2018 POLICY INNOVATION FORUM REPORT

Driving Change to Improve Retirement Outcomes

WASHINGTON, D.C. | JUNE 19, 2018

GEORGETOWN UNIVERSITY
McCourt School of Public Policy
Center for Retirement Initiatives

CRI.GEORGETOWN.EDU

ABOUT THE POLICY INNOVATION FORUM

On June 19, 2018, the Georgetown University Center for Retirement Initiatives (CRI) convened an invitation-only one-day policy forum with approximately 100 senior industry leaders, policymakers, and stakeholders to examine some of the key challenges designing a retirement system focused on improving long-term outcomes to strengthen retirement security for millions of Americans. This first annual forum, hosted at the Georgetown University Law Center in Washington, D.C., explored innovative ideas and proposals for addressing challenges, such as closing the access gap, improving the design and performance of investments, and identifying ways to build and deliver more-effective and attractive lifetime income options.

ACKNOWLEDGMENTS

The Georgetown University Center for Retirement Initiatives would like to thank the forum participants for their contributions to a lively and thought-provoking discussion about the challenges we face today and the need to focus on improving outcomes and designing solutions that will achieve those outcomes.

This report summarizes the key takeaways and ideas discussed during the forum. Any errors in the presentation of the findings, interpretations, and conclusions in this report are those of the Center and not of any participating individual or organization. The report is intended to be a summary of the forum discussion and should not be interpreted or represented as a formal position or recommendation of the Center.

Angela Antonelli, Executive Director of the CRI, prepared this report based on the forum discussions, presentations, and related research. She would like to thank CRI staff members Laura Kim for her research assistance and Ivy Deng for her graphic design contributions.

GEORGETOWN UNIVERSITY
McCourt School *of* Public Policy
Center for Retirement Initiatives

Executive Summary

On June 19, 2018, the Georgetown University Center for Retirement Initiatives (CRI) convened an invitation-only one-day policy forum with approximately 100 senior industry leaders, policymakers, and stakeholders to examine some of the key challenges designing a retirement system focused on improving long-term outcomes to strengthen retirement security for millions of Americans.

This first annual forum, hosted at the Georgetown University Law Center in Washington, D.C., explored innovative ideas and proposals for addressing some of the challenges associated with expanding access and participation in retirement plans to increase savings, improving the design and performance of investments, and identifying ways to build and deliver more-effective and attractive lifetime income options.

The Retirement Security Challenge

"A paradigm shift must occur, moving away from a myopic focus on wealth accumulation to the more-important long-term goal of generating and protecting sufficient lifetime income."

In the United States, workers are being asked to take responsibility for their financial well-being in retirement now more than ever. What used to be considered the foundation for building a secure retirement — Social Security, employer-provided pensions, and personal savings — has been weakening for decades as traditional defined benefit (DB) pension plans have been replaced by a defined contribution (DC) system of savings that was originally meant to supplement, not replace, traditional pensions. Most employers today offer defined contribution plans to their workers as their primary, and often sole, retirement program.

Making this shift worse is the reality that more than half of all private sector workers — approximately 55 million Americans — do not even have access to any retirement savings programs through their employers to help them save.

The deterioration of retirement security is one of the greatest economic and financial challenges facing our nation today. Between now and 2030, 10,000 baby boomers will retire every day. The population age 65 and over in 2030 is projected to be more than 74 million, representing more than 20 percent of the total population. Approximately 60 percent of working age individuals do not own any retirement account assets, either from an employer-sponsored 401(k)-type plan or an IRA, nor do they have defined benefit pensions.[1] One estimate of the median account balance for those with retirement savings accounts is approximately $40,000.[2]

With today's DC plans, the responsibility for making the complex savings and investment decisions that will significantly affect the amount of money available for retirement has shifted to workers. Because most workers often do not have the access, information, or knowledge to make these decisions, it is important for DC industry leaders and policymakers to consider the ways in which DC plan structures can improve and evolve to increase participants' chances for success.

If retirement plans shift from simply managing account balances to helping individuals think about not only *when* they plan to retire but also *how much* they expect to need in retirement, it will help direct smarter savings and investment decisions. A paradigm shift must occur, moving away from a myopic focus on wealth accumulation to the more-important long-term goal of generating and protecting sufficient lifetime income.

Demographic Trends Shaping the Retirement Landscape

Significant demographic changes, including an increasingly older and more diverse population, will require leaders to rethink policy and investment strategies that will facilitate innovation, improve productivity, strengthen the economy, and improve overall financial well-being.

As the population ages, the millennial cohort represents the key to achieving future economic potential, but they currently face daunting financial hurdles that include lower labor force participation rates, lower earnings, less access to standard employment benefits, and a much higher rate of debt.

A key focus for the future must involve helping millennials achieve their full potential with innovative public and private sector solutions to address retirement, healthcare, and other needs that also keep pace with innovations that enable more flexible work structures.

Other trends driven by demographic shifts, including a move away from homeownership, the rise of the "gig economy," and urbanization, amplify the need for policymakers and industry leaders to come up with new and innovative solutions.

Technology Provides Promise for Planning and Saving

Technology has played a role in disrupting the retirement landscape by changing the nature of work, but now it also can be deployed in a variety of ways to encourage people to better prepare for retirement. Innovations in automation and data are re-shaping how many Americans save for retirement. Auto-enrollment, automatic deductions, and target date funds now represent common components of 401(k) retirement savings plans.

Technology today helps to streamline efficiency, delivering more attractive, cost-effective solutions. While innovative technology alone will not solve the problem, it can play a vital role in the effort to boost savings, improve returns, and create post-retirement income plans that will ensure retirees are prepared for life after work.

Technology can play an important role in helping retirees, or those planning for retirement, use simple techniques to build financial confidence. Whether it is an app that nudges a person to save; algorithms that can better customize an individual's retirement savings strategy; or videos that explain retirement savings concepts in short, digestible formats, technology is part of the solution. In addition, the ability to leverage machine learning and artificial intelligence can help plan sponsors automate and individualize retirement planning and facilitate decision-making to improve long-term outcomes.

Consumer privacy concerns must be considered carefully to maximize the benefit of technology and data, and to improve engagement rates. These concerns transcend the retirement savings community and must be addressed for solutions to be successful.

State-Facilitated Programs Expand Access and Create Opportunities for Collaboration

Individual states have begun enacting savings programs for private sector workers who do not have access to employer-sponsored savings plans. To date, 10 states and one city have adopted new programs reflecting a range of different approaches, including individual retirement accounts (IRAs), multiple employer plans (MEPs), and marketplaces. Small businesses and the self-employed will benefit from these programs because they are much less likely today to offer or have access to a retirement savings plan.

Although states can certainly establish their own programs, they also should explore whether collaboration across state lines can serve their citizens better. Both the Section 529 college savings accounts and Achieving a Better Life Experience (ABLE) programs provide models for how states could develop multi-state retirement savings programs. Collaboration through multi-state alliances provides the opportunity to achieve larger-scale solutions that can be more cost-effective by sharing administrative costs and reaching more workers.

Defined Contribution Plans Can Learn from Defined Benefit Plans

A DC plan operates essentially as a DB plan for one person, with all of the risks, costs, and responsibilities for investment performance and the decumulation of assets left to the individual saver to manage. To solve this problem, DC plans can seek to emulate the best aspects of DB plans. One of the most-successful features of DB plans that DC plans have begun to adopt is taking advantage of tools such as auto-enrollment and auto-escalation features that help workers begin to save meaningful amounts in DC plans.

Another way DC plans can learn from DB plans is by paying attention to simplicity in investment selections. With DB plans, the savings are pooled and invested together, aggregating risk and expense. By limiting choices and offering a default investment option, such as one set of target date funds, a DC plan provider can keep costs lower than one that tries to manage many different types of funds.

Another important consideration is whether the investment return of DC plans can be improved to deliver more income for the same contributions. If one dollar invested in a DB plan generates significantly more income than a dollar invested in a DC plan, that would suggest a need to explore whether greater asset diversification, including private equity, real estate, or hedge funds, can boost retirement income for the same level of contributions.

Finally, DC plans would do well to take a page from DB plans by communicating about retirement income, not just abstract savings information. Turning the conversation to planning for income during retirement requires individuals to look beyond the accumulation phase and will help them to better understand the concepts that drive their savings and income requirements in retirement.

Retirement Income Must Last a Lifetime

All this innovation has one clear goal: to ensure that retirees will be able to replace an adequate amount of their pre-retirement income in retirement. During the accumulation phase of retirement planning, default options such as auto-enrollment and auto-escalation are now providing a way to improve savings to help meet lifetime income needs. However, more can and should be done to educate individuals about how a pot of savings would translate into monthly income and whether this income does indeed meet their needs in retirement.

The transition from an accumulation mindset to drawing an income to be used in retirement presents its own set of challenges. Individuals have to be aware of the options available to them and understand that decisions regarding how they choose to allocate their retirement income — along with external factors such as interest rates and inflation — can affect a monthly income in retirement.

Annuities can provide an appealing option for some retirees. The prospect for greater adoption of annuities in the future will depend on the ability to design these in a way that recognizes behavioral realities and offers investors flexibility to meet their unique circumstances. Much more must be done, however, to provide information and education, to improve the transparency of the different types of products available today, and to demonstrate the value of generating a stream of income in retirement.

