Testimony before the House Business & Labor Committee
By
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Thank you for allowing me to testify before you today on the need to improve retirement savings opportunities for employees of private sector businesses. AARP Oregon is strongly in support of HB 2960 and in fact it is one of our top two legislative priorities this year.

My name is Edward Brewington, and I'm an executive council member and volunteer for AARP Oregon with approximately 500,000 members in Oregon ages 50-plus. Before I joined AARP as a volunteer, I was a senior executive at IBM and senior vice president of KinderCare. I now also work part-time as an adjunct business professor at Marylhurst University in the MBA program.

I think we can all agree that there is a very real and growing retirement security problem in the United States. The result from HB2960 would be that the 642,000 Oregon workers without access to retirement savings on the job would have an easy way to save their own money for retirement. This helps our state avoid the high costs of doing nothing. A future in which many more seniors retire into poverty would lead to higher costs at the state and local level for senior services. And there is one other issue we should resolve early on: talking about increased education is not enough. This is a problem that will require action to improve.

The problem facing us

Social Security is the foundation of retirement security both here and nationwide. In Oregon alone, its benefits keep hundreds of thousands out of poverty, but for most people, Social Security's average benefit level of about $1,200 a month does not provide enough for a comfortable retirement. That is about $14,400 a year. Economic security requires both Social Security benefits and sufficient additional savings to supplement them. Oregon and our nation face a serious problem if a large proportion of our workforce remains unable to save for retirement through an employer-related payroll deduction plan.

The lack of savings – and the opportunity to save at work through payroll deduction – is where the problem lies. National data from the non-partisan Employee Benefit Research Institute (EBRI) shows that in 2013, 51 percent of workers aged 45-54 had less than $25,000 in total savings and investments. These are people between 10 and 20 years from retirement. Among workers aged 55 and above, those within 10 years of retirement, 43 percent had less than $25,000 in total savings and investments. These numbers exclude home equity and defined benefit pensions (if any). Savings of that amount will not take an individual through one year of retirement, much less the 20 plus years that most healthy 65 year olds are likely to experience.

Just to place these numbers in perspective, Retirement savings of $100,000, a sum that only 30 percent of the workers age 45-54 and only 42 percent of those age 55+ in the EBRI survey will equal or exceed buys additional monthly income of $589 ($7100 annually) for men at age 65 and $552 a month ($6,600 annually) for women at that age. That would give men with

$100,000 in retirement savings and average Social Security benefits a monthly retirement income of about $1800 ($21,500 annually) and women with the same savings and Social Security benefits a monthly income of $1750 ($21,000). Neither figure likely to produce a comfortable retirement, and the EBRI data suggests that even that is out of reach for well over half of all Americans.

Admittedly, these are rough numbers, and many people will receive higher than average Social Security benefits. However, many other people will end up receiving much less than average. We know from other research that five groups are most likely to under save: small business employees, lower income individuals, women, younger workers, and members of minority groups. However, the problems are not limited to just these five groups.

Access to workplace savings is essential

It is not that people don't want to save or cannot save. They do. The problem is often the lack of access to a convenient savings plan, and the inability to understand the many savings options that exist.

The existence of a workplace retirement savings plan is important. A recent Boston College Center for Retirement Research paper found that access to a workplace retirement savings plan or pension is second only to having a job as the most important factor in assisting moderate-to-low income individuals to build retirement security.

A wide variety of research shows that only about half of the US workforce has the ability to save for retirement or a pension at work. While there are a variety of data sources, each with its own strengths and weaknesses, another Boston College study found that the coverage statistics are comparable between data sources when the same standards are applied.

Regardless of the exact percentage point used to estimate coverage, the sad fact is that millions of Americans currently lack the ability to save for retirement at work through payroll deduction. This is especially true for small business employees. A recent US General Accountability Office (GAO) study found that only about 14 percent (one-in seven) of businesses with 100 employees or less offer their employees such a plan and that between 51 percent and 71 percent of the roughly 42 million people who work for a small business lack the ability to save for retirement.

AARP Public Policy Institute research shows that about 642,000 Oregonians between the ages of 18 and 64 – that is about 47.6 percent – are employed by a company that does not offer a pension or retirement savings plan. The Oregon number is slightly better that the 51.1 percent national figure. That translates to 57 million Americans who cannot save for retirement at work. These are not just younger employees who are new to the workforce. They include mid-career individuals who move from a large company that offered a retirement plan to a smaller company that does not. Often, these mid-career workers end up with a gap in their savings history that damages their ability to build economic security.

