VIEWPOINT

JULY 2018

Roadmap for improving U.S. retirement savings: Make it easier

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Make it EASIER

Enhanced
Access to
Savings &
Investments
Enables
Retirement

“Getting people to build a nest egg is simple. Make it easier.”

*– **Nobel Prize winning economist Richard Thaler***

Retirement security is an important financial priority for every American. As our population ages, it is becoming increasingly clear that policy changes are needed to facilitate retirement security.[1] Today, individuals are living longer and are increasingly responsible for funding their own retirement. At the same time, many are not saving and investing enough to adequately meet their needs for a secure retirement.[2] Almost half of all private-sector workers aren’t participating in a retirement savings plan through their employer, according to the U.S. Bureau of Labor Statistics.[3] Further, over a third of Americans don’t have access to a public or private employer-sponsored plan,[4] and that number is even higher for individuals who work for small businesses.[5]

Recognizing the need for policy changes to expand and enhance private sector retirement programs, in July 2018, five bills were introduced in the Senate addressing different aspects of the U.S. retirement landscape.[6] This follows the introduction of legislation calling for the creation of a Commission to conduct a comprehensive review of the U.S. retirement landscape, with a focus on private sector benefit programs, as well as The Retirement Enhancement and Savings Act of 2018 (RESA).[7] In order to strengthen retirement security for millions of Americans, we recommend a comprehensive approach that focuses on (i) expanding access to employer-sponsored retirement savings plans; (ii) increasing individual participation in retirement plans; and (iii) improving retirement outcomes through decumulation. In this paper, we outline a number of straightforward policy actions that Congress and the Administration could take to advance these goals and make it easier for millions of Americans to plan for a secure retirement. These policy recommendations benefit from bipartisan support and, taken together, would create transformational change for millions of Americans. While we recognize the important role played by defined benefit plans and the many benefits they provide to participants, this *ViewPoint* is focused on ways to improve U.S. participant-directed plans such as defined contribution (DC) plans, given broad industry trends in that direction.

The opinions expressed are as of July 2018 and may change as subsequent conditions vary.

Policy recommendations to make it easier for Americans to save for retirement

1. Expand access to employer-sponsored retirement plans.

a. Encourage open multiple employer plans (MEPs) by eliminating the "nexus" requirement and "one bad apple" rule.

b. Reduce reporting and disclosure burdens on plans, including simplifying Form 5500 and allowing electronic delivery of disclosures.

c. Offer a modified SIMPLE Individual Retirement Account (IRA) plan that small employers can establish with relatively low start-up and maintenance costs.

2. Increase individual participation in retirement plans.

a. Adopt a safe harbor regulation that facilitates re-enrollment, including into a qualified default investment alternative (QDIA).

b. Encourage automatic enrollment and automatic escalation through a new, more flexible nondiscrimination safe harbor.

c. Improve portability of plan assets by simplifying and enhancing the current disclosures required for individuals to move assets from one employer's plan to another.

3. Improve retirement outcomes through the decumulation phase.

a. Increase access to lifetime income products in DC plans.

b. Improve the IRA rollover process for rolling over from a 401(k) into an IRA to make it simpler for individuals to determine where to put their money.

c. Revisit minimum distribution rules for small DC and IRA balances.

Expanding Access to Employer-Sponsored Retirement Plans

As we discussed in our September 2013 *ViewPoint* Addressing America's Retirement Needs: Longevity Challenge Requires Action, in the U.S., there is a complex patchwork of programs to promote retirement growth, covering different workers, using different funding sources, with different tax treatments and distribution mechanisms.[8] Over time, DC plans have increasingly become the primary source of retirement income for many Americans.[9] Thus, it is critical to strengthen and improve the existing DC system to further encourage employers to set up plans, facilitate increased and continued savings from an early age, and promote outcome-oriented investing to secure better retirements for more Americans.

Although a number of retirement plan options are already available to small employers, including 401(k) plans, Simplified Employee Pension (SEP) IRAs, and Savings Investment Match for Employees (SIMPLE) IRAs, many small employers are reluctant to offer plans to their employees because of concerns regarding potential fiduciary liability as well as administrative complexity, burdens, and costs. Small employers often do not have the time to obtain the education and third party resources needed to establish a plan within the existing regulatory framework.[10]

The recently introduced Small Business Employees Retirement Enhancement Act of 2018 seeks to make it easier for small employers to offer plans.[11] We support this goal and believe there are a number of policy solutions that would encourage employers to establish and maintain plans. We recommend that Congress and the Department of Labor (DoL) facilitate the adoption of open MEPs, ease the paperwork burden on employers associated with maintaining a plan, and consider a new modified SIMPLE IRA plan structure that would be easy for employers to implement and administer.