While the interest in lifetime income solutions grows, much more can and should be done in the design of DC retirement plans. DC plan sponsors remain concerned about the litigation risks associated with including some type of annuity or guaranteed income option in their plans. Nevertheless, as more plan participants ask about information and options to help them manage their portfolios, an increasing number of large plan sponsors are beginning to explore income options. Employers and plan sponsors should be able to adopt lifetime income solutions and decumulation strategies that work well for employees without the risk of being sued. Policymakers can help address such concerns.

Conclusion

If strengthening retirement security is the goal, then success can only be measured based on improving long-term outcomes. Unfortunately, as DC savings plans have been taken the place of traditional DB pension plans, the shift has been away from outcomes to inputs. Returning to a true focus on outcomes requires moving away from a myopic focus on savings to evaluating whether retirees will have sufficient income to meet their needs once they stop working.

This approach to retirement security considers an individual’s retirement life cycle. This includes the key phases of access, participation, accumulation, and decumulation. Better and more-effective deployment of technology, data, and education can contribute to the development of new ways to improve each phase of the life cycle.

Industry leaders, policymakers, and other stakeholders working together can and must rise to meet the challenges and shortcomings of today’s retirement system and implement innovative new solutions that measurably enhance long-term outcomes focused on improving the financial stability and quality of life for retirees.

Demographic Trends Will Shape the Retirement Landscape

Key Takeaways:[3]

- Significant demographic trends, including an increasingly older and more diverse population, will require us to rethink policy and investment strategies that will facilitate innovation, improve productivity, strengthen the economy, and improve overall financial well-being.
- Because of this shift, the millennial cohort is key to achieving our future economic potential, but they currently face daunting financial hurdles that include lower labor force participation rates, lower earnings, less access to standard employment benefits, and a much higher rate of debt.
- A key focus for the future needs to be helping millennials and future generations achieve their full potential with innovative public and private sector solutions to address retirement, healthcare and other needs that also keep pace with innovations that enable more flexible work structures.

An Aging and Increasingly Diverse Population

A remarkable and significant change is happening in our demographics, both in the U.S. and globally. Lifespans are increasing, so much so that the proportion of the U.S. population that is over 65 was around 10 percent of the population in the 1970s and will be 20 percent of the population by 2030.[4]

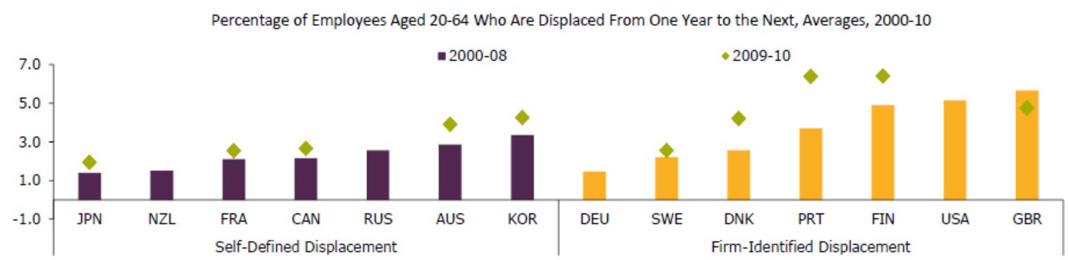
> "Lifespans are increasing, so much so that the proportion of the U.S. population that is over 65 was around 10 percent of the population in the 1970s and will be 20 percent of the population by 2030."

Healthcare advances are the primary driver behind longer life expectancies, and when taken in combination with the baby boomer population that is beginning to retire in significant numbers, we are now beginning and will continue to see a decline in the working age population.

Improved Productivity is Needed to Offset Demographic Drag on Economic Growth — As more Americans retire from the workforce, it becomes harder to expand the economy if we have to apply current work patterns to future growth. Economic growth can be described as the growth in the working age population times productivity. When the working age population shrinks, as it will when large numbers of workers retire, businesses will have to invest more and improve their productivity to grow the economy and offset the economic drag of an aging population. One of the best ways to improve productivity is through technological innovation.

However, the downside is that this displaces existing workers as more tasks become automated and businesses become more efficient. In fact, as shown in **Figure 1**, the United States trails only the United Kingdom in worker displacement rates. In this country, we spend relatively less than the rest of the world on comprehensive workforce retraining and similar programs to mitigate the impact of increased technology and automation on displaced workers. Without careful planning and support, this can lead to more working-age Americans leaving the workforce. Policymakers must consider such shifts and whether investing more in such initiatives will help keep more of the aging population in the labor force, which is good for the economy.

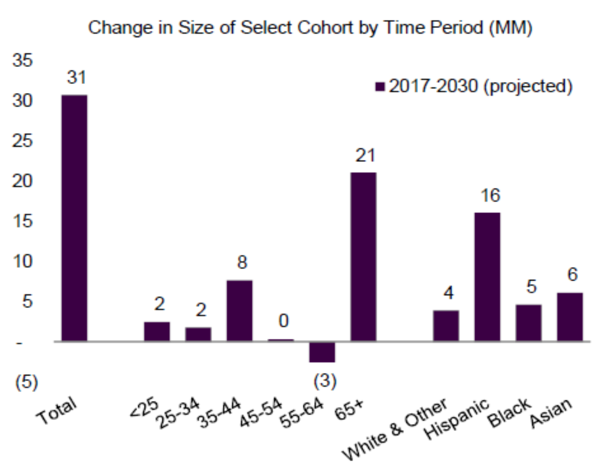
Figure 1
Worker Displacement is High in the U.S. and U.K.



Source: Paula Campbell Roberts (September 2018).

The U.S. Population is Becoming More Diverse, Signaling Shifts in Consumption Patterns — The population of the U.S. will continue to increase over the next 15 years as births exceed the number of deaths, with a predicted net increase of 31 million. More than half of the growth will be attributable to the Hispanic population, but there will also be more rapid growth among Asian and African American populations (see **Figure 2**).

Figure 2
65+, Hispanic, and Millennial Populations Will Grow Disproportionately



Source: Paula Campbell Roberts (September 2018).

Much of the broader changes in consumer spending can be explained by population shifts and the spending habits of those segments. Hispanics spend more than others on food at home, while millennials allocate more to dining out. Both groups spend disproportionately on rent, while elders spend vastly more on healthcare. Understanding these shifts and their impacts on spending habits has huge implications for investors and policymakers.

Millennials are the Key to the Future but Currently Under Significant Financial Duress

The millennial population is underemployed, over-indebted, and not saving much. Millennials are key to the future growth of the economy, but these serious challenges could undermine their financial well-being, including how prepared they will be for retirement.

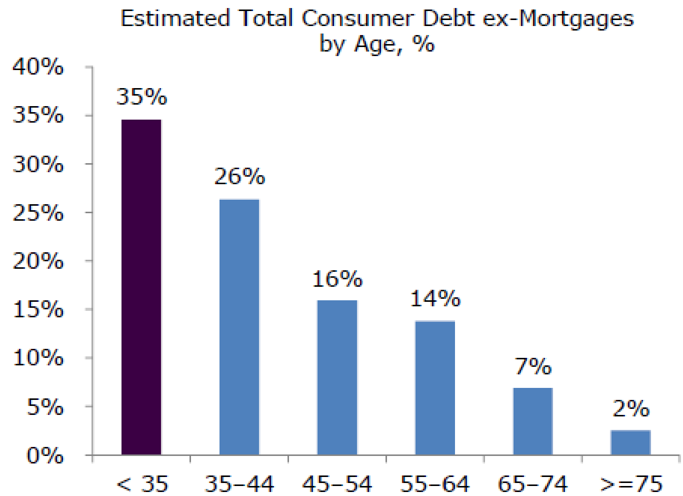
- *Lower earning households compared to a decade ago.* The stark reality is that households under 35 years old earn less today on average in inflation-adjusted dollars than they did a decade ago. The average millennial household earns roughly $40,000 a year; a decade ago, that number was $43,000 to $45,000 a year.[5] They also tend to fall into the category of lower-earning households, which are disproportionally affected by rising healthcare and energy costs. The prevalence of homeownership is also lower among this group than it was a decade ago, with many millennials saying this is out of their reach.

- *Lower labor force participation and "gig" work.* Millennials participate in the labor force at lower rates, although it is possible that more millennials might be employed in the "gig economy" and therefore not captured in this measure of labor force participation. They have less access to standard employer benefits such as healthcare and retirement plans, and they are not earning as much as their predecessors in the labor force.

- *Higher debt and lower wealth accumulation.* Higher education presents its own challenges for this group. Those without a higher education degree are more likely to be unemployed. However, the under-35 cohort holds the majority of debt in the U.S., which can be attributed in large part to student loan debt (see **Figure 3**).

> "Millennials are key to the future growth of the economy, but these serious challenges could undermine their financial well-being, including how prepared they will be for retirement."

Figure 3
21- to 34-Year-Olds Make Up the Greatest Share of U.S. Consumer Default Risk



Source: Paula Campbell Roberts (2018), p. 14.

Millennials are, therefore, not positioned well to accumulate wealth over time. Looking at the reasons behind these factors is important to addressing the problems.

Other Trends Driving Future Patterns of Investment and Economic Growth

Other trends driven by demographic shifts are worth watching because they will shape patterns of investment and economic growth in the future.