Those without an employer-based plan

In theory, everyone without an employer-based plan could save in an IRA, but EBRI research estimates that only about 1 out of 20 actually does so regularly. In addition, payroll deduction is viewed as very important to encouraging retirement savings by people at every income level. It is much easier for people to save regularly if their savings are deducted from their paycheck before they receive it. Otherwise, the press of immediate bills tends to crowd out savings for longer term goals.

Some people have mentioned the MyRA plan announced by the president. While MyRA is one limited option that could help some Americans get started on the road to more savings, AARP is fighting in Oregon for a broader, more comprehensive proposal that would put a secure retirement within reach for more Oregonians. Nationally, the Department of Labor has announced that only 44 employers have offered the MyRA. We don't feel this is a reasonable option.

Another factor in the extremely low savings rate among those who can only use an IRA is availability and trust. Especially in low income neighborhoods, there are often no financial institutions nearby other than a check cashing outlet. Low income individuals are often reluctant to go to financial outlets in other areas as they may feel that they are not welcome or that they will be treated poorly. Another drawback that applies to individuals of all income levels is the fear that they will be taken advantage of. Since the financial professionals will know much more about the subject than their potential customers and may use unfamiliar terms, people have a very real fear that they will be talked into something that benefits the financier rather than the saver.

In addition, behavioral research shows that when people are faced with an important decision where they are uncertain what to do, they do nothing. This inertia factor is especially present in financial decisions like retirement savings.

On the other hand, when employees are presented with a plan at work that is structured in a way that provides guidance, they take the opportunity to save. This is true at all income levels. The Boston College study on why lower income people are less likely to save showed comparable take up rates between income levels. 86 percent of those with incomes under 300 percent of the poverty line participated in a retirement savings system or pension if they were offered one and eligible compared to 95 percent of those with higher incomes.

The Oregon Retirement Savings Plan created by this legislation would resolve many of these issues. The plan would be:

- **Voluntary –** Employees would be automatically enrolled with the right to opt out.
- **Easy to manage** - Contributing will be easy for employees and business owners. Defined contributions would be made through payroll deductions and <u>no</u> required contribution from employers
- **Portable –** Accounts will travel with employees from job to job
- **Pooled and Professionally Managed –** Funds should maximize returns for participants and minimize management fees.

Why do we favor Automatic Enrollment?

Under automatic enrollment, an employee continues to have total control over their retirement savings decisions, but unless the employees decides otherwise, he or she is enrolled and saves a set percentage of income in a specific investment choice. Automatic enrollment uses behavioral economics to make inertia work for the employee.

These features work. The five groups mentioned earlier that are most likely to under save (women, younger employees, small business employees, lower income employees, and minority groups) all see their participation rates climb from very low levels to close to 90%.

And employees like automatic enrollment. In a 2007 survey of automatically enrolled workers 95% said that it made saving easy. 85% started to save earlier than they would have without it. Almost all the employees who were automatically enrolled and remained in the plan said that they were satisfied with the process (97%) and were glad their company offered automatic enrollment (98%).

Conclusion

Again, thank you for allowing me to testify today. I would like to close by summarizing our key reasons for supporting this important legislation:

- These easy, portable retirement savings accounts would give 642,000 hard-working Oregonians a more secure, independent retirement.
- These accounts will make it easy for Oregon's workers to save through a simple payroll deduction into a privately-managed individual retirement account.
- Research shows individuals are **15 times** more likely to save for retirement if they can do so through their job.
- Giving workers a simple way to save for retirement will mean fewer Oregonians will rely on government safety net services, which in turn saves taxpayer dollars.
- The ability to offer a plug-and-play retirement account is a significant benefit that will help small businesses attract and retain talent, giving them a competitive boost.

Improving the ability to save for retirement through the increased availability of payroll deduction savings would address a real need both here in Oregon and nationwide. Currently there are about 30 states across the country working on this issue. Illinois has already passed legislation to create a plan. Let's make sure Oregon once again shows leadership in doing what is right. Now is the time for action. We strongly recommend a yes vote for HB2960.

"Fast Facts and Figures about Social Security 2013," U.S. Social Security Administration Office of Retirement and Disability Policy. This is the number for new retirement awards. The average amount is slightly lower. http://www.ssa.gov/policy/docs/chartbooks/fast_facts/2013/fast_facts13.html#page5

"2013 Retirement Confidence Survey Fact Sheet #4," Employee Benefit Research Institute (EBRI). http://www.ebri.org/pdf/surveys/rcs/2013/Final-FS.RCS-13.FS_4.Age.FINAL.pdf

"2014 RCS FACT SHEET #6," EBRI. http://ebri.org/pdf/surveys/rcs/2014/RCS14.FS-6.Prep-Ret.Final.pdf