Congressional Hearings a Harbinger of Pension Reform?

We witnessed several important hearings in Congress during the first week of February. The two that drew our attention revealed what could be a healthy, bipartisan push for retirement plan reform—and this bodes well for those trying to close the retirement savings gap.

The hearings, which were held in both the Senate and the House, focused on Social Security solvency and on the importance of making retirement plans easier for private employers to adopt and maintain. Specific examples of private-sector employers having success with their own workplace plans were also provided. Both hearings included testimony from independent organizations (such as the Pew Charitable Trusts and the American Enterprise Institute), and the House hearing featured a small business owner who touted the merits of the OregonSaves automatic-IRA program for his employees.

Rather than detailing the contents of the hours-long hearings, this article outlines several key retirement plan proposals that seem to surface repeatedly. It also allows readers to make their own assessments on the proposals' merits. But one thing this article does *not* try to do: predict whether any particular item will or will not become law. Ascensus has been in the retirement industry long enough to understand the foibles of retirement plan reform and simplification—and to know that that the legislative process is unpredictable.

Continued Bipartisan Support

Despite the frequent—and sometimes bitter—disagreements that seem to permeate lawmaking on Capitol Hill, there is widespread bipartisan support for pension reform. This was evident from the witness testimony and from the senators' and representatives' comments and questions during the hearings. While there remains disagreement about the depth of the retirement savings crisis and about the best remedies, both Democrats and Republicans substantially agree on many matters.

Issues Putting Retirement Funding at Risk

Here are some of the findings in the hearings. Many of these issues have been discussed for years and so may sound quite familiar.

- One-third to one-half of U.S. workers have no access to a workplace retirement plan.
- Those who *do* have access often don't participate—or save much less than they need to.
- Saving for retirement and other personal needs is difficult for a number of reasons—including low wage growth, high household debt, and the rising costs of out-of-pocket medical care.
- Increased life expectancy, especially for women, will require more Social Security resources and additional personal savings in order to avoid financial hardship in retirement.
- Defined contribution (DC) plans have largely replaced defined benefit (DB) plans over the past 40 years. Many DB plans—especially multiemployer (union) plans—are significantly underfunded, and DC plans shift much of the retirement savings burden from employers to employees.
- Small business owners (in particular) face barriers to establishing retirement plans, such as high start-up costs, lack of administrative capacity, and overall unfamiliarity with complex plan rules.

Possible Solutions

To address these concerns, a handful of retirement plan provisions consistently appear in legislative proposals. Here are some of the most common ones—ones that seem to enjoy broad support.

- **Automatic enrollment into employer-sponsored plans** – This key provision recognizes the natural tendency for employees to stick with whatever default feature is part of the plan. If a plan "defaults" eligible employees at a certain deferral percentage (5 percent is common), they tend to accept that contribution rate. Of course, employees could always opt out or choose a different deferral percentage.
- **Automatic escalation of deferrals each year** – As with the auto-enrollment feature, automatic escalation involves a default, in this case, a default deferral percentage increase each year. This increase would usually occur in increments of 1 percent every year until a participant's overall deferral percentage reached 10 percent. Again, employees could choose another deferral rate or opt out.
- **Tax credits for new plans and small employers** – Many retirement plan proposals contain provisions that could make adopting a new plan less expensive. The details differ, but for a certain number of years an employer's start-up costs (ranging from $500 - $5,000) could be credited back, and smaller businesses could get a credit for maintaining a plan.
- **Open multiple employer plans (MEPs)** – Open MEPs allow many employers to join a single qualified retirement plan (e.g., a 401(k) plan). The MEP concept isn't new, but currently employers must have some common connection—such as belonging to the same trade—before they can join other employers in adopting a single plan. This is known as a "closed MEP." Open MEPs (or pooled employer plans (PEPs)) would permit completely unrelated employers to adopt a plan with other employers. This approach could prove helpful for smaller employers, who would possibly enjoy both lower costs and lower liability.

While a wide array of provisions may find their way into legislative proposals, the ones just mentioned arise consistently. And in both the House and Senate hearings, these themes came up repeatedly. From employers to legislators to expert witnesses, most seemed to agree that some form of these provisions would boost savings rates and help Americans' retirement readiness. So we can reasonably expect at least some of these provisions to appear in any broad-based retirement plan legislation.

More Proposed Bills in the Works

As soon as the government shutdown ended and Congress was back in session, retirement plan bills were introduced. In fact, during the House hearing, two congressmen—Rep. Ron Kind (D-WI) and Mike Kelly (R-PA)—reintroduced the Retirement Enhancement and Savings Act of 2019 (RESA 2019), which seems to have broad bipartisan support. (See our *Washington Pulse* article for more details on RESA 2019.) The Family Savings Act of 2019 (Rep. Mike Kelly) and the SIMPLE Modernization Act (Sen. Susan Collins (R-Maine) and Sen. Mark Warner (D-VA)) were also reintroduced. Other bills are in the pipeline, and congressional leaders appear poised to release them soon, based on their comments in the hearings.

It is tricky business predicting whether particular bills will make it through the difficult legislative process and gain the President's signature. Many members of Congress will offer their best solutions to the widely acknowledged retirement savings gap. And they know that starting to fix a system that is so critically important to the nation's long-term financial security can be both fiscally sound and politically popular. Based on those criteria alone some retirement plan reform seems—can we say it—likely.

Ascensus will continue to encourage federal legislators to take bold action to address America's retirement savings shortfall. We will also try to nudge them toward comprehensive retirement plan simplification. Watch Ascensus.com News for any significant developments that may emerge.