- **Homeownership vs. Renting.** Every segment of the population is seeing movement away from homeownership. The trend toward renting is likely to continue. Although some believe that economic factors have driven higher rentership, the reality is that a careful look at the data reveals that other dynamics are at play. Even high-income segments have seen a growth in rentership, possibly because of high job mobility and more real estate development catering to (and marketed at) this portion of the population. At the same time, seniors and empty nesters may be looking for city living or increased access to services that often come with renting.

- **The New Sharing Economy.** As the sharing economy blossoms, it heralds a real change for important economic sectors like automobiles. Millennials and those over 65 are less likely to have driver's licenses. In states with high ridesharing growth, there tends to be a correspondingly lower percentage of licensed drivers. For instance, California has a lower proportion of licensed drivers than the U.S. overall (81.2 percent vs. 83.9 percent nationally) and has nearly three times the growth rate for ridesharing (145 percent vs. 48 percent nationally).

- **Urbanization.** It is expected that 66 percent of the population will live in urban areas by 2050, up from just 47 percent in 2000. Seniors are helping to drive this expansion as they opt to leave suburban and rural homes in favor of city living. This substantial shift to cities will put increasing pressure on infrastructure and require substantial investments to keep pace and provide needed services.

An older, more-diverse American population is driving meaningful changes to the economy. Examining the underlying data helps reveal important trends that lead to better policy and investing decisions.

Despite the challenges presented by the aging of America, the United States is well-positioned for the future because of the millennial cohort. In developed markets, the U.S. has the largest percentage of millennials, and these individuals present great potential.

The key will be to help millennials achieve that potential. They are not as well-situated financially as they could be at this point in their lives. The gig economy is here to stay, so we need to ensure that government and private sector solutions for retirement, healthcare, and other key support services keep pace with the innovations that enable more-flexible work structures.

Understanding and appreciating these demographic and economic shifts will enable policymakers and investors to make wise choices that embrace change and facilitate innovation and growth.

The Promise and Peril of Technology and Data Changing Retirement Planning and Saving

Key Takeaways:

- Technology and big data provide the opportunity to customize an individual's retirement journey, making planning and saving far more personalized and relevant.
- Automation improves savings behavior, but does not completely solve the challenge of access.
- Using the latest technology for education and engagement can improve participation.
- Privacy remains a concern that may limit the ability to leverage data for maximum benefit.

Technology Helps to Customize the Retirement Savings Journey

Innovations in automation and data are re-shaping how many Americans save for retirement. Auto-enrollment, automatic deductions, and target date funds now represent common components of 401(k) retirement savings plans for employees, especially at large companies with employer matches of individual contributions. These advances have already provided significant positive disruption to retirement savings by increasing participation and making it easier for many more workers to save for retirement.

Even more encouraging is the fact that the innovation thus far just scratches the surface of the customization opportunities afforded by enhanced technology and availability of information. Data collected from individuals can provide the crucial context and a better understanding of how well-situated an employee will be for retirement. Retirement plans can leverage advanced algorithms to provide recommendations tailored to an individual because it is possible to look more closely at all aspects of a worker's financial situation.

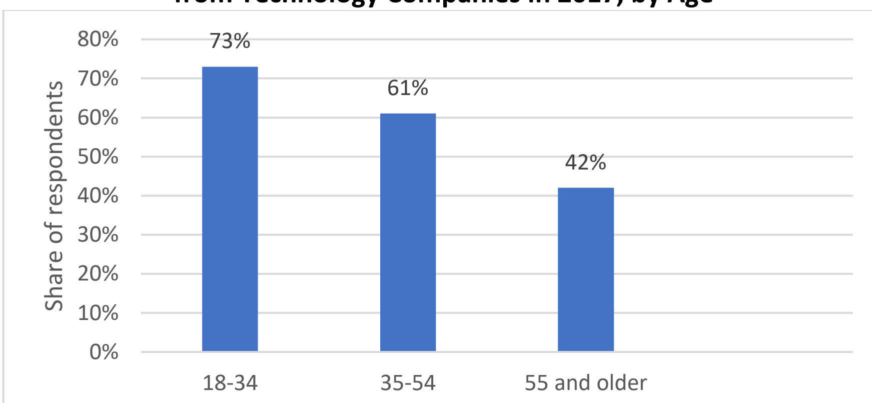
But the reality today is engagement levels with the new tools remain relatively low, with many hovering in the low double-digits for usage rates. Much more has to be done to understand how to encourage and engage employees to take advantage of available enhanced planning options.

While automatic enrollment and other tools make saving for retirement easier, the benefit is blunted if setting aside funds for the post-work years makes it harder to meet other, more-timely needs. However, this risk of "squeezing the balloon" — inadvertently shifting financial strains from one area to another — can be addressed by advanced algorithms that make situation-specific recommendations. Because this requires greater visibility into many aspects of an individual's overall financial standing, it does not come without its own challenges. Concerns about privacy could limit the ability to fully realize the benefits that a customized approach could offer workers to improve their savings decisions, and probably affects the modest engagement rates currently seen by many of the new online tools.

The market is already responding with the creation of more data-driven technology companies focused on providing improved financial engagement and performance. Developing the right technology platforms and the correct messages can help people understand and use customized tools and products.

Surveys suggest that consumers, particularly millennials and younger generations, are much more comfortable with technology companies as a vehicle for acquiring financial products (see **Figure 4**). Entrepreneurial financial technology ("fintech") firms deploy technology in innovative new ways that reach all workers more effectively, including previously underserved communities like multicultural workers and their families, to help them save and invest for their futures. These enterprises often optimize their technology for mobile phones and increase engagement and participation rates by taking advantage of video messaging as the best technology for the intended audience.

Figure 4
Share of Americans Willing to Buy Financial Products from Technology Companies in 2017, by Age



Source: Bain & Company (2017), p. 2.

As technology continues to evolve, especially with the rapid advancements in machine learning and artificial intelligence, consumers will have access to much more accurate personalized advice. While computers may not be able to achieve the same level of personalized service as a one-to-one human consultation, some expect that technology should be able to deliver 95% of the results for a fraction of the cost. That expanded access to customized solutions enables workers to be much better prepared for a retirement that matches their individual circumstances.

Technology Creates Lower-Cost, More-Integrated Solutions

One of the advantages of larger retirement plan sponsors is their ability to keep costs and fees lower because of their size and scale. Costs and fees historically have been a disadvantage for smaller companies, making it prohibitively expensive for them to sponsor retirement savings plans for their workers. Technology today helps streamline efficiency, delivering more cost-effective solutions that are attractive to small businesses.

For example, a technology-driven provider registered as an investment adviser might forego target date funds and instead offer bundled investment models that match the needs of individual plan participants. By integrating with payroll companies (including newer, cloud-based payroll companies) and acting as recordkeeper, such a provider can harness technology to make contributions more efficient with auto-enrollment and improved accessibility, especially for small businesses.

Automation Improves Savings Participation, but Simplicity Remains Essential

Individuals who have not previously saved for retirement often find it difficult to start — people resist developing new, positive habits because doing so requires change and it is hard to overcome inertia. While automation, including auto-enrollment, has proven to be successful in overcoming this inertia, the next step is for technology to help simplify the investment decision-making processes.

Today, many plan providers inadvertently complicate the decision-making process for employers and workers alike by offering too many investment options. They require plan sponsors to make decisions about auto-enrollment, matching contribution policies, and more. It is not uncommon to see 20, 30, 40, or more investment options to choose from, leading to decision paralysis that makes it harder for workers to begin to save.

> "As technology continues to evolve, especially with the rapid advancement in machine learning and artificial intelligence … technology should be able to deliver 95% of the results for a fraction of the cost."

Increasingly, the model for newer low-cost technology platforms is to offer plan providers a more-limited number of choices. By seeing more targeted choices tailored to individual needs, workers will find it easier to improve their retirement savings habits. For example, as few as two or three investment options may be offered, based on the individual's data and user profile: a recommended option, a more-aggressive option, and a more-conservative option. These models often require the use of auto-enrollment for participants. This can be especially attractive to low- and moderate-income first-time savers who are more risk-averse and less familiar with retirement accounts or investment options. Fewer choices and the use of strategic default suggestions can prove to be less overwhelming and make it easier to encourage participation.

Of course, there is a risk in oversimplifying the choices available. Relying too heavily on automation alone might not be the right choice for some workers. The best solution may lie in a curated model that provides a limited set of choices tied to the needs of the individual saver that facilitate understanding the options to encourage better decision-making.

Technology Boosts Engagement by Improving Financial Confidence

While the U.S. does not lack financial education content, the challenge is getting people to engage with it and be willing to learn. Indeed, when it comes to starting a financial literacy journey, it could be said that there is almost too much information available — and a great deal of it assumes base levels of understanding about investing, interest, and more. Knowing the importance of communicating basic concepts and doing it simply is important, but doing it well is also hard work.

Plan providers and sponsors need an understanding of the reality of what a first-time saver does not know. It is entirely possible that first-time savers have no idea of the difference between a stock and a bond. Providing answers to these basic questions must be done in a way that matches the existing behavior of the audience. While many may be unwilling to read detailed explanations, short videos can be quite effective educational tools.