Encourage Open Multiple Employer Plans

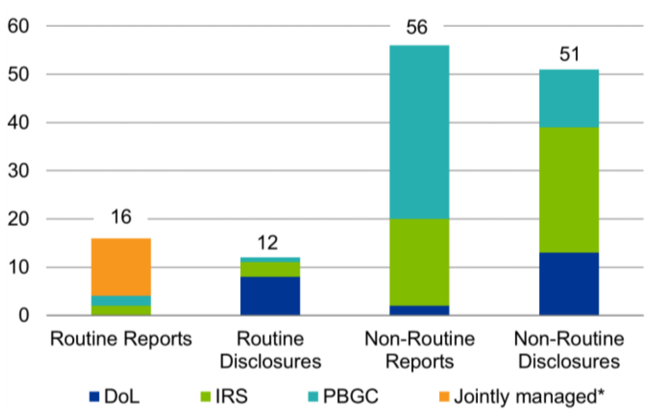
As we discuss in our January 2018 *ViewPoint* Increasing Access to Open Multiple Employer Plans, one promising way to encourage small employers to offer retirement plans is to facilitate open MEPs. Open MEPs allow businesses to share administrative and other responsibilities associated with establishing and maintaining a retirement plan. The MEP sponsor assumes overall fiduciary responsibility, files required reports, and handles many other administrative and recordkeeping tasks. Participating employers are responsible for contributions and distributions, but are relieved of many fiduciary responsibilities assumed by the sponsor and shoulder a significantly lower administrative burden. MEPs significantly reduce and simplify the burdens on employers, particularly smaller companies that would like to offer a plan but are concerned about the time, complexity, and fiduciary risk associated with doing so. MEPs can also be used by states and municipalities that may want to offer a plan in which employers in their jurisdiction can participate.[12]

However, current judicial and regulatory rulings impose a commonality requirement that there be a "nexus" among the employers who participate in a MEP (e.g., multiple franchises of the same restaurant chain).[13] The fiduciary status of the plan sponsor and the relatively simple structure of these types of plans (i.e., individual participant accounts) sufficiently mitigate concerns regarding potential abuse of an open MEP structure, and allowing an open structure would make it significantly easier for small employers to establish plans. Given this, we recommend eliminating the commonality requirement.

The "one-bad-apple" rule in regulations under the Internal Revenue Code of 1986, as amended (the Code) serves as an additional disincentive for employers to establish plans. Under this rule, a failure by one employer to meet the qualification rules would have the effect of disqualifying the entire MEP.[14] One solution to address this would be to revise the Code or the regulations such that only the plan that engaged in the disqualifying conduct would be affected. This change is important to ensure that open MEPs are an attractive option that can be sustained over time.

Over the past few years, there have been multiple legislative proposals that would eliminate both the nexus requirement and one bad apple rule. RESA, introduced in both the Senate and the House in March 2018, proposes eliminating these provisions, along with various additional changes to the Employee Retirement Income Security Act of 1974 (ERISA) and the Code.[15] In 2017, two bills were introduced in the House that would similarly eliminate the nexus requirement and the one bad apple rule – the Automatic Retirement Plan Act of 2017[16] and the SAVE Act of 2017.[17] And, in 2018, the Small Business Employees Retirement Enhancement Act was introduced in the Senate.[18] We support legislative provisions that would address these barriers and facilitate small employers offering plans. In the absence of legislation, in our view, the DoL and Treasury could revisit its existing guidance and facilitate adoption of open MEPs that are DC retirement plans.

Exhibit 1: Reports and Disclosures for Private Pension Plans



*The Form 5500 report and its schedules are jointly overseen by all three agencies. Source: GAO analysis of information provided by the DoL, IRS, and PBGC and related laws and regulations. Includes requirements for both DB and DC plans.

