



Oregon Testimony

March 6, 2015

Thank you for allowing me to submit testimony to the Senate Committee on Business and Transportation. My name is Sarah Mysiewicz, and I am a Senior Legislative Representative in AARP's Washington D.C. state government affairs department.

Our nation and its working families face an unprecedented crisis: a vast retirement savings deficit, estimated to be as much as \$6.6 trillion, or about \$57,000 per household.¹ According to the National Institute on Retirement Security, an overwhelming majority of Americans are anxious about their retirement prospects, with some 74 percent being concerned that current economic conditions are impacting their ability to achieve a secure retirement.²

To give you an idea of how dire the situation is:

- Only 14% - one in seven - small businesses with fewer than 100 employees offer their employees a retirement savings account or pension plan.³
- The median retirement account balance is \$3,000 for all working-age households and \$12,000 for near-retirement households.⁴
- For nearly 20 percent of Oregonian seniors, Social Security makes up most of their household income.

It is clear that workers are not prepared for retirement, and we will see this crisis grow unless we act now.

¹ Retirement USA. *The Retirement Income Deficit*. (2011).

² National Institute on Retirement Security. *Retirement Security: A Roadmap for Policy Makers*. (2015).

³ Government Accountability Office Testimony Before the Committee on Health, Education, Labor, and Pensions, U.S. Senate Challenges and Prospects for Employees of Small Businesses

⁴ National Institute on Retirement Security. *The Retirement Savings Crisis: Is it Worse than We Think?* (June 2013).

This issue resonates with the public. Fears about retirement are the number one economic security concern⁵, ahead of the cost of health care and fear of job loss. This anxiety is not unfounded. The situation across the country is not improving. For example, access to a way to save for retirement at work has declined in Oregon over the last decade, from 47.73% with access in 2000 to 44.83% in 2012.⁶

Social Security alone will not provide enough to pay the bills during retirement. The average monthly Social Security benefit in Oregon is only about \$1,256 and yet, as things stand today, Social Security will likely be the main source of retirement income for most future middle-class retirees.

Social Security was never supposed to be the sole source of income for retirees. Recent research agrees that our nation's current plan for retirement security is inadequate. Boston College's National Retirement Risk Index estimates that 53 percent of households are at risk of having an insecure retirement, meaning that they run the risk of being unable to afford food, medicine, or utilities.⁷

Let me say that another way. As it stands one out of two retirees will have trouble meeting their basic needs in retirement.

What is most alarming—employees with *anything* saved in the bank for retirement are actually ahead of the game.

Three out of five families headed by a person 65 or older have no money in retirement savings accounts.⁸ Lest you think this isn't a problem locally, in Oregon 642 thousand workers do not even have access to a retirement plan.⁹

Statistics show that women face special challenges in planning for financial security as they age. As you know, Social Security benefits are based on work history. Women tend to receive lower benefits because they work fewer years than men, and at lower salaries. In the aggregate,

⁵ State of Maryland Report, *Taskforce to Ensure Retirement Security for All Marylanders*, (February 2015).

⁶ National Institute of Retirement Security, *Financial Security Scorecard: A State-by-State Analysis of Economic Pressures Facing Future Retirees*, (2014). Data is from 2012.

⁷ Boston College Center for Retirement Research. *The National Retirement Risk Index: An update (2012)*.

⁸ AARP's Public Policy Institute. *The New Reality: Important Facts about America's Seniors (2011)*.

⁹ AARP Public Policy Institute tabulation of the U.S. Census Bureau's Current Population Survey, March Supplement (2011 - 2013).

women's annual Social Security benefits were 78 percent of men's in 2012.¹⁰ Women face quite a headwind; they earn less, live longer and typically spend more on medical expenditures.¹¹

Planning for retirement is an even greater burden for economically disadvantaged groups, people of color, and part time employees as they have the lowest access rates to employer-sponsored retirement plans. Only 54 percent of African American employees and 38 percent of Latino employees age 25-64 work for an employer that sponsors a retirement plan, compared to 62 percent of Caucasian employees.¹²

If nothing is done now the Oregon state budget will be saddled with a growing burden in the future as older adults are forced to rely more and more on public safety net programs.

