March 31, 2016

Call to Action: Leadership Needed To Create a Universal Retirement Savings System Complementing Social Security

Dear:

Warren Buffett, Bill Gates, Mark Zuckerberg and Other Business Leaders;

TIAA's Board of Directors and Other Leaders in the Retirement Savings and Investment Field;

The Ford Foundation and Others Interested in Economic Inequality and Asset Building; and

Financial Educators and Planners:

Re: <u>Building a Retirement Savings System that Includes All Americans</u>

Among the greatest challenges facing the United States are economic insecurity, growing inequality, and lack of long-term savings by a large portion of the population. The retirement system is a primary way that most Americans can participate in the economy as savers and investors. Yet a large percentage of Americans has no retirement plan, little or no long-term savings, and no net assets.

- About one-third of American workers report having no retirement savings at all. (Helman, R., et al., "The 2015 retirement confidence survey: Having a retirement savings plan a key factor in Americans' retirement confidence," Employee Benefit Research Institute.) Also see: "Most Households Approaching Retirement Have Low Savings," U.S. GAO, 2015.

- The U.S. continues shifting from traditional pensions to a system of individual accounts and "defined contributions." But more than half of those with defined contribution (DC) retirement accounts have very little in them. Among households with DC retirement accounts, the median balance in 2013 was $4,700 for those in the lowest net worth quartile and $12,100 for those in the quartile just above that. (EBRI analysis of the 2013 Survey of Consumer Finances.)

- The shift to DC accounts, in its current form, may be accelerating disparities in wealth while excluding many from participation. (See: "How the Emerging U.S. Retirement System Magnifies Wealth Inequality," http://csd.wustl.edu/Publications/Documents/P15-63.pdf .)

The United States needs your leadership to form an expert work group to develop a retirement savings and investment system that includes everyone. Achieving this goal could be a major step in addressing the issues of economic insecurity and inequality. Private-sector leaders can play a key role in organizing, testing, and operating such a system.

The outline below presents essential elements of an inclusive retirement savings and investment system, and how your skills and resources could help make it happen. This approach involves setting up a fiduciary organization (or network of them) housing accounts for people entering the work force. With small amounts seed capital and modest annual contributions, a system such as this could substantially raise retirement income for a large share of the country's future retirees.

If this particular approach is insufficient to meet the stated goals, or not the best way, then please help to develop a better way! If the private sector can't do this alone, please help design a way the government can create a universal retirement savings system, as some of our country's major trading partners have done, including Great Britain and Australia.

Federal legislation will likely be needed to help those with the fewest resources. Some believe that the most efficient way to supplement retirement income for those with low-to-modest incomes is to increase their Social Security benefits. This may be true, but it doesn't seem likely to happen, given that Social Security already faces long-term fiscal challenges. It also should be noted that improving Social Security benefits and creating a more inclusive retirement savings system and are not mutually exclusive policy approaches, and can complement one another. If a fiduciary organization providing accounts with seed capital for people entering the work force could be designed and tested, perhaps a future Congress and President would be willing to make contributions for those with greatest financial need.

In the bigger picture, a universal retirement savings and investment system could help American capitalism move toward a more economically healthy and politically stable future. There is growing awareness that, for a number of reasons, wealth has been concentrating while more people are being left behind. For American capitalism to thrive, we need to consider pursuing a more collaborative and inclusive philosophy along with practical strategies that improve people's lives. Your leadership is critical to help build a system that provides everyone with a stake in the economy as workers, savers, and investors – a system in which opportunity is handed forward from one generation to the next.

Thank you for your consideration.

Sincerely,

Karl Polzer, Center on Capital & Social Equity / www.polzercapital.com

Essential Elements of an Inclusive Retirement Savings and Investment System:

It is important to clarify that the proposed fiduciary organization and the accounts it would manage are intended to augment Social Security in providing retirement income and are not intended to replace Social Security in any way.

1) **An institutional hub**: A long-term savings and investment system needs an institutional structure and fiduciaries to operate it. TIAA, the retirement savings plan for teachers, presents a strong model. Established by billionaire philanthropist Andrew Carnegie about 100 years ago, TIAA has been very successful in providing a profession that moved from employer to employer, and many others, with a reliable way to save and invest for retirement. What Carnegie started became the prototype for the 401(k) and IRA retirement system that increasingly predominates in the United States.

An institutional structure like TIAA with a broader reach, or a network of such organizations, could play a central role in today's economy to meet the needs of the growing number of self-employed, people moving from job to job, people with low and modest incomes, and those working for small businesses that don't offer retirement savings plans. Such a fiduciary organization could establish "starter" retirement accounts for all young people entering the workforce and take responsibility for choosing investment options and investing account funds over many decades.

TIAA, similar organizations, or government entities could take the lead by refining and testing this type of model in geographic areas or for specific populations. National goal: everyone is offered an account (of course, they would have the right to refuse or opt out).

