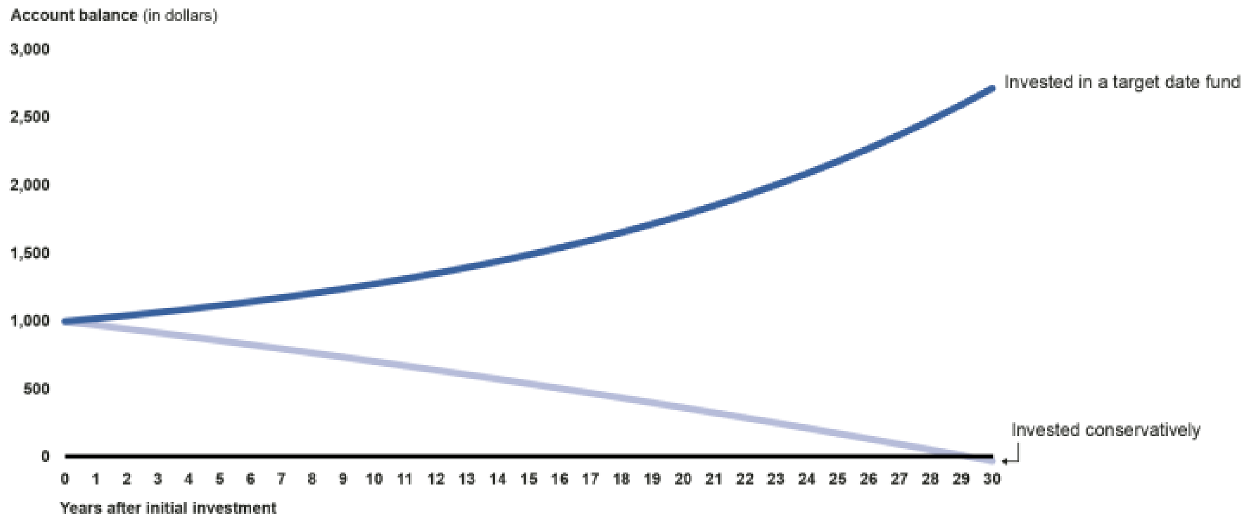

Figure 3 – A $1,00 Forced-Transfer Balance Invested in a Target Date Fund Could Grow Over 30 Years but Declines When Invested Conservatively[16]

C. Locating Missing Participants

Automatic IRA Rollovers can be effective tools for retirement plan accounts of less than $5,000 or in the case of retirement plan terminations, but they do not help employers in other circumstances.

For retirement plan participant accounts greater than $5,000, employers and their retirement plan service providers must try to contact former employees and remind them of their retirement plan distribution options. Existing rules require employers to, at a minimum, use certified mail, check related plan and employer records, check with designated plan beneficiaries, and use free electronic search tools. Additional search methods may include the use of internet search tools, commercial locator services, credit reporting agencies, information brokers, investigation databases and analogous services that may involve charges.

Employers with whom we consult remain committed to ensuring retirement plan participants are distributed the benefits to which they are entitled. However, despite an employer's best efforts, locating missing participants is not always possible, and current guidance leaves employers with few options.

We recommend providing employers with a safe harbor where they could utilize Automatic IRA Rollovers for retirement plan participant accounts greater than $5,000, after satisfying the safe harbor requirements. However, any such safe harbors should be paired with enhancements to Automatic IRA Rollover investments, as expressed previously.

[16] Id.

D. Expand Electronic Delivery and Disclosure of Retirement Plan Documents

Reducing retirement plan administrative costs are one of the best ways to encourage small employer retirement plan adoption. To this end, electronic delivery and disclosure should be a default method of communication with retirement plan participants and beneficiaries. However, and consistent with current U.S. Department of Labor regulations, we believe retirement plan participants and beneficiaries should always have access to paper documents upon request and at no additional cost.

