Access to Retirement Accounts
Will Help Americans Prepare for Retirement

Statement for the Record

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"Helping Americans Prepare for Retirement: Increasing Access, Participation and Coverage in Retirement Savings Plans"

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Chairman Hatch, Ranking Member Wyden, and members of the committee, thank you for the opportunity to submit written comments about the challenges facing retirement savers today and how to increase access and participation for all workers. I am Pamela Villarreal, a senior fellow at the National Center for Policy Analysis. We are a nonprofit, nonpartisan public policy research organization dedicated to developing and promoting private alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector.

The Obama Administration has made it a goal to increase access to retirement savings accounts for workers whose employers do not provide 401(k) accounts. Consider:

- According to the Department of Labor March 2015 benefits survey, 69 percent of civilian workers had access to a defined benefit or defined contribution retirement plan. Of those workers 77 percent participated. In March 2012, 68 percent of civilian workers had access to a defined benefit or defined contribution plan, with a participation rate of 79 percent.
- When broken between full-time and part-time workers in the March 2015 survey, however, 80 percent of full-time workers had access to a defined benefit or defined contribution plan, compared to 38 percent of part-time workers. Moreover, only half of part-time workers who had access to plans actually participated.
- But these statistics include only plans offered through employers. According to the Investment Company Institute, in 2013 67 percent of U.S. households had retirement accounts through their employer of through individual IRAs.

While one could argue that the participation rate could be much higher, it does not necessarily mean that *access* is the problem. Between 401(k) plans, SEP plans, traditional and Roth IRA plans and the new *MyRA* accounts, anybody who earns at least the amount in wages that they plan on contributing to a retirement account can start and contribute to some type of retirement savings vehicle. But merely increasing access to retirement accounts does not mean that households will contribute to them. The real question is, with the availability of so many types of accounts, why are workers not saving as much as they should, particularly those with lower incomes?

Social Security crowds out saving. As long as Social Security remains the primary income replacement for some workers when they retire, they have little incentive to save. In essence, it is their "bond" fund, and even if they do set aside a little bit of savings, they are not confident that it really matters much in the future compared to the needs they have in the present.

Lower-income workers are risk adverse, and government policies perpetuate this. Not only do lower income workers save less, they are more risk adverse when they do save. Unfortunately, the *MyRA*, which is designed to be an attractive vehicle for young and lower-income savers, relegates them to a Treasury bond fund similar to the Federal Thrift Savings Plan's "G" fund, which is not the ideal choice for a worker with 30 to 40 more years before retirement. Since 1987, the average annual rate of return of the G fund has ranged from 1.89 percent to 5.54 percent, depending on the length of time the bonds are held.

Arguably, there are better options for savers than the MyRA. To illustrate this, consider comparisons of a stock or stock/bond index fund to a Treasury bond fund. Comparing the rates of return on four stock funds and the G fund shows that, before adjusting for inflation:

- The Vanguard Windsor II fund, which has been around as long as the FTSP G fund, earned a 9.4 percent annual return on investment from 1987 to 2013. Over the same span of 26 years, the FTSP G Treasury bond fund yielded an annual return on investment of only 5.54 percent.
- Stock funds performed better than the G fund even over shorter time spans; the Vanguard 500 Index and Schwab 1000 Index funds had annual rates of return well above 8 percent from 1994 to 2014.
- Even the Fidelity Asset Manager fund (a mix of 85 percent stocks and 15 percent bonds) yielded an annual return on investment (before inflation) of more than 7 percent over 15 years.

Three stock funds performed better over a shorter time period than the G fund did over a quarter century!

In essence, retirement incentives supported by policymakers often lack product neutrality and are even harmful to some savers.

Tax credits are biased against saving. To add insult to injury, significant tax credits such as the Earned Income Tax credit or the Saver's Credit, which benefit low- to moderate-income workers, are refunded to the individual with no stipulations on how the money is spent. While the Saver's Credit does require an individual to have a retirement account, the money received from the credit can be spent however the individual chooses. In 2014, households that qualified for the Earned Income Tax Credit received an average of $2,400, yet the EITC is not tied to savings incentives in any way, shape or form.

Politicians and policymakers often perpetuate the myth that equity investments are only for the wealthy. About a year ago, 30-year Treasury bond yields hit an all-time low. Yet few policymakers talk about the effect of this on savings, such as the fact that retirees may outlive their money if they can't keep up with inflation. Instead, most of the rhetoric is about how dangerous the stock market is, when it is due for a correction, and the billions "lost" in wealth. Yet, there are many who are *not* wealthy but quietly saving for retirement through regular contributions to equity funds and stocks.

In fact, during the financial crisis of 2008, many faithful retirement account savers pulled money out of equity investments or simply stopped saving altogether. But those who stuck with their equity funds and rode out the crisis were better off. From December 1, 2008 to December 31, 2010:

- A $100 monthly (taxable) contribution to a traditional savings account invested in money market funds would have yielded only $21 — a 0.71 percent after-tax return.
- A $100 monthly tax-deferred contribution to a bond index fund would have yielded $140 — a 5.39 percent rate of return.

- A $100 monthly tax-deferred contribution to an S&P index fund would have yielded $783 — a return of nearly 26 percent.

Economists often argue that since Social Security acts as a bond fund due to its safety and low return on investment, thus those who have little to save should be invested in equity funds to provide balance to their retirement "portfolio."

Possible Solutions

Expand Individual Retirement Accounts (IRAs). Current tax law penalizes those who do not have employer-sponsored savings plans. For example, participants in an employer-sponsored 401(k) plan can contribute up to $18,000 annually, while nonparticipants can contribute only $5,500 to a tax-advantaged IRA. This policy is particularly harmful to early retirees. Level the playing field to treat all savers equally.

Add savings stipulations to tax credits. Rather than send low-income workers a check when they file their tax returns, the federal government could deposit half of each EITC refund into an IRA-type account, similar to auto enrollment in employer plans. Tax filers would still receive half of the credit in cash. Likewise, the Savers' credit could also be deposited into the account.

Expand the MyRA to include other fund options as are available in the Federal Thrift Savings Plan. Or better yet, scrap the MyRA and incorporate some of the features of the MyRA (minimum amount needed to open the account and portability) into universal Roth IRA accounts.

Focus less on creating another retirement account and more on helping those who are unbanked. It is estimated that between 30 and 70 million people do not have a bank account, citing lack of money, mistrust of banks and high fees for services. While it is not possible to convince everybody to open a bank account if they don't trust banks, it is possible to address high fees. Many experts cite Dodd-Frank, particularly the "Durbin amendment" (imposed price controls on the fee paid by retailers when consumers use a debit card) for the increase in fees and the rise in the number of unbanked and underbanked. Empirical evidence shows that people are more likely to save if they have a bank account, so it is important to address regulatory barriers that deter consumers from having bank accounts.

Thank you for the opportunity to submit these written comments.