



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

Talking Points

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.

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.

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.

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.

These Talking Points are based on the whitepaper researched and written for the NRLN by the American Retirees Education Foundation (AREF). The AREF expands the research and education reach of the NRLN.

For the whitepaper on this subject, go to: <https://www.nrln.org/pvtflyin.html>