2) **Providers of seed capital:** Successful entrepreneurs/capitalists and philanthropists could provide seed capital through grants and loans. The idea here is to build the organization and prime the pump by putting a small amount of money in each account.

   By way of example, if $100 of seed capital is put in an account, half the money could be held in trust by the fiduciary organization, placed in long-term investments, and be off limits to the beneficiary until retirement or a specified age. The other half of the seed capital could be invested by the individual among options similar to the federal employees' Thrift Savings Plan or typical employee retirement savings plan.

   Having such basic asset choices could play an integral role in the financial education of people entering the work force who need training in how to use the defined contribution system. Learning about retirement savings and investment without having money in an account arguably is like learning how to drive from a book without ever getting behind the wheel of a car.

   Individuals or employers, of course, could add to these accounts, which could be especially helpful to those who are self-employed or have jobs with no retirement plan.

   Seed capital provided by national philanthropies and business leaders could be supplemented by businesses and foundations in local communities. Because of the long-term nature of the investments, it's possible that the fiduciary organization may be able to repay the original investments, at least in part, after several years of investment.

In the long run, accounts such as these would probably be most helpful to long-time low-to-moderate income workers. Many retired workers rely almost entirely on Social Security. Median Social Security income is about $14,000 a year; so half receive less. For this group, a relatively small amount of retirement savings can generate a significant increase in retirement income if invested responsibly over many decades. Over 50 years, for example, each $100 in seed money would grow to more than $700 if earning four percent annually in real dollars. At the same rate of return and over the same time span, annual contributions of $200 would grow to about $33,000, which could supplement annual median Social Security income by $1,600 – or by more than 10 percent.

The wealthiest shouldn't be the only ones asked to provide resources and help. Starter account holders who end up in higher paying jobs as their work lives unfold could be asked by the fiduciary organization at intervals, say every decade, to consider "donating" their seed capital back into a general fund, so that it could be used to help prime the financial pump for the next generation of workers. Or they could donate additional seed money help a few young people in their community. Long-time low-income workers could receive small additional amounts of seed money upon completing additional training every decade, or at other time intervals.

3) **Ongoing contributions:** The fiduciary organization (or organizations, in a system with more than one) could provide information about individual and employer contribution levels needed to reach retirement savings goals. The organization could research and recommend how government subsidies and tax credits could most effectively supplement savings, especially for those with the lowest incomes. The fiduciary organization would be in a position to receive available public subsidies and put them to work.

4) **Changes in public policy:** No matter how much financial education is provided, many people simply don't have the financial resources to make regular contributions or will choose not to save for retirement. An inclusive retirement system may require changes in public policy including automatic enrollment in retirement accounts and prescribed contributions from employers and the government. (The current DC system already is heavily subsidized by the exclusion of employer contributions from taxation and a

disproportionate share of that subsidy goes to higher-income workers.) In a world with automatic enrollment and more transparent government subsidies, a series of questions arises concerning the how fiduciary organizations could best operate to help achieve policy goals.

5) **Financial education and educators:** The starter accounts described here could be integrated into financial education about long-term savings and investment. Some of the learning could be done online. Students could be tested. Receiving the seed money could be contingent on completing basic financial education, but that needn't be a requirement, and perhaps shouldn't be. If possible, training methods could be integrated into financial education that young people were receiving in schools (many states now require financial education, though the quality is far from uniform).

   Once an account is established for each person, the fiduciary organization could add to the initial education with periodic information and suggestions about managing assets, as is customary with IRAs and 401ks. Once there is a relationship between a fiduciary organization and individuals, there is opportunity to provide information updates by email, online, or webinars.

   Leading financial educators, financial planners, and financial literacy experts could be tapped to develop the best methods to teach this type of material at reasonable cost. Local experts could provide extra coaching based on need.

6) **Research and evaluation:** The impact of such a system should be tracked and evaluated, including metrics on inclusion (having a retirement account), accumulation, social equity, return on investment, and financial literacy.

7) **IT infrastructure:** Creating online account formats that coordinate with financial literacy education could utilize the web in innovative, low-cost ways that are synergistic with other business and social activities. Young people are accustomed to interacting with Facebook and other social media, for example. Similar formats with more secure entry could provide a familiar way to expose them to information about financial decision making.

8) **Targeting resources, integration into current system:** The system described above would need to meet a wide range of needs and individual circumstances. For example, how can such a system best meet the needs of low-income workers and those changing jobs frequently? How could investment choices young people be structured maximize both economy and

learning? Should such a program, and efforts to test it, target additional resources to young people in economically disadvantaged areas, Title 1 schools, or from low-income families? How could starter accounts be integrated into, or operate alongside, existing retirement vehicles, including employee retirement plans and IRAs? How should success or failure of such a program be measured?