"The system of reports and disclosures is complex, and determining which requirements may apply to any given plan can be challenging"

– GAO Report[19]

Reduce Reporting and Disclosure Burdens on Plans

The current processes for reporting to regulators and providing disclosures to plan participants are far from easy. The GAO has identified more than 130 reports and disclosures stemming from ERISA and the Code.[20] For DC plans, this includes Form 5500, periodic pension benefit statements, summary annual reports, summary plan descriptions, forms to make or change elective deferrals, and participant fee disclosures. There are additional disclosures for plans with automatic enrollment provisions.

Each year, DC plan sponsors must submit Form 5500. The GAO identified a number of challenges with completing Form 5500, including complexities of the reporting format, challenges in finding key information within the form, and inconsistent naming conventions.[21] We recommend that Congress and/or the DoL simplify the Form 5500 reporting regime or consider eliminating it altogether for DC plans that offer only registered mutual funds, bank maintained collective funds, or index separate accounts as investment alternatives. The requirements of completing this form, in addition to assuming fiduciary responsibilities, are among the principal regulatory burdens deterring small business from offering DC plans. In 2016, the DoL issued a proposed rule that would increase the Form 5500 requirements in ways that would disproportionally burden small businesses.[22] We believe that this proposal should be abandoned. We recommend instead that the DoL undertake a new initiative to update the Form 5500 to make it simpler and less burdensome. Furthermore, we recommend the Form request only essential data, particularly from small plans, and Form 5500 reporting should be entirely eliminated for certain types of plans with simple investment options, or, at a minimum, the audit requirements could be eliminated.

Congress and the DoL should also review other disclosure requirements for qualified plans to determine which disclosures can be eliminated and which can be modernized, simplified, and consolidated. For example, the use of electronic delivery for required disclosures should be expanded.[23] As of 2016, approximately 93% of households with DC plans have internet access, a number that has increased dramatically over time.[24] Electronic delivery would provide cost savings for plans and increase the effectiveness of communications by making it easy for individuals to receive information in real time on their computers or mobile devices. In addition, electronic delivery is environmentally friendly, as it would reduce the use of paper and related printing and mailing resources.

In 2011, the DoL published a request for information regarding electronic disclosures.[25] However, to date, the rules have not been changed, and there are currently four separate regulatory standards that dictate when an employee can be provided with plan documents electronically.[26] We urge the DoL and Treasury to work together to review and update their regulations with respect to electronic delivery and to ensure that they are consistent for all retirement plan-related disclosures.[27] One harmonized standard that allows for electronic delivery (with an opportunity to opt-out and continue to receive paper documents) would simplify document delivery and save costs for plan sponsors and their participants. While we believe this could be achieved without legislation, there is support in Congress for electronic disclosure of ERISA documents, as demonstrated by the Receiving Electronic Statements to Improve Retiree Earnings Act of 2017, which was introduced in December 2017 with 41 bipartisan co-sponsors.[28]

Adopt a Modified SIMPLE IRA

The SIMPLE IRA was intended to provide access to a retirement plan for employees of small businesses. SIMPLE IRA plans, authorized under the Section 408(p) of the Code, are employer-provided IRA plans with relatively low start-up and maintenance costs, given that they are not subject to many of the administrative burdens that come with ERISA compliance. Employers only have a single form to complete and are not subject to annual testing. SIMPLE plans are available for employees at companies with 100 or fewer employees who received at least $5,000 in compensation during the prior calendar year. These plans are administered through payroll deductions and have higher contribution limits than a traditional or Roth IRA.[29]

Since SIMPLE IRAs were authorized in 1996, over 600,000 employers have used SIMPLE IRAs, and assets have increased to $115 billion, still a relatively small amount compared to other retirement plans.[30] Given the relative attractiveness of a SIMPLE IRA in comparison to other more expensive and complex plans for small employers to administer, policy makers need to consider why this vehicle is not more popular. There are a number of potential influencing factors, including: (1) the mandatory employer contributions, which can be challenging for small businesses with volatile cash flow; (2) the lack of a Roth option, which would benefit many younger employees in small businesses; (3) the requirement that SIMPLE plans be the only retirement plan offered by the employer; and (4) the cost of setting up these plans. To make these plans more attractive for small employers, we recommend making a modified SIMPLE IRA that is easier to establish and maintain.