A January 2015 study in Utah analyzed the cost of financial insecurity in retirement to state taxpayers.¹³ The report found by increasing the net worth of the poorest third of Utahns' by a modest 10%, the state would save almost \$200 million over the next 15 years. Additionally, the study found many Utahns' primary source of savings is their home. As such, improving liquid assets are critical for providing security in retirement. Housing issues are not unique to Utah—one out of every three older households in Oregon spends more than 30 percent of their income annually on housing¹⁴.

The most troubling statistic to come out of the report: nearly a fifth of retirees enter retirement with negative liquid assets; in other words, 20 percent of people are retiring in debt.

If Oregon doesn't act now, taxpayers will face higher costs for decades to come. There are simple steps that can be taken. We know that when offered the opportunity to save at work for retirement, seven out of ten people take it.¹⁵ People are 15 times more like to save if they can do

¹⁰ AARP's Public Policy Institute, *Women Face Tough Challenges in Retirement... But Can Overcome Them!* (2013)

¹¹ AARP's Public Policy Institute, *An Uphill Climb: Women Face Greater Obstacles to Retirement Security* (April 2013) At age 65, women have an average life expectancy of 21 years, compared to 19 for men. In 2012, women's salaries averaged 76 cents on the dollar, compared to men's salaries. In 2010, the typical women's retirement income was 59 percent that of a typical man's. In 2007, older women's typical out-of-pocket spending was \$3,319 compared to \$2948 for men.

¹² National Institute on Retirement Security, *Race and Retirement Insecurity in the United States* (December 2013).

¹³ Notalys, LLC, *The Cost of Retiring Poor: The Cost to Taxpayers of Utahns Retiring Poor* (January 2015).

¹⁴ National Institute of Retirement Security, *Financial Security Scorecard: A State-by-State Analysis of Economic Pressures Facing Future Retirees*, (2014). Data is from 2012

¹⁵ Pension Rights Center. *How Much is Saved in 401(k)s*.

so via payroll deduction at work. That's the key. The best way to improve retirement security is to ensure that everyone who works has access to a retirement plan that enables workers to save automatically out of every paycheck and whose funds are invested professionally at a low cost.

You will likely hear from opponents that there is already a federal solution to this problem: myRA. While myRA is an additional tool in our retirement security toolbox, it is not a panacea. Nationwide, only about 40 companies offer myRA to date and its use is not automatic. It is not available broadly to employees in the workplace. Furthermore, it has a few serious limitations. Investments are limited only to bonds, preventing savers from taking full advantage of the market. Furthermore, individuals can only set aside \$15,000 in their accounts before hitting a savings cap.

You will also hear that all we need is better financial education. Recall that over the last decade access to retirement plans has declined, 401(k) balances have stagnated, and healthcare costs have risen. Although education is necessary, it is certainly not sufficient to solve this problem.

AARP is taking a state-centered approach to filing the retirement savings gap. We have worked with well over a dozen state legislatures and other state elected officials in consideration of a wide array of approaches to this crisis, involving: Auto IRA, Secure Choice, and other savings models.

In January, the Governor of Illinois signed auto IRA legislation that will help 2.5 million residents save for a financially secure retirement. Secure Choice, as it is known, had a broad array of supporters, including: TIAA- CREF, Cabrera Capital, Ariel Investments, American Society of Pension Professionals and Actuaries, Illinois Black Chamber of Commerce, and National Association of Women Business Owners. In fact, Cabrera's founder said the following about Illinois' legislation: "Secure Choice opens up access to a secure and affordable employment-based retirement savings opportunity from which minority communities have been historically excluded. It will also help to create a culture of saving and financial literacy that will benefit financial services firms."

Kentucky, New Jersey, and Maryland are considering legislation similar to what is before you today. Washington State passed legislation out of House and Senate substantive committees with

the support of SIFMA and ACLI.¹⁶ Numerous other states have taken action as well. Virginia unanimously passed a study of this issue, as did Utah in its first chamber.¹⁷

AARP expects 30 states to address the issue of private sector retirement security this year. Many of these states have taken their cue from Oregon on this issue. Your state took the lead by passing House Bill 3436 in 2013; I ask you today to reaffirm your commitment to financial security by passing Senate Bill 615 today.

¹⁶ Testimony provided by SIFMA/ACLI representative in Washington State hearing on February 11 on SB 5826

¹⁷ The bill awaits consideration in the second chamber