# *Examples to Illustrate the Potential Impact of Commission Recommendations*

BIPARTISAN POLICY CENTER

## 1.

**Anita** is 25 years old. She works at a restaurant with 75 employees and her income will be $20,000 this year. Her employer does not offer a retirement savings plan. Anita currently has no retirement savings and about $1,000 saved in a checking account. She is single and lives in a rental with roommates.

### How might the commission's recommendations affect Anita?

> Anita gains access to a workplace retirement savings plan when her employer (the restaurant) adopts a new Retirement Security Plan.

> Anita is automatically enrolled in the restaurant's new Retirement Security Plan at a default contribution rate of 3 percent of pay. Anita could change this contribution rate or opt out of participating entirely. She decides to contribute 2 percent of her pay for the first year.

> Anita's employer also automatically enrolls workers into a separate, short-term savings account to help employees build savings for emergencies. Anita participates at the default 3-percent contribution rate.

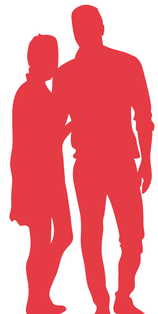
> Because Anita is younger than age 36 and earns less than $25,000, she benefits from the Starter Saver's Match. Anita's $400 in contributions to her retirement savings plan this year is matched dollar-for-dollar by a refundable tax credit that is directly deposited into Anita's retirement account.

> If Anita stays at this job for a total of four years after the retirement plan begins, receives modest raises, and increases her contribution rate by 1 percent of pay each year (to a total of 5 percent of pay by year four), the roughly $2,900 in contributions she set aside for retirement during her time at the restaurant, plus $1,900 from the Starter Savers Match, could grow to $47,000 by the time she reaches age 67.

> When Anita changes jobs, she can transfer her retirement savings to a new workplace plan or roll the funds over to an IRA via a simple online form. This easy transfer option reduces the chances that Anita will take a cash-out upon changing jobs and thus helps to preserve her retirement savings.

> Although Anita is many years from claiming Social Security, she has a better sense of what benefits to expect because the program will be fully financed for 75 years and beyond. Anita may also be eligible for higher benefits because of greater progressivity in the benefit formula.

## 2.



**Tina and Ron** are both 55 years old. Tina works in marketing for a large company and Ron works as a paralegal at a small firm. Both their employers offer retirement savings plans. Combined, Tina and Ron earn $130,000 annually and have saved a total of $300,000 in their 401(k) plans. Tina and Ron also own their home and have almost paid off the mortgage. Both want to retire at age 67 but plan to claim Social Security benefits at age 62. They worry about whether their savings will last.

### How might the commission's recommendations affect Tina and Ron?

> Tina and Ron take advantage of the retirement-income features that their employers have added to their 401(k) plans by selecting a combination of options for withdrawing their retirement savings. When the couple retires, they decide to take automatic withdrawals from their account. To ensure that they do not outlive their savings, Tina and Ron also purchase a life annuity that will begin payments when they are older and continue for life.

> Tina and Ron reconsider their plans to claim Social Security benefits at age 62 after they use the new tool added to their 401(k) plan that shows them how claiming later would increase their monthly benefits. Though they still plan to stop working at age 67, they decide to wait until age 70 to claim Social Security, thereby maximizing their monthly benefits. To cover the time between when they retire and when they claim Social Security, Ron and Tina will rely on temporarily larger withdrawals from their 401(k) plans.

> Tina and Ron will also rely on the home equity that they've amassed for part of their retirement security. They plan to remain in their current home (sometimes called "aging in place"), but they might need to retrofit parts of their home to make it accessible as they become less mobile. To fund the retrofit, Tina and Ron can take out a new, low-dollar reverse mortgage.

> Tina and Ron are protected from abrupt changes in Social Security benefits by the changes that improve the program's overall finances. They may also benefit from an enhanced Social Security survivors benefit if one significantly outlives the other.

# Selected Recommendations from the BPC Commission on Retirement Security and Personal Savings

| RECOMMENDATION | DESCRIPTION |
|---|---|
| **Create Retirement Security Plans to serve any business with fewer than 500 employees.** | A new, streamlined option for smaller businesses to offer their employees a workplace retirement savings plan. Most of the responsibilities of designing and operating the plan would be transferred from the employer to the Retirement Security Plan organizer, a third-party servicer with expertise in designing and operating retirement plans. |
| **Establish an enhanced automatic-enrollment contribution safe harbor for workplace retirement plans.** | This safe harbor would exempt employers from complex annual testing requirements if they implement automatic features, such as auto-enrollment at a default contribution rate of at least 3 percent of pay and auto-escalation up to at least 8 percent of pay, as part of their retirement plans. |
| **Clear barriers to automatic enrollment in multiple savings accounts.** | Current laws make it very difficult for employers to automatically enroll workers into both a retirement plan and a short-term savings account. Removing these barriers could help workers build emergency savings so they are less likely to raid retirement accounts before they reach retirement age. |
| **Introduce a nationwide minimum-coverage standard.** | Beginning in 2020, employers with 50 or more employees would be required to do one of the following: (1) sponsor a retirement savings plan, such as a 401(k) plan, themselves; (2) automatically enroll employees into a Retirement Security Plan; or (3) automatically enroll employees into myRA. Employees could change contribution amounts or opt out of contributing entirely. |
| **Change the present Saver's Credit into a refundable Starter Saver's Match to provide better incentives for younger savers.** | The new Starter Saver's Match would replace the existing Saver's Credit for younger individuals (through age 35) with annual earnings under $25,000 for single filers and $50,000 for joint filers. These workers would have their first $500 in annual contributions to a retirement savings account matched dollar-for-dollar by a refundable tax credit that would be directly deposited into their accounts. The existing Saver's Credit is not refundable and is not deposited directly into the taxpayer's retirement account. |
| **Simplify the process for transferring retirement savings from plan to plan.** | Transfers and rollovers are possible today, but they often require multiple complicated steps and burdensome paperwork. Simplifying these processes could greatly reduce the likelihood that people cash out their workplace retirement savings when they change jobs. |
| **Encourage plan sponsors to integrate easy-to-use, sophisticated retirement-income features. Features could include installment purchases of guaranteed lifetime-income products, automated withdrawal methods, and tools designed to help workers claim Social Security benefits later, thereby increasing monthly income.** | New safe harbors and regulatory guidance would be provided with the aim of encouraging plan sponsors to offer retirement-income features with appropriate protections for workers. Besides increasing access to sophisticated retirement-income features through workplace retirement savings plans, the benefits and risks of these features would also be explained more clearly, giving participants the ability to make informed choices. |
| **Establish a low-dollar reverse-mortgage pool for retired homeowners.** | Because smaller reverse-mortgage loans are less likely to result in default, the fees for this option would be lower compared to the standard reverse-mortgage option on the market today. |
| **Strengthen Social Security's finances and modernize the program.** | Adopt a package of reforms, roughly balanced between changes to revenues and benefits, to improve the overall financial strength of Social Security, increase benefits for lower earners, reduce old-age poverty, and avoid the need for abrupt changes to benefits. |