ERISA and the Tax Code requires retirement plans to provide several documents to retirement plan participants and beneficiaries. Delivering this information electronically has significantly lower costs than sending them through the mail – with cost savings from printing, processing, and postage. One report estimated that retirement plan participants could save more than $500 million per year by converting to electronic delivery.[17] These administrative cost reductions will help encourage more small employers to establish workplace retirement plans, thereby expanding retirement plan coverage.

Electronic delivery is also better for the environment, as the process of manufacturing paper contributes to pollutions, paper waste, and deforestation.

One of the least recognized benefits of electronic delivery and disclosure is accessibility. Electronic documents can be easily translated into languages other than English, helping the millions of retirement plan participants who do not speak English or where English is not their principal language. Moreover, the text of electronic documents is easy to enlarge on computer screens or mobile devices, helping those Americans who are visually impaired, or who would otherwise struggle to read the same content in static form on sheets of paper.

Our experience confirms retirement plan participants are also more likely to engage through electronic means, as dynamic content with links can be launched from within electronic documents. Moreover, electronic delivery facilitates a feedback loop to service providers and employers, since participant engagement of electronic documents can be monitored and tracked. This feedback loop will enhance the quality and readability of documents over time, as service providers and employers learn best which communication strategies yield the greatest participant engagement. Such feedback loops are not feasible with static content delivered on paper.

E. Simplify the Safe Harbor 401(k) Basic Match Formula

Small employers often adopt Safe Harbor 401(k) Plans because of easier plan administration with fewer compliance requirements.

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[17] Peter Swire, De Brae Kennedy-Mayo, "2018 Update to Delivering ERISA Disclosure for Defined Contribution Plans: Why the Time has come to Prefer Electronic Delivery," April 2018.

A Safe Harbor 401(k) Match provides additional incentives for employees to save at work by requiring a minimum employer matching contribution. However, under current law, the 401(k) Safe Harbor Basic Match has a complicated multi-tier contribution formula, "100% employer match on the first three percent of each employee's contribution, plus 50% employer match on the next two percent of each employee's contribution."

Deloitte's 2019 Defined Contribution Benchmarking Survey Report found company contributions were the second most confusing feature of defined contribution plans, behind only "Where to invest/which funds to use."[18] This study confirms our experiences interacting with defined contribution retirement plan participants -- simplicity of contributions and investments is paramount for retirement plan participants to understand their benefits and engage productively in their retirement plans.

While small employers could offer a 401(k) Safe Harbor Enhanced Match, which features a single-tier contribution formula, few employers choose to do so, electing instead for the 401(k) Safe Harbor Basic Match.

We encourage Congress to simplify the Safe Harbor 401(k) Basic Match to a single-tier contribution formula, "100% employer match on the first 4% of each employee's contribution." This simplification will help workers to better understand and to maximize their benefits under Safe Harbor 401(k) Match Plans.

F. Startup Retirement Plan Tax Credit Expansion

Congress should expand the tax credits and incentives to encourage new retirement plan adoption. Startup retirement plan tax credits expanded under the SECURE Act have helped, but more can be done. Through our experience consulting with employers, we know the costs to adopt a 401(k) or other workplace retirement plan can be significant, often thousands of dollars. Retirement plans need to be designed, documented, and implemented. Workers need to be notified, educated, and enrolled in the new benefit plan. To assist employers, startup retirement plan tax credits should be increased to 100% of the eligible costs incurred, and eligible costs should include employer retirement plan contributions.

Conclusion

Thank you again for the opportunity to provide testimony on Improving Retirement and Enhancing Savings in America. We appreciate your continued commitment to addressing the major financial challenges that our clients and all working Americans face. We look forward to continued collaboration with the members of this Committee to preserve, protect, and expand the U.S. retirement system so everyone can plan and save towards a dignified financial future.

[18] Deloitte. "2019 Defined Contribution Benchmarking Survey, https://www2.deloitte.com/us/en/pages/human-capital/articles/annual-defined-contribution-benchmarking-survey.html." Accessed March 24, 2022.

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