We support creating a modified SIMPLE IRA structure which:

i. Provides more flexibility for mandatory employer contributions if they use auto-enrollment into a QDIA;
ii. Provides the employer with an additional annual tax credit if they use auto-enrollment into a QDIA;
iii. Permits both Roth and traditional IRA tax treatment of contributions; and
iv. Modifies the requirement that the SIMPLE IRA be the only retirement plan at a company, instead allowing it to be offered alongside other plans.[31]

Modifying the mandated employer match will make these plans more attractive to small employers. Providing an additional tax credit for start-up costs, which was proposed in the RESA legislation, will remove a barrier to entry. Linking these benefits to auto-enrollment into a QDIA will increase participation, create greater diversification, and increase the likelihood that individuals will remain in the plan. The higher participation rate by lower compensated employees likely to result from auto-enrollment also works to resolve concerns about discriminating in favor of more highly compensated employees. By providing safe harbor investments under QDIA rules, individuals will get better outcomes. Allowing Roth tax treatment of contributions in additional to traditional tax treatment would help younger workers at small companies, who can benefit most from early saving for retirement. Permitting SIMPLE IRAs to be offered alongside other retirement plans is intended to expand access to cover employees who may not otherwise be eligible for a 401(k), such as contingent or temporary workers.

Increasing Individual Participation in Retirement Plans

In order to achieve secure retirement outcomes, individuals must both have access to a plan and must participate in the plan. Behavioral science shows that automatic enrollment is a very effective tool to get people into healthy savings habits.[32] We recommend that policy makers make it easier for employees to conduct automatic enrollment, automatic re-enrollment, and automatic escalation. Taken together, these provisions will increase participation and retirement savings.

A key inflection point for an individual's retirement savings journey is when he or she changes jobs, as the individual must determine what to do with his or her existing retirement assets. We recommend improving plan portability by simplifying the process for individuals to move DC plan balances between employers and between an employer and an IRA.

Emergency Savings Solutions

It is important to include emergency savings in any comprehensive discussion of retirement security, as the two are intrinsically linked. While investing for the long term is essential, it's hard to plan for the future when you're worried about today. In 2017, when faced with a $400 emergency expense, 41% of Americans would have needed to either borrow or sell something to cover the cost.[33] For those with retirement savings, this could mean depleting their nest eggs through early withdrawals. For those without retirement savings to pull from, the consequences are that much worse.

Providing greater access through employers to emergency savings solutions and utilizing proven tools such as auto-enrollment have the potential to help workers build a short term cushion, while reducing leakage from their retirement accounts. In July 2018, bipartisan legislation including provisions to help Americans build short term emergency savings was introduced. We support the inclusion of emergency savings solutions in the retirement savings dialogue.

Adopt a Safe Harbor Regulation that Facilitates Re-enrollment into a QDIA

Re-enrollment is the process in which a company can enroll employees not currently participating in their employer's DC plan and/or modify the investment and saving rate elections of those already enrolled. It can be used to enroll long term employees, who were hired before automatic enrollment was implemented by the employer. Re-enrollment can also be used to move participant account balances from money market funds or company stock to a more diversified portfolio, and it can be used to increase contribution rates. The United Kingdom has embraced re-enrollment as part of its policy to improve retirement savings and outcomes. Under the United Kingdom's Retirement Savings Program, individuals who opt out are automatically re-enrolled every three years (with the option to opt out again).[34]

BlackRock's 2016 DC Pulse Survey found that only a quarter of plans have recently conducted a re-enrollment. In declining to conduct a re-enrollment, plan sponsors often cite concerns regarding fiduciary risk. We recommend that the DoL provide guidance to clarify that the QDIA safe harbor in 404(c)(5) of ERISA applies to re-enrollment in all cases. In particular, the safe harbor should apply where a current plan participant previously made an affirmative election to invest in a particular plan investment option or to opt out of a plan, provided that employees are notified of re-enrollment in advance and given the option to opt-out.