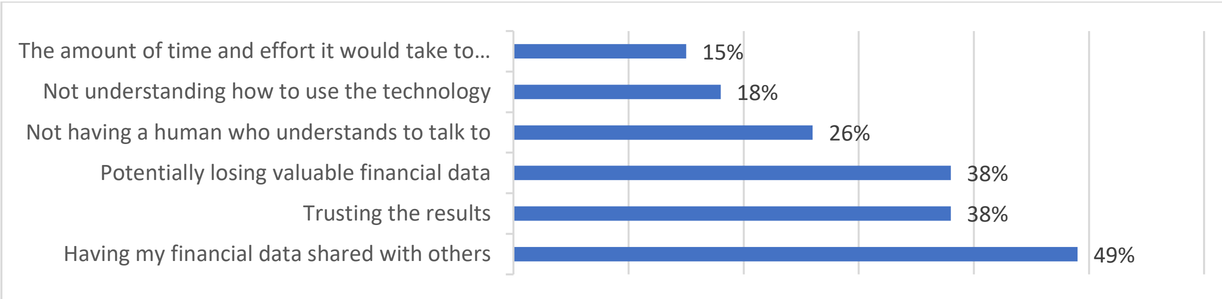
Technology can play an important role in helping prospective savers use simple techniques to build financial confidence. An individual who engages with an app for the first time, or a web-based system to explore options, needs to see encouraging language — a sort of virtual pat on the back — to help drive a desire to keep going. Providing positive messages for taking even the smallest steps, such as opening up an app for the first time or reading relevant material, can help to promote user engagement. This engagement makes the investing process more real and can lead to greater interest in learning more and improving financial literacy.

Privacy and Portability Represent Obstacles

Technology can be a tremendous asset when tailoring and customizing programs to meet an individual's goals and long-term needs, but the rise of apps and broader societal concerns about platform data collection, and how that information is used or shared, can potentially be an issue for privacy-minded users (see **Figure 5**). Financial data is highly personal and building trust between users and companies — whether that is the employer or the technology platform — is essential for continued adoption. The ongoing public discussion about privacy and technology is likely to affect user adoption of more-personalized services, as reflected by modest adoption rates.

"Financial data is highly personal and building trust between users and companies — whether that is the employer or the technology platform — is essential for continued adoption."

Figure 5
What Concerns Might You Have About Using Technology Tools to Plan, Invest in, or Manage Your Savings?



Source: Mercer LLC (2018), p. 26.

Employers therefore play a critical role in the process. Employees look to their employers to explain how to use their healthcare and 401(k) plans. A base level of trust between the two is implicit from the beginning and can be leveraged by making good decisions.

Portability of retirement accounts remains an issue that has not yet been solved by adopting technology solutions. While traditional and Roth IRAs are fully portable, and 401(k) plans can be rolled over, the process today for many is not automated and remains paper-intensive. This can result in a trail of 401(k) plans remaining with former employers and increases the risk of lost accounts. Much more has to be done to help educate and notify plan participants of the options for maintaining their accounts, and what consolidation entails, to facilitate demand to make portability easier and ultimately offer lower cost solutions to savers.

Closing the Access Gap: The Growth of State-Facilitated Retirement Savings Programs and Opportunities for Collaboration

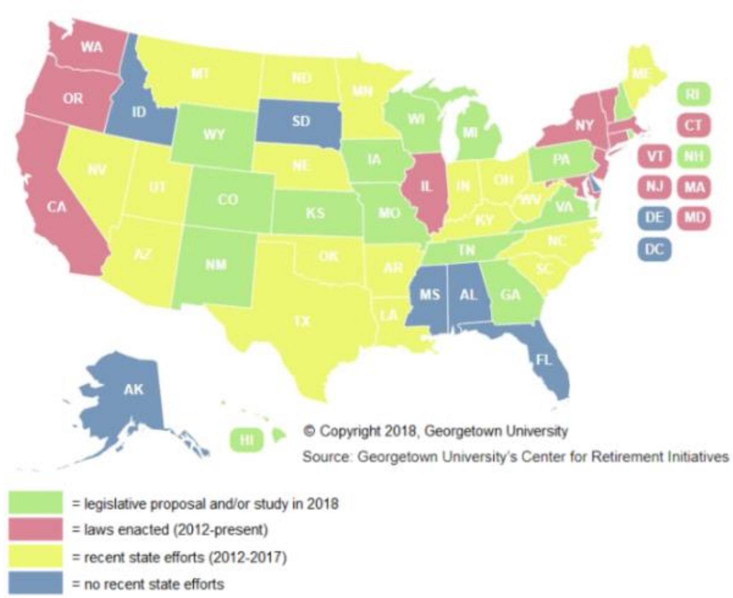
Key Takeaways:

- Individual states have begun enacting innovative programs for private sector workers who do not have access to employer-sponsored savings plans.
- Small businesses and the self-employed benefit from these programs because they are much less likely to offer or have access to a retirement savings plan.
- State programs have adopted a range of different approaches, including individual retirement accounts (IRAs), multiple employer plans (MEPs), and marketplaces.
- Multi-state collaboration can be an option that offers the opportunity to achieve economies of scale to help minimize costs while significantly expanding access.

States Step up to Meet the Retirement Savings Challenge

Since 2012, more than 40 states have introduced legislation to either explore or establish state-facilitated retirement plans for private sector workers.[6] To date, 10 states and one city have adopted new programs to expand access to simple, low-cost options for private sector workers to use in saving for retirement (see **Figure 6**).[7]

Figure 6
2018 State Legislative Action



Source: Georgetown University Center for Retirement Initiatives, (2018).

States are acting for a variety of reasons. Perhaps most pressing, many workers are not saving for retirement because they lack access to an employer-sponsored plan. According to the AARP, individuals are 15 times more likely to save for retirement if they have access to a way to save through their employers. States face significant financial and economic consequences if a substantial portion of their citizens retire without adequate savings, and a rapidly aging population amplifies this risk. Not only are states increasingly absorbing the costs of social service programs such as housing and healthcare assistance, they also have to be prepared for a reduction in the available tax base and diminished economic activity if more and more of their residents live at or below the poverty line in retirement.[8]

> "Since 2012, more than 40 states have introduced legislation to either explore or establish state-facilitated retirement plans for private-sector workers."

A need for increased participation in retirement savings plans for private sector employees has driven states to propose innovative solutions that address some of the underlying reasons behind the lack of access.

Finding and Reaching Those Who Lack Access to Retirement Savings Plans

Millions of Americans currently lack access to retirement savings programs.[9] Full-time workers are 2.6 times more likely to have access than part-time workers, while workers in the highest income quartile are almost four times as likely to work for an employer that offers a program.[10] Nearly half of the nation's private sector employees — an estimated 55 million wage and salary workers between the ages of 18 and 64[11] — lack access to an employer-sponsored retirement plan.

Small businesses, especially those with fewer than 100 employees, are less likely to offer retirement plans to their workers.[12] They struggle with the complexity and costs of setting up a plan, and these state-facilitated options can substantially expand access and increase participation. Among firms with 50 or fewer workers, only 28 percent of workers have access to a retirement savings plan. Among firms with 1,000+ employees, 70 percent have access to a plan.[13]

Contingent workers represent another challenge, with most earning less than their traditionally employed counterparts. They also are less likely to have access to a retirement savings program. This growing segment of the workforce includes self-employed high-end consultants, blue-collar workers such as security guards and maintenance workers, and gig economy workers like Uber and Lyft drivers.

Further complicating the landscape is the difficulty of reaching such a large, widely dispersed group of businesses and individuals. They are often not represented by associations or other types of organized professional groups, making it challenging to find and reach out to them. Individual state demographics can pose special challenges. Urban areas make it somewhat easier to reach larger numbers of uncovered workers as compared to workers who are spread across less-densely populated small towns and rural areas. Similarly, uncovered workers in small businesses and the self-employed are harder to reach.

State are Designing Innovative Approaches to Expand Access

States are beginning to adopt a range of innovative new ways to increase access to retirement savings accounts and encourage participation in these programs. They are currently implementing four main models:[14]

1) Payroll deduction IRAs, usually using automatic enrollment (auto-IRAs), that certain employers are required to offer if they have no other retirement plan
2) Payroll deduction IRAs that employers can choose to join
3) Open Multiple Employer Plans (MEPs)
4) Marketplaces

To date, Auto-IRAs are the most-frequently adopted method, with California, Connecticut, Illinois, Maryland, Oregon, and the city of Seattle choosing this as their vehicle for retirement savings for private sector workers. Vermont and Massachusetts adopted MEPs, while New Jersey and Washington adopted the marketplace model, and New York enacted a voluntary payroll deduction IRA program.[15]

Each type of program has distinguishing features, along with factors that states have weighed and considered before selecting which model to enact. State-facilitated auto-IRAs are straightforward, with states often choosing Roth IRAs as their investment product. MEPs are 401(k) ERISA plans that have higher contribution limits than IRAs and allow both employers and employees to contribute.[16] The Department of Labor (DOL) has given a government-facilitated MEP greater operational freedom than one sponsored by a private sector entity. Specifically, an "open" MEP sponsored by a state or local government may allow any business employing state residents to join the program without regard to the common bond requirement (such as being in the same industry) that currently exists for other MEPs.[17] A marketplace allows the state to connect employers and individuals to qualified products offered through private sector providers. The state pre-screens and approves qualified products to be offered through the marketplace and can offer both IRAs and 401(k)s.

