AREF
American Retirees
Education Foundation

NRLN
NATIONAL RETIREE
LEGISLATIVE NETWORK

Universal Retirement Accounts (URAs): Enhancing Income Security by Supplementing Social Security

Executive Summary

While America suffers from a growing partisan divide on many critical issues, views on retirement income security are another matter altogether. Surveys show that 88% of Americans agree the nation faces a retirement savings crisis, a level of concern that is high regardless of gender, income, age and party affiliation. Gallup polls consistently find that retirement security is the nation's number one financial worry. A May 2018 poll reported a rising level of concern, despite the strong economy, "with almost half of those not yet retired – 46% – projecting they won't be financially comfortable when they retire." While down from 55% in 2012, the share of Americans who fear their retirement income will be insufficient has trended steadily upward since Gallup began tracking this measure in 2002.

America's *real* retirement security crisis is not just Social Security solvency or the many big companies freezing or terminating their traditional pension plans. A more systemic problem is that the majority of American workers do not participate in *any* retirement saving plan—whether pension or 401(k) or Individual Retirement Account (IRA). Employer-sponsored plans cover fewer than half of all private sector workers. Coverage and participation rates are strikingly lower among workers who are low-income, young, work part-time, or work at small firms. Pension funds are how America saves, but only half the nation is equipped to do so.

The resulting dependence on Social Security's safety-net level of income is unfortunate and unsustainable. Nearly two-thirds of current beneficiaries rely on Social Security for a majority of their income. More troubling is that more than one-third (36%) rely on the program for 90% or more of their income – a dependency ratio that is far higher for widows (over 45%). This reliance on Social Security is likely to increase further as fewer retirees receive guaranteed income from traditional defined-benefit accounts, relying instead on voluntary, contributory accounts that are not available on an automatic, payroll-deduction basis to half the workforce.

The most promising and potentially bipartisan path to facilitating sufficient retirement saving by *every* American worker is to leverage the existing Social Security system to add an individual, voluntary and supplemental savings account for every American. Today's private pension system works well for workers who have consistent access to a plan and choose to save. But for the majority who do not – or who are between jobs that do – the NRLN proposes creating a Universal Retirement Account (URA). Every working American needs career-long access to both a potent tax incentive to save; and automatic payroll deduction into a portable, professionally-managed retirement account whether or not his or her current employer sponsors a pension plan. This can be done at modest cost to the Treasury and in a manner that takes the burden of pension benefit administration off of small- and medium-sized firms.

The fact that so few workers save regularly in IRAs reinforces research showing that it is not primarily access to a savings account that spurs participation and asset building, but rather what we call the four "I's": Inclusion, Incentives, Infrastructure and Inertia. Universal Retirement Accounts (URAs) – created and tied automatically to each Americans' Social Security number – will best promote saving by incorporating these overall design principles:

- ***Inclusion*:** Enroll every working adult not currently eligible to participate in a qualified employer-sponsored plan – including part-time, contract and contingent workers – as well as the self-employed and workers who choose to supplement defined-benefit plans, while making contributions voluntary on the part of employees (via opt-out) and employers.

- ***Inertia*****:** Although individuals can opt-out, ***default options*** can convert myopia into productive inertia through automatic enrollment and payroll deduction, automatic asset allocation, automatic escalation, automatic rollovers, and automatic annuitization.
- ***Incentives*****:** A tax incentive for saving in a URA can be made more inclusive—and targeted toward lower-income earners who find it most difficult to save—by expanding the Savers Credit, making it refundable and more generous matching contribution for low-wage workers, and depositing it directly into the individual's account.
- ***Infrastructure*****:** URAs would leverage existing practices to: enable every worker to save by automatic payroll deduction; facilitate career-long portability through a SSA clearinghouse function (to receive and direct contributions); enable choice among certified private pension managers (to professionally invest on a pooled basis); and maintain a low-cost default option for new, small or dormant accounts (managed by, e.g., the federal Thrift Savings Plan).

URAs can promote seamless, career-long accumulation of supplemental saving by combining the following basic elements:

- ***A portable URA account*** is opened for every person, tied to their Social Security number, which facilitates career-long accumulation, tracking and, at retirement, a monthly annuity payment on top of the traditional Social Security benefit.
- ***Automatic Enrollment***: Wage earners who are *not* eligible to participate in their employer's qualified DB or DC plan are automatically enrolled, unless they affirmatively opt out.
- ***A refundable Savers Credit*** as a matching contribution deposited directly into the URA should apply to at least the first $2,000 saved each year; contributions would be from taxable income, but tax-free on withdrawal (Roth tax treatment).
- ***The employers' role*** would be limited to forwarding contributions by automatic payroll deduction along with FICA withholding and, voluntarily, to making contributions on behalf of workers (on either a flat-dollar or flat-percentage basis).
- ***A SSA Clearinghouse*** function would receive, record, and direct all contributions to the selected investment manager; an appointed ***oversight board*** would report back to Congress.
- ***Private institutional pension managers*** (e.g., money managers) will be certified and compete to be selected by individuals initially and during an annual window period; the federal Thrift Savings Plan can serve as the default manager for small, unprofitable accounts.
- ***Other Default Features***: While participation is voluntary, unless a worker opts out, enrollment (at 3% or 4% of pay), investment (a life-cycle fund), escalation (e.g., increasing the contribution rate 1% each year up to 6-8%), rollovers (balances from plans not otherwise directed to an IRA), and annuitization (at or after retirement age) are automatic.

A system of **Universal Retirement Accounts linked to Social Security** can ensure that every worker has at all times a seamless, portable way to save, invest, and enhance their monthly benefit at retirement. Smaller employers can also use URAs as an easy alternative to sponsoring a private plan. URAs with robust inclusion, incentives, infrastructure and inertia would make saving for retirement considerably more universal, automatic, adequate and equitable.

The whitepaper researched and written for the American Retirees Education Foundation (AREF) is the source of information for this Executive Summary. The AREF expands the research and education reach of the NRLN.

For a copy of the whitepaper on this subject, contact Alyson Parker at 813-545-6792 or executivedirector@nrln.org