Encourage and Improve Automatic Enrollment and Automatic Escalation

Research shows that automatic enrollment dramatically increases participation rates in retirement savings plans, particularly among younger and lower-income workers.[35] Today, 71% of companies that offer DC plans enable auto-enrollment, a level that has increased slightly in recent years.[36] Auto-escalation similarly enables increased savings and, based on a recent survey, approximately 70% of plans feature auto-escalation.[37]

The Pension Protection Act (PPA) of 2006 created an additional nondiscrimination safe harbor, known as a qualified automatic contribution arrangement (QACA), which provides an exemption from nondiscrimination testing requirements for plans with eligible contribution arrangements.[38] To create a greater incentive for plan sponsors to adopt these arrangements, Congress could adopt a new, more flexible nondiscrimination testing safe harbor for automatic enrollment and automatic escalation.[39] We make the following specific recommendations:

i. Congress can eliminate the 10% cap on the amount of deferral in the existing QACA safe harbor.[40] Elimination of this cap would benefit all plan participants and would not discriminate in favor highly compensated employees, whose deferrals are limited under Section 402(g) of the Code. The cap currently works to the detriment of lower compensated employees who may want to save a greater percentage of their income, and to the detriment of two income households where only one spouse has access to a plan. Removing the cap would provide additional flexibility for individuals with different life circumstances to invest based on their needs, goals, means, and desires.

ii. Congress can give companies flexibility in the rate of escalation of contributions. The employer should be permitted to determine the escalation rate it believes will work best. For example, in a given industry, for a given group, it may be better to escalate deferrals at only 0.5% per year. As is the case under the current regime, employees always have the ability to opt out of or modify these escalations.

iii. Congress can give companies flexibility in matching contributions, as long as certain minimum standards are satisfied. For example, companies should be permitted to structure their matching contributions to encourage higher deferral rates. Also, the minimum employer obligation could be reduced to encourage employers to adopt these plans. Employers may be willing to commit to matching a small amount of contributions but deterred by the current minimum obligation of 100% matching up to 1% of compensation and 50% matching for 1% - 6% of compensation.[41] A new safe harbor could, for example, require only a 50% match, up to 3% of compensation.

In addition to changing the QACA safe harbor, the public and private sectors should work together to increase plan sponsor education on the importance and benefits of saving more through employer-sponsored retirement plans, including suggesting that initial default contribution rates be set at approximately 6%, as there is minimal impact on opt out rates due to a default increase from 3% to 6%.[42]

Improve Portability of Plan Assets

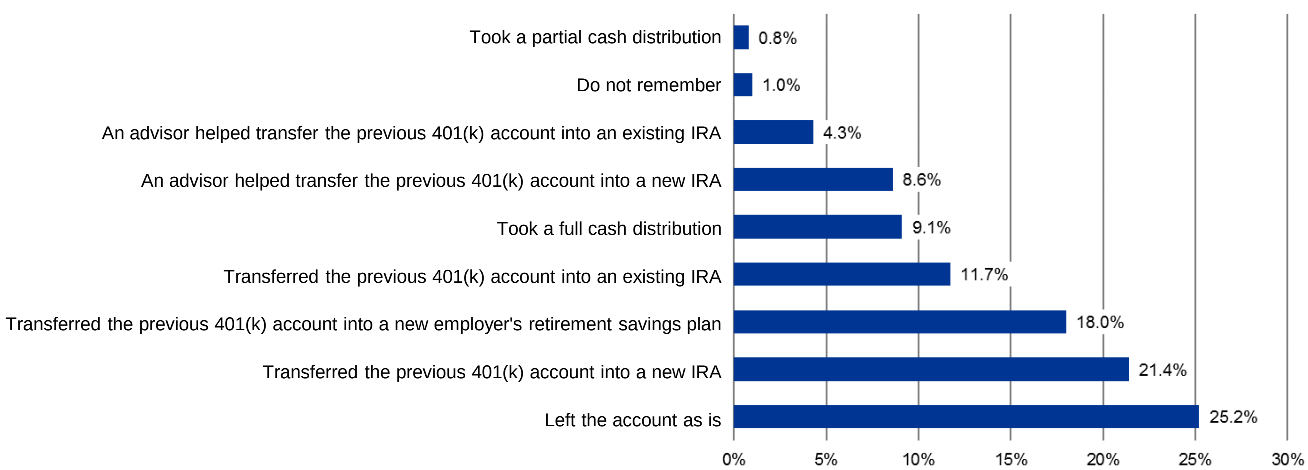
As workers change jobs more frequently than ever before, inefficiencies in transferring accounts may result in many individuals having multiple retirement accounts and a limited view of their holistic retirement savings. This dispersion can make it harder to keep track of retirement savings and plan effectively.[43] It can also result in "leakage," reducing an individual's savings, limiting their ability to benefit from investing at scale, and further challenging the security of their retirement.