"Five programs — California, Illinois, Massachusetts, Oregon, Washington — are now enrolling workers."

In all of these programs, participation by employees is always voluntary; they can choose to opt out at any time. MEPs, marketplaces, and voluntary payroll deduction IRA programs are all voluntary for employer and participation, while auto-IRA programs require employers to offer the state program if they do not already provide their employees with a retirement savings plan.

Each program is in a different stage of implementation. As of November 1, 2018, five programs — California, Illinois, Massachusetts, Oregon, Washington — are now enrolling workers. Others are in various stages of planning and/or implementation. This diversity in program design will allow for the study and comparison of the different models, providing useful information for improving the design of retirement plans in general while also helping states continue to consider and perhaps develop new models for how they can expand access to retirement savings.

Collaborative Partnerships and Multi-State Alliances

Although states can certainly establish their own programs, they also should explore whether collaboration across state lines can serve their citizens better and offer opportunities to achieve economies of scale by spreading startup and ongoing costs over a larger population.[18] Although individual state programs allow a state to address its own unique needs, different multi-state options can be considered to meet those needs while also offering other advantages, namely the ability to build scale and minimize costs.

"Although states can certainly establish their own programs, they also should explore whether collaboration across state lines can serve their citizens better and offer opportunities to achieve economies of scale."

Both the Section 529 college savings accounts and ABLE programs provide models for how states could develop multi-state or regional retirement savings programs. For example, most 529 plans are open to residents of other states. Only a handful of states still restrict their college savings plans to their state residents, but even in those states, their residents are not restricted from enrolling in the plans of other states. While the earliest 529 college savings plans tended to be run entirely by an appointed state entity, most of today's plans have engaged private sector turnkey program managers that provide all necessary services (i.e., investment management, customer service, legal compliance, recordkeeping and administration, and marketing and outreach) under one comprehensive management agreement.

The Stephen Beck, Jr. Achieving a Better Life Experience (ABLE) Act that enabled eligible individuals with disabilities to establish tax-advantaged savings accounts provides even better examples of multi-state savings programs. A provision in that law explicitly allows states to manage ABLE accounts in more than one state, and several of these arrangements exist. The largest is a consortium of 16 states managed by Illinois that joined together to offer what is essentially the same program, managed by the same firm and offering the same investment choices. Each state can customize the program to meet its individual needs, but uses the same basic platform.

Another 11 states have chosen to use Ohio's program to establish ABLE accounts. Unlike the Illinois consortium, which allows for variations, each state in this case uses the same program. Because it is serving a larger population of savers, administrative costs are lower. Finally, Oregon has its own program, but consults with other states about how to open and manage their ABLE programs, while also offering them the ability to use the same program managers at a reduced cost. All these models could be used for retirement savings programs as well.

Using the models and lessons of existing multi-state savings programs, there are three general models for regional retirement savings plans.

1) **An established state plan contracts with another state to structure and administer the program for both states**. This would be similar to the Ohio ABLE arrangement in that one state would adopt another state's retirement savings program. The originating program would manage both states' program jointly.

2) **An interstate alliance or consortium jointly structures and administers a program for those states in the alliance**. States could band together and use a master agreement to build a single system that they would all use, creating a true regional or multi-state program. As noted above, several states are currently using this type of arrangement to implement ABLE accounts, which allows for some variations in services or investment choices.

3) **A state opens its program to individual savers and employers from other states and allows them to join its platform.** A state that has a retirement savings program could follow the pattern of many Section 529 college savings programs by allowing participation by out-of-state individuals or by employers that do not already sponsor a plan. This arrangement could be especially useful for companies that have employees in more than one state. To work, the other states in which the employees are located would have to accept this arrangement as meeting whatever coverage requirements they have established.

While the first two models appear to have the most promise for general use, any of the three could meet the specific needs of a state, depending on which type of savings platform is preferred.

There is no wrong answer for any state. No matter which model a state chooses and whether it decides to create its own plan or join a multi-state plan, a decision to offer any state-facilitated program will improve the retirement security of its citizens.

A multi-state approach is not essential, but it is an option that should be considered. Any state can establish its own, standalone state-facilitated retirement savings program. However, multi-state collaboration could have important advantages. By joining together, states have the potential to offer better services and reduce the cost of building or supporting a retirement savings platform. A multi-state approach of one kind or another can make the process easier and more cost-effective — and can accelerate the date when a program can become self-sustaining and fees can be reduced. This is true regardless of which type of state savings program the states adopt or which method they use to collaborate.

Improving Performance: The Future of Defined Contribution Plans

Key Takeaways:

- Defined benefit (DB) programs established best practices that are transferable into the defined contribution (DC) world.
- Target date funds (TDFs) are widely used as a default option in today's DC plans, but attention should be given to the performance of these funds, including post-retirement considerations and the need to provide lifetime income.
- Adding alternative asset classes to TDFs can help boost retirement income, better manage both long- and short-term risk, and reduce the depletion of assets over a longer-term retirement horizon.

Defined Contribution Plans Can Take a Page from Defined Benefit Plans to Achieve Scale and Improve Investment Returns

In the United States, workers are being asked to take responsibility for their financial well-being in retirement now more than ever. Most employers today offer defined contribution plans to their workers as their primary, and often sole, retirement program. The problem with relying on a DC plan as a core or primary retirement plan is that DC plans were not designed to provide retirement security. These plans were intended to supplement, not supplant, traditional defined benefit pension plans. With DC plans, participants must make complex investment decisions that will have a significant impact on the amount of money they will have available for retirement. Because most workers often do not have the information and knowledge to make these decisions, it is important for DC industry leaders and policymakers to consider the ways in which DC plan structures can improve and evolve to increase participants' chances for success.

Traditional defined benefit and defined contribution plans have some similar foundational elements, including a mechanism for contributions, a mechanism for investments, and some type of paydown structure. However, DC plans are fundamentally different from DB plans because they have shifted the financial risks from plan sponsors to plan participants and are not as effective in the structure of their investment portfolios to manage risks and in the design of lifetime income options.

> "It is important for DC industry leaders and policymakers to consider the ways in which DC plan structures can improve and evolve to increase participants' chances for success."

A DC plan essentially operates as a DB plan for one person with all of the risks, costs, and responsibilities for investment performance and the decumulation of assets left to the individual saver to manage. When an individual retires at 65 with a DC plan, he or she too often takes a lump sum distribution and then has to decide how to manage those funds, requiring decisions about complicated financial products, investments, and the drawdown of their assets during retirement. DB plans have a significant advantage because they can pool participant investments to achieve scale, enhance investment returns through greater asset diversification, hedge longevity and other risks, and offer a guaranteed income benefit in retirement.

To solve this problem, DC plans can seek to emulate the best aspects of DB plans. One of the most-successful features of DB plans that DC plans have begun to adopt is taking advantage of tools such as auto-enrollment and auto-escalation features that help workers begin to save meaningful amounts in DC plans. An example would be a plan that auto-enrolls workers at a 6 percent contribution level with auto-escalation up to 10 percent and an employer contribution that can boost overall savings to between 12 and 19 percent of gross pay. By using these tools, plan sponsors can replicate scale and consistency of funding to help participants fund their retirement.

Another way DC plans can learn from DB plans is by paying attention to the simplicity of investment selections. In DB plans, the savings are pooled and invested together, which aggregates risk and expense. By limiting choices and offering a default investment option, such as one set of target date funds, a DC plan provider can keep costs lower than one that tries to manage many different types of funds.

Another important consideration is whether the investment return of DC plans can be improved to deliver more income for the same contributions. If one dollar invested in a DB plan generates significantly more income than a dollar invested in a DC plan, which has been the historical experience, that would suggest a need to explore whether greater asset diversification, including private equity, real estate, or hedge funds, can boost retirement income for the same level of contributions.

Finally, DC plans would do well to take a page from DB plans by focusing participant communications on retirement income, not just abstract savings information. Turning the conversation to planning for income during retirement requires individuals to look beyond the accumulation phase and will help them to understand the concepts better that drive their savings and income requirements in retirement.

> "93 percent of plan sponsors are using target date funds as their default option."

Target Date Funds are Becoming the Default Investment Option in Most DC Plans Today

The underlying investments in DC plans must evolve to improve retirement outcomes for participants. Target date funds (TDFs) have gained popularity as a DC investment option in retirement plans and as the qualified default investment alternative (QDIA), in part because of their prudent risk management and simplicity: 93 percent of plan sponsors are using target date funds as their default option. Participants invest in the fund closest to their assumed retirement dates and then the fund manager adjusts the mix of stocks, bonds, and cash to invest along a glide path to that retirement target date.

An advantage offered by TDFs is that through professional management, the underlying investments can be broadened to include asset classes that have traditionally benefited other types of long-term investment pools, such as DB plans, without increasing complexity for the participant. Asset classes such as private equity, real estate, and hedge funds can be used to create a "diversified TDF" that improves retirement outcomes by enhancing the investment portfolio with alternative asset classes and improving returns when compared with a portfolio composed solely of equities and fixed income.

"A diversified TDF could increase the amount of an annual retirement income … by between 11 and 17 percent, depending on market conditions."

Investment Diversification Within Target Date Funds Can Boost Retirement Outcomes

The underlying investments in DC plans has to evolve to improve retirement income outcomes for participants. Findings from a recent paper[19] published by the Georgetown University Center for Retirement Initiatives shows that including alternative assets improved the performance of target date funds — and did so not just in "good" market conditions, but in "worst case scenarios" as well. This demonstrates that including alternative investments is not just a model that should be considered to improve long-term outcomes; it can help to manage short-term risk as well.

The analysis showed that a diversified TDF could increase the amount of an annual retirement income that can be generated by converting a participant's DC balance into a stream of income at retirement by between 11 and 17 percent, depending on market conditions (see **Figure 7**).

Figure 7
Distribution of Potential Retirement Outcomes for a Full-career Employee[20]

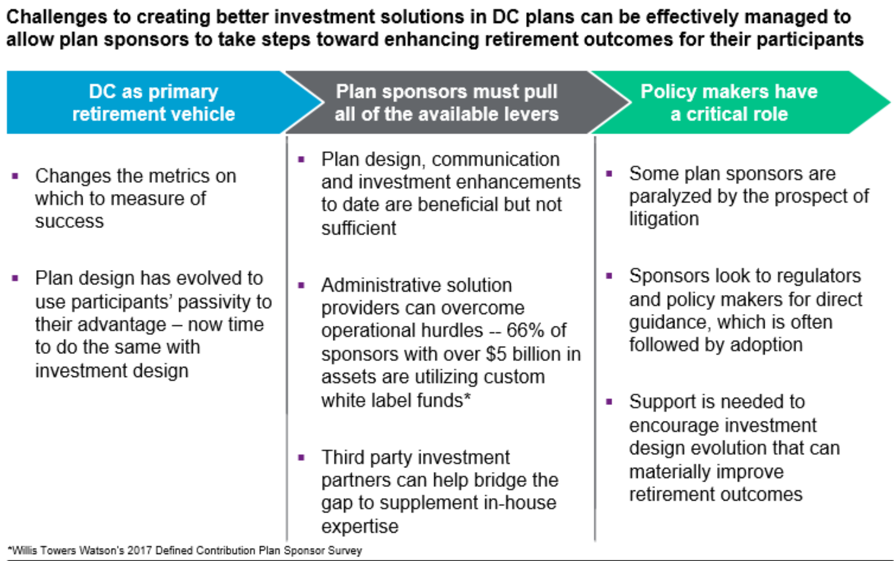
	Annual inflation-adjusted retirement income per $100,000 in pre-retirement annual wages	
	Baseline TDF	Diversified TDF
75th percentile	$77,000	$93,900
50th percentile	$53,000	$62,200
25th percentile	$36,300	$41,900
5th percentile	$21,200	$23,500

Source: Angela M. Antonelli, CRI (2018), p. 4.

A diversified TDF also has a higher probability of maintaining positive retirement assets after 30 years of retirement spending. It provides higher expected returns and lower downside risk at the time of retirement, as well as 10 years post-retirement. This mitigates the negative impact of a short-term market shock for those participants at or near retirement.

There is a greater need for the DC industry to support the adoption of strategies that will improve expected investment performance. DC service providers' capabilities have vastly improved. Operational challenges, including the need for daily liquidity and daily pricing, and participant-controlled cash flows, can easily be addressed. This already can be seen in the increased use of custom funds in DC plans.

Figure 8
Policymakers and Plan Sponsors
Should Adopt Strategies to Improve Investment Performance



Source: Willis Towers Watson.

Policymakers should consider these findings about the inclusion of alternate asset classes in DC plans, specifically through target date structures. Even without any additional action by policymakers, plan sponsors with an interest in implementing portfolios with alternate asset classes can work with their advisors, custodians, and recordkeepers to implement solutions that enhance participant outcomes for a more-secure retirement (see **Figure 8**).

The Ultimate Goal: Making it Last — Transitioning to the Retirement Income Phase

Key Takeaways:

- Defined contribution retirement plans and investment products, such as TDFs, should include lifetime income strategies and solutions during both accumulation and decumulation phases.
- Building lifetime income solutions, whether it be an in-plan annuity or some other construct, is being recognized as an important evolution in plan design, but requires flexibility and education to be leveraged effectively.
- Technology, information and education can better used to help individuals more effectively plan for how they will spend down their retirement savings well in advance of their target retirement date.

Building a Better Plan Includes Lifetime Income

During the accumulation phase of retirement planning, default options such as auto-enrollment and auto-escalation are now providing a way to improve savings to help meet lifetime income needs. However, more can and should be done to educate individuals about how a pot of savings would translate into monthly income and whether this income does indeed meet their needs in retirement. This can also could provide greater motivation to save more and to make better decisions about how to draw down savings at the time of retirement.

> "If retirement plans shift from simply managing account balances to helping individuals think about not only when they plan to retire but also how much they expect to need in retirement, it will help direct smarter savings and investment decisions."

If retirement plans shift from simply managing account balances to helping individuals think about not only *when* they plan to retire but also *how much* they expect to need in retirement, it will help direct smarter savings and investment decisions. A retirement savings account balance tells someone little about whether it will be enough to meet their needs in retirement, yet the focus of today's core DC plan has been primarily wealth accumulation. A paradigm shift must occur, moving away from a myopic focus on wealth accumulation to the more-important long-term goal of generating and protecting lifetime income. In addition, because interest rates and inflation present key risks to wealth accumulation, plans must develop new ways to manage an investment portfolio so an individual can generate income effectively throughout retirement.

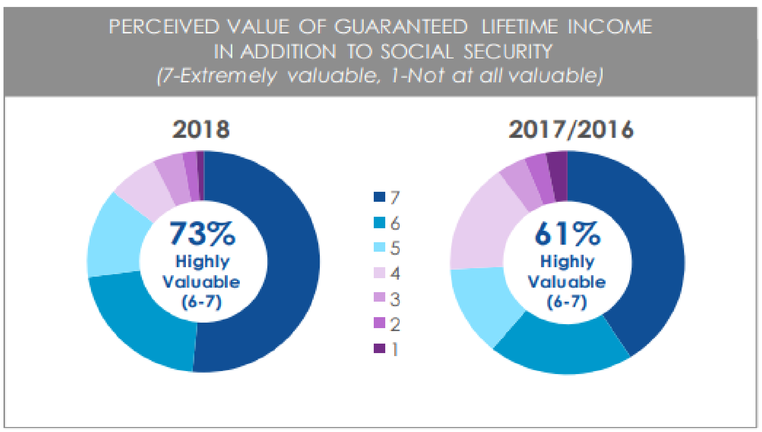
If DC plans are going to provide an important source of income in retirement, policymakers must move beyond a focus on inputs (the amount of savings) to a focus on outcomes (whether retirement savings plans grow and protect income in retirement). As more and more assets are being distributed, or

> "Financial education should not stop at the accumulation phase of a retirement strategy."

withdrawn, from plans at the time of retirement, policymakers must examine how this decumulation of funds is occurring.

Today, many workers in DC plans take the distribution of funds at retirement as a lump sum because it is their only option or they are not satisfied with available lifetime income options. A recent MetLife study[21] found that 20 percent of retirees taking a lump sum spent all of their retirement savings in five and a half years. Other participants have a difficult time in transitioning from saving to spending and live a lower quality of life than necessary because they are not comfortable with spending the money they have saved. It should not be surprising, given such challenges individuals face in making these important decisions, that the interest in guaranteed income in retirement continues to grow (see **Figure 9**).

Figure 9
The Value of Guaranteed Lifetime Income Continues to Rise



Source: Greenwald & Associates and Cannex (2018), p. 2.

Plans Can Do More to Inform Decisions About Lifetime Income

Financial education shouldn't stop at the accumulation phase of a retirement strategy. It must continue so retirees and soon-to-be retirees have all of the information they need to make choices that are appropriate for their individual situations.

Waiting until an employee is just about ready to retire before engaging in an educational process is a missed opportunity. After years of watching savings accrue, employees may resist being introduced to concepts such as converting to an annuity, and the individual might make decisions that are not the best for their situation, simply because they have not had the time to learn enough about the pros and cons of different approaches.

Technology can offer solutions by providing financial advice and guidance tools within the user interface of a retirement plan, allowing an individual to understand their options better while simplifying the learning process. An individual should not be expected to have to become a financial expert just to understand retirement planning choices. Technology can readily provide benefit information through an interactive interface that personalizes planning for unique circumstances.

Retirement counseling that takes individual factors into consideration and provides a clear picture of what a future retiree can expect to receive from Social Security and other sources could prove beneficial. Retirees also can learn much more about how their expenses may change over time; for example, a better understanding of retiree healthcare costs. In addition, individuals should determine their retirement income goals so they can understand what they need to do to achieve that target if they are not already on track. Ongoing counseling, ongoing education, and maximizing default selections can contribute greatly to the objective of maintaining a standard of living and a lifetime of income for retirees.

Annuities are One Option for Managing Income in Retirement

Ensuring a reliable income stream that will last for a lifetime is the primary objective for many retirees, and annuities can mimic one of the most-appealing aspects of defined benefit plans for those who value a level of certainty.

Annuities can provide an appealing option for some retirees, effectively ensuring a set level of annual income in exchange for an upfront contribution from retirement savings. For many, it is not desirable to put all retirement savings into an annuity because of the fear of loss of control and flexibility in the use of their assets for other needs, desires, or priorities.

For example, legacy can be an important consideration for some retirees, so those retirees may choose to set aside some savings in the hope of leaving something to family members or making a gift to a charity. Others might prefer to have some funds available for other retirement goals or to take advantage of other investment objectives.

The prospect for greater adoption of annuities in the future, and the willingness to invest a larger share of one's assets in such products, will depend on the ability to design them in a way that recognizes behavioral realities and offers investors flexibility in accessing those assets due to circumstances they see as potentially beyond their control, such as unanticipated expenses or other changes in a financial situation.

Today's retail annuity market is evolving to meet these needs for greater flexibility and control, but there is still much than can and should be done to simplify and explain to the average investor all the different types of annuities — such as fixed, variable, deferred, and immediate — as well as the variations within each type. Much more needs to be done to provide information and education and improve the transparency of the different types of products available today and the value of creating a stream of lifetime income.

Lifetime Income Strategies and Solutions Must Evolve

While the interest in lifetime income solutions grows, much more can and should be done in the design of DC retirement savings plans to provide workers with greater flexibility and more options for turning savings into a stream of retirement income to last a lifetime. Today, it is estimated that 60 percent of annuity sales come from individuals cashing out their retirement savings to purchase a retail option. In many cases, these individuals may already or could have less-expensive and more-efficient comparable choices available through their existing plan sponsors.

There is already some experience with the use of annuities in 403(b) plans, and the pricing of these annuities tends to be less than retail annuities because of the scale of the assets in these institutional plans. Participants in these plans also are more accustomed to having access to guaranteed income through plan annuities. As previously noted, many participants are not inclined to fully annuitize their assets; partial annuitization is more common and reflects the desire to maintain some control over a portion of assets. In addition, there already is experience with 403(b) plans embedding lifetime income solutions within investment options, such as target date funds, which is a common default in DC plans.

> "DC plan sponsors remain concerned about the litigation risks associated with including some type of annuity or guaranteed income option in plans."

However, it is much less common to see these characteristics in 401(k) DC retirement plans. DC plan sponsors remain concerned about the litigation risks associated with including some type of annuity or guaranteed income option in plans. Nevertheless, as more plan participants ask about information and options to help them manage their portfolios, an increasing number of large plan sponsors are beginning to explore income options.

Today, plan sponsors are just beginning to consider some non-guaranteed options, such as systematic withdrawals or other types of structured or partial payouts. Another option could be to include retirement income options in TDFs.

Finally, plan sponsors could offer annuities as a stand-alone option in a DC plan. However, even though the DOL has issued a safe harbor allowing the inclusion of annuities as a qualified default investment alternative (QDIA) in DC retirement plans, plan sponsors have been hesitant to adopt such options because of the litigation risks and uncertainty about the ability to meet ERISA's fiduciary standards. Unfortunately, not many large plan sponsors have been willing to adopt lifetime income solutions, although they have worked well for employees when used. Employers and plan sponsors should be able to adopt lifetime income solutions and strategies that work well for their employees without the risk of being sued. Policymakers can help address this concern.

Policymakers and Plan Sponsors Must Give Participants Greater Options for Lifetime Income

To provide retirement security, plan sponsors must provide participants distribution options at retirement other than lump-sum distributions.[22] While financial education initiatives can have an impact on participant savings rates, it is unrealistic to expect to arm participants with enough financial expertise to put most retirees in a position to develop their own distribution strategies.

Policymakers will play a critical role in allowing plan sponsors and providers to offer innovative new options that can continue to evolve to meet the needs of retirees. One way policymakers can do this is by considering new safe harbor protections that would reduce the litigation risk that keep many of today's plan sponsors from adopting lifetime income strategies and solutions.

The DOL has agreed that lifetime income is an important public policy issue. To encourage policymakers and plan sponsors to focus on retirement security, the U.S. Government Accountability Office (GAO) has recommended[23] that the DOL should provide greater guidance to plan sponsors regarding lifetime income options. The QDIA regulations were effective in moving participants from stable value funds toward target date funds. Similar action by the DOL could make it easier for plan sponsors to move participants in core defined contribution retirement plans to solutions designed to provide those participants with retirement security.

A recent survey[24] of large employers by Aon Hewitt shows that most still do not offer, and are not likely to offer, options that help participants convert their savings plan account balances into lifetime income. The easier policymakers make it for plan sponsors to offer effective distribution strategies, such as lifetime income solutions and/or structured withdrawal options, the more time and resources the industry will commit to developing those solutions and the greater the likelihood that more employers will adopt them.

Conclusion

If strengthening retirement security is the goal, then success can only be measured based on improving long-term outcomes. Unfortunately, as defined contribution savings plans have taken the place of traditional defined benefit plans, the shift has been away from outcomes to inputs. Returning to a true focus on outcomes requires moving away from a myopic focus on savings to evaluating whether retirees will have sufficient income to meet their needs once they stop working.

This approach to retirement security considers an individual's retirement life cycle. This includes the key phases of access, participation, accumulation, and decumulation. Better and more-effective deployment of technology, data, and education can contribute to the development of new ways to improve each phase of the life cycle.

Industry leaders, policymakers, and other stakeholders working together can and must rise to meet the challenges and shortcomings of today's retirement system and implement innovative new solutions that measurably improve long-term outcomes and focus on improving the financial stability and quality of life for retirees.

The Center for Retirement Initiatives will continue to bring together interested parties to explore proposals for addressing critical issues such as closing the access gap, improving the design and performance of investments in retirement savings plans, and identifying ways to build and deliver more-effective and -attractive lifetime income options.

These efforts have already improved the retirement outlook for many Americans, but more work remains to be done.

Endnotes

[1]Jennifer Erin Brown, Joelle Saad-Lessler, and Diane Oakley (2018), "Retirement in America: Out of Reach for Working Americans?" p. 7–8, National Institute on Retirement Security, Washington, DC. https://www.nirsonline.org/wp-content/uploads/2018/09/FINAL-Report-.pdf.

[2]Jennifer Erin Brown, Joelle Saad-Lessler, and Diane Oakley (2018), p. 10.

[3]This section of this report is derived from Paula Campbell Roberts's keynote presentation during the Center for Retirement Initiatives' Policy Innovation Forum on June 19, 2018. The presentation summarized findings from: Paula Campbell Roberts and Ken Mehlman (2018), "What Does Population Aging Mean for Growth and Investments?" *Viewpoints*, Volume 1.1. http://www.kkr.com/sites/default/files/KKR_Viewpoint_1-1802.pdf. This section is also based on Campbell Roberts's contribution to CRI's blog. See: Campbell Roberts, Paula (2018, September), "What Does an Aging Population Mean for Economic Growth and Investing?" CRI Blog, Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Washington, DC. https://cri.georgetown.edu/what-does-an-aging-population-mean-for-economic-growth-and-investing/.

[4]Paula Campbell Roberts and Ken Mehlman (2018), "What Does Population Aging Mean for Growth and Investments?" *KKR Viewpoints*, Volume 1.1. http://www.kkr.com/sites/default/files/KKR_Viewpoint_1-1802.pdf.

[5]Paula Campbell Roberts (2018), "What Does Population Aging Mean for Growth and Investments?" [Powerpoint slides]. Retrieved from https://cri.georgetown.edu/wp-content/uploads/2018/07/KKR_PaulaCampbellRobertsJune19GeorgetownCRI.pdf.

[6]Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, "State Initiatives 2018: New Programs Begin Implementation While Others Consider Action." Retrieved from https://cri.georgetown.edu/states/.

[7]To date, 10 states and one city have adopted one of four retirement savings models: California (auto-IRA), Connecticut (auto-IRA), Illinois (auto-IRA), Maryland (auto-IRA), Massachusetts (MEP), New Jersey (marketplace), New York (voluntary payroll deduction IRA), Oregon (auto-IRA), Vermont (MEP), and Washington (marketplace); and the city of Seattle (auto-IRA).

[8]Joe Torsella (2018, March), "A Call to Action in Pennsylvania: The Demographic, Fiscal, and Economic Consequences of Retirement Insecurity Are Hard to Ignore." https://cri.georgetown.edu/a-call-to-action-in-pennsylvania-the-demographic-fiscal-and-economic-consequences-of-retirement-insecurity-are-hard-to-ignore/.

[9]This section is derived from Angela M. Antonelli and David C. John (2018), "The Benefits of Achieving Economies of Scale in State-Sponsored Retirement Savings Programs: The Case for Multi-State Collaboration," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Working Paper 18-02, June 2018, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2018/06/MultiStateWorkingPaper18-02.pdf.

[10]U.S. Government Accountability Office (2015), "Retirement Security: Federal Action Could Help State Efforts to Expand Private Sector Coverage (GAO-15-556)," p. 18 & 22, Washington, DC. https://www.gao.gov/assets/680/672419.pdf.

[11]David John and Gary Koenig (2014), "Workplace Retirement Plans Will Help Workers Build Economic Security," AARP Public Policy Institute, Fact Sheet 317, p. 2, Washington, DC. https://www.aarp.org/content/dam/aarp/ppi/2014-10/aarp-workplace-retirement-plans-build-economic-security.pdf. This number is based on data from the Current Population Survey. However, the survey was redesigned after 2013, and the accuracy of its later results has been questioned. For this reason, we do not include data after 2013.

[12]According to the U.S. Government Accountability Office (GAO), only 14 percent (1 in 7) businesses with 100 or fewer employees offer their employees a retirement plan. See: Testimony of C. Jeszeck (2013), "Retirement Security: Challenges and Prospects for Employees of Small Businesses (GAO-13-748T)," p. 8, U.S. Government Accountability Office, Washington, DC. http://www.gao.gov/assets/660/655889.pdf.

[13]David John and Gary Koenig (2014).

[14]This section is derived from Angela M. Antonelli and David C. John (2018), "The Benefits of Achieving Economies of Scale in State-Sponsored Retirement Savings Programs: The Case for Multi-State Collaboration," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Working Paper 18-02, June 2018, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2018/06/MultiStateWorkingPaper18-02.pdf.

[15]For an overview of different state programs, see Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University (2018), "State-facilitated Retirement Savings Programs: A Snapshot of Plan Design Features," State Brief-18-03, November 30, 2018, Update, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2018/12/FINAL_States_SnapShotPlanDesign12-7-18.pdf.

[16]For background information about state-facilitated MEPs, see David E. Morse and Angela M. Antonelli (2017), "Multiple Employer Plans (MEPs): An Overview of Legal, Regulatory and Plan Design Considerations for States," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Policy Report 17-02, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2017/08/CRI_MEP_PolicyReport17-2.pdf.

[17]See 80 Fed. Reg. 71,938. November 18, 2015.

[18]This section is derived from forthcoming publication: Angela M. Antonelli, J. Mark Iwry, and David C. John (2019), "The Benefits of Achieving Economies of Scale in State-sponsored Retirement Savings Programs: The Case for Multi-State Collaboration," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Policy Report 19-01, forthcoming, Washington, DC.

[19]Angela M. Antonelli (2018), "The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University and Willis Towers Watson, Policy Report 18-01, Washington, DC.

https://cri.georgetown.edu/wp-content/uploads/2018/06/WTW71824_WHITE-PAPER_Georgetown-CRI-Target-Date_Jun-18_Final.vs2_626.pdf.

[20]A full-career employee is assumed to participate in a DC plan for 40 years (ages 25 to 65). Savings are assumed to be 4% of wages initially, increasing to 7.5% by age 55 with an employer match of 50% on the first 6% of savings. Annual wages are assumed to increase at CPI +2% until age 45, and only with CPI thereafter, broadly consistent with U.S. Census data.

[21]MetLife (2017), "Paycheck or Pot of Gold Study: Making workplace retirement savings last," p. 6, New York, NY. https://www.metlife.com/content/dam/metlifecom/us/homepage/institutionalRetirement/pension-risk/pdf/MetLifePaycheckOrPotOfGoldStudy_exp022019.pdf.

[22]See Martin Noven and Angela M. Antonelli (2017, November), "A Key to Strengthening Retirement Security: Return to Designing Retirement Plans Focused on Lifetime Income Strategies," CRI Blog, Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University. https://cri.georgetown.edu/a-key-to-strengthening-retirement-security-return-to-designing-retirement-plans-focused-on-lifetime-income-strategies/.

[23]U.S. Government Accountability Office (2016), "401(K) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants" (GAO 16-433), Washington, DC. https://www.gao.gov/assets/680/678924.pdf.

[24]Aon Hewitt (2017), "2017 Hot Topics in Retirement and Financial Wellbeing," p. 10. https://www.aon.com/attachments/human-capital-consulting/2017-hot-topics-financialwellbeing-report-final-january.pdf.

REFERENCES

80 Fed. Reg. 71,938. November 18, 2015.

Angela M. Antonelli (2018), "The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University and Willis Towers Watson, Policy Report 18-01, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2018/06/WTW71824_WHITE-PAPER_Georgetown-CRI-Target-Date_Jun-18_Final.vs2_626.pdf.

Angela M. Antonelli and David C. John (2018), "The Benefits of Achieving Economies of Scale in State-Sponsored Retirement Savings Programs: The Case for Multi-State Collaboration," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Working Paper 18-02, June 2018, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2018/06/MultiStateWorkingPaper18-02.pdf.

Angela M. Antonelli, J. Mark Iwry, and David C. John (2019), "The Benefits of Achieving Economies of Scale in State-sponsored Retirement Savings Programs: The Case for Multi-State Collaboration," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Policy Report 19-01, forthcoming, Washington, DC.

Aon Hewitt (2017), "2017 Hot Topics in Retirement and Financial Wellbeing." https://www.aon.com/attachments/human-capital-consulting/2017-hot-topics-financialwellbeing-report-final-january.pdf.

Bain & Company (2017), "Evolving the Customer Experience in Banking." https://www.bain.com/contentassets/ff8cd79182eb4cf197f3e47663bebe13/bain_report_evolving_the_customer_experience_in_banking.pdf.

Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University (2018), "State-Facilitated Retirement Savings Programs: A Snapshot of Plan Design Features," State Brief-18-03, November 30 2018 Update, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2018/12/FINAL_States_SnapShotPlanDesign12-7-18.pdf.

Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, "State Initiatives 2018: New Programs Begin Implementation While Others Consider Action." Retrieved from https://cri.georgetown.edu/states/.

David E. Morse and Angela M. Antonelli (2017), "Multiple Employer Plans (MEPs): An Overview of Legal, Regulatory and Plan Design Considerations for States," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, Policy Report 17-02, Washington, DC. https://cri.georgetown.edu/wp-content/uploads/2017/08/CRI_MEP_PolicyReport17-2.pdf.

David John and Gary Koenig (2014), "Workplace Retirement Plans Will Help Workers Build Economic Security," AARP Public Policy Institute, Fact Sheet 317, p. 2, Washington, DC.

https://www.aarp.org/content/dam/aarp/ppi/2014-10/aarp-workplace-retirement-plans-build-economic-security.pdf.

Greenwald & Associates and Cannex (2018), "Fourth Annual 2018 Guaranteed Lifetime Income Study (GLIS) Summary Findings & Charts." http://greenwaldresearch.com/wp-content/uploads/2018/03/2018-GLIS-Factsheet.pdf.

Jennifer Erin Brown, Joelle Saad-Lessler and Diane Oakley (2018), "Retirement in America: Out of Reach for Working Americans?" National Institute on Retirement Security, Washington, DC. https://www.nirsonline.org/wp-content/uploads/2018/09/FINAL-Report-.pdf.

Joe Torsella (2018, March), "A Call to Action in Pennsylvania: The Demographic, Fiscal, and Economic Consequences of Retirement Insecurity Are Hard to Ignore," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University. https://cri.georgetown.edu/a-call-to-action-in-pennsylvania-the-demographic-fiscal-and-economic-consequences-of-retirement-insecurity-are-hard-to-ignore/.

Martin Noven and Angela M. Antonelli (2017, November), "A Key to Strengthening Retirement Security: Return to Designing Retirement Plans Focused on Lifetime Income Strategies," CRI Blog, Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University. https://cri.georgetown.edu/a-key-to-strengthening-retirement-security-return-to-designing-retirement-plans-focused-on-lifetime-income-strategies/.

Mercer LLC (2018), "Healthy, Wealthy And Work-Wise: Technology: Driving a Revolution in Financial Fitness." https://www.mercer.com/content/dam/mercer/attachments/private/gl-2018-technology-the-new-imperatives-for-financial-security.pdf.

MetLife (2017), "Paycheck or Pot of Gold Study: Making workplace retirement savings last," New York, NY. https://www.metlife.com/content/dam/metlifecom/us/homepage/institutionalRetirement/pension-risk/pdf/MetLifePaycheckOrPotOfGoldStudy_exp022019.pdf.

Paula Campbell Roberts and Ken Mehlman (2018), "What Does Population Aging Mean for Growth and Investments?" KKR Viewpoints, Volume 1.1. http://www.kkr.com/sites/default/files/KKR_Viewpoint_1-1802.pdf.

Paula Campbell Roberts (2018, September), "What Does an Aging Population Mean for Economic Growth and Investing?" CRI Blog, Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University. https://cri.georgetown.edu/what-does-an-aging-population-mean-for-economic-growth-and-investing/.

Paula Campbell Roberts (2018) "What Does Population Aging Mean for Growth and Investments? [Powerpoint slides]". Retrieved from https://cri.georgetown.edu/wp-content/uploads/2018/07/KKR_PaulaCampbellRobertsJune19GeorgetownCRI.pdf.

Testimony of C. Jeszeck (2013), "Retirement Security: Challenges and Prospects for Employees of Small Businesses (GAO-13-748T)," p. 8, U.S. Government Accountability Office, Washington, DC. http://www.gao.gov/assets/660/655889.pdf.

U.S. Government Accountability Office (2015), "Retirement Security: Federal Action Could Help State Efforts to Expand Private Sector Coverage (GAO-15-556)," p. 18 & 22, Washington, DC. https://www.gao.gov/assets/680/672419.pdf.

U.S. Government Accountability Office (2016), "401(K) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants (GAO 16-433), Washington, DC. https://www.gao.gov/assets/680/678924.pdf.

GEORGETOWN UNIVERSITY
McCourt School of Public Policy
Center for Retirement Initiatives

3300 Whitehaven Street, NW, 5th Floor
Washington, DC 20007
cri.georgetown.edu