The current process for moving assets from one employer's plan to another or rolling over into an IRA is complicated, confusing and largely manual. There are no standardized requirements, processes (including timing), or paperwork. If a participant wants to do a direct transfer or rollover to a new employer plan or an IRA, the check will likely be sent to the participant who must then personally and manually route it to the receiving entity. Further, some plan sponsors fear providing even basic information to their participants on their options because of concern with potential fiduciary liability to the company. As demonstrated in Exhibit 2, there are a number of different options for employees upon switching employers, many of which require action from the individual to move their accounts. To make plan portability easier to understand and simpler to execute, the DoL and/or the Department of Treasury should consolidate, simplify and enhance the current disclosures required under the Internal Revenue Code.[44]

We recommend a single standardized description of a participant's options with respect to plan balances when they leave an employer. This document should explain in plain English (and with examples), a participant's alternatives, the different factors that a participant should take into account in making a distribution decision (including investment options, fees, and tax impact), and the potential consequences of different decisions. The document can also include a list of standard questions that a participant could ask to assist in making an informed decision. This standardized document would be used by both plan sponsors as well as financial services organizations offering rollover IRAs and would need to be provided before individuals make a distribution decision. It would help educate participants to make more informed and objective decisions and mitigate the potential conflicts that plan sponsors or financial services firms may have with respect to the desirability of a participant making a particular distribution decision. The IRS's existing FAQs on retirement options upon termination of employment could serve as a starting point for this document.[45]

Further, both the public and private sectors should work together to support improved processes and technologies that make it simpler to transfer DC plan balances between employers and between an employer and an IRA. Employers should be encouraged to streamline and improve their processes for accepting assets from an individual's prior employer. For example, they should take advantage of Revenue Ruling 2014-09, which provides for a simplified diligence process to ensure that the source of assets is another qualified plan.

Exhibit 2: Employee Actions upon Changing Jobs



Source: The Cerulli Edge, U.S. Retirement Edition: 2Q18 (Jun. 29, 2018), available at https://www.cerulli.com/subscriptions/us-retirement-P0000I6?ref=/products-services/cerulli-publications/edge-series/. This question was asked only to respondents who indicated they had a previous 401(k) account.

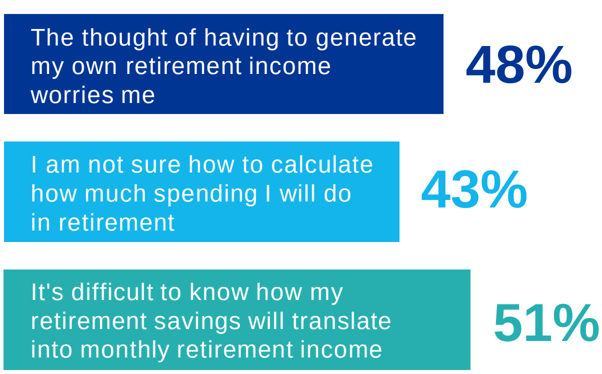
We recommend establishing a retirement security clearinghouse, as proposed by the Bipartisan Policy Center, which would streamline transfers and rollovers among DC plans and IRAs.[46] Under this system, the DoL and Treasury would work with industry stakeholders to develop standards for streamlining transfers and rollovers across DC plans and IRAs. This type of a system would eliminate or reduce the current practice of sending checks to participants for further routing to the recipient organizations. Such a system could be referred to as a form of automatic portability.

Improving Retirement Outcomes through Decumulation

While there has been significant focus on increasing the assets being put into retirement plans, less attention has been paid to how individuals manage withdrawals throughout retirement. Decumulation is a critical component of the retirement journey. Many don't know how to manage their 401(k) balance upon retirement as they transition from saving to spending. Further, individuals would benefit from additional innovations to facilitate an income stream in retirement. BlackRock's 2018 DC Investor Pulse Survey found that 93% of plan participants are looking for guidance on annual and monthly retirement income. As demonstrated in Exhibit 3, nearly half of plan participants don't know how their existing savings will translate into income in retirement.

There are a number of actions policy makers could take to make it easier for individuals to get in, and stay in, appropriate investment products that will provide an income stream throughout retirement. Steps towards integrating products that facilitate both the accumulation and decumulation phase of retirement will support more streamlined and secure retirement journeys for individuals.

Exhibit 3: DC Plan Participant Concerns about Retirement Spending



Source: 2018 BlackRock DC Pulse Survey, a major research study of over 200 large DC plan sponsors and over 1,000 plan participants executed by Market Strategies International, an independent research company.

Increase Access to Lifetime Income in Defined Contribution Plans

It can be challenging for retirees to manage their income stream and savings throughout retirement. Many current retirees are either not spending down their retirement savings at all or are burning through their nest eggs too quickly.[47] A preference to avoid spending down retirement savings could be driven by a variety of factors including sufficient income from other sources, but fear of outliving retirement savings is one of the top reasons.[48] The risk of outliving retirement savings is referred to as "longevity risk," and the need to manage longevity risk is becoming a growing concern for employers and individuals.[49]

Lifetime income products, such as annuities and financial guarantees, may help mitigate longevity risk and alleviate some of the challenges associated with managing withdrawals throughout retirement by providing a basic level of income security. An annuity is a financial product offered by insurance companies that is designed to provide investors with a steady stream of payments after a certain date for life. Through the use of annuities, workers can set up periodic "paychecks" for the duration of their life. The primary benefit of using an annuity is that it can serve as a guaranteed income source. This can be valuable to retirees or pre-retirees who are concerned about losing money from their retirement savings in a downturn, or worried that they may outlive their savings. Someone in or near retirement could purchase an immediate annuity to receive these paychecks beginning immediately. Someone saving for retirement could purchase a deferred annuity, which will make payments beginning at a future date (e.g., upon retirement).

Currently, annuities are not typically offered as an investment option in 401(k) plans, likely due to employer discomfort with applicable regulatory requirements as well as cost and liquidity concerns. The DoL's regulation at 2550.404a-4 provides a safe harbor for the selection and monitoring of annuity providers and annuity contracts in individual account plans. This regulation requires the plan sponsor to engage in a "facts and circumstances" analysis, which includes consideration of the financial ability of the annuity provider to make payments. In 2015, the DoL issued interpretive guidance on how to apply the facts and circumstances test.[50] Although an improvement, this additional guidance did not alleviate the burden on plan fiduciaries to assess the financial health of an insurer and its ability to make all future payments.

As a result, plan fiduciaries remain reluctant to bring lifetime income options into their 401(k) plans due to fears of fiduciary liability. Plan sponsors would likely find greater comfort including annuities as an investment option in their DC plans if they had a more bright line rule, rather than one based on facts and circumstances. Plans would benefit from guidance surrounding the steps they need to take to evaluate lifetime income solutions to meet safe harbor requirements. For example, the safe harbor could look to the credit rating, licensing, length of operations or size of a particular insurer.

There have been a number of bipartisan legislative initiatives in recent years to ease the fiduciary burden associated with selecting annuity providers for 401(k) plans.[51] In December 2017, the Increasing Access to a Secure Retirement Act of 2017,[52] which focuses on creating a more practical and more objective safe harbor for adding lifetime income options to 401(k) plans, was introduced in the House. The 2018 RESA bill includes a similar provision. To ease the fiduciary burden on plan fiduciaries, both of these bills would allow the fiduciary to rely, for the most part, on representations from the insurer that:

- It is licensed to offer guaranteed retirement income contracts;
- At the time of purchase and for a specified lookback period, it has satisfied certain state statutory and regulatory requirements;
- It undergoes a financial examination by a state insurance commissioner at least every five years; and
- It will give notice to the plan fiduciary if circumstances change that affect its representations.

We support legislative provisions that would make it easier for employers to offer these products in their 401(k) plans while maintaining appropriate protections for plan participants. We further support provisions that would make it easier for individuals to transfer their accrued income benefit, which is increasingly important as the workforce becomes more mobile. For example, RESA allows for enhanced portability and the rolling over of lifetime income options into an IRA with the same or similar protection. Additionally, plan sponsors may have some pause with adding lifetime income solutions due to the potential for increased costs and the current focus on fees in the DC system. Thus, it is important to reiterate that fees should not be the only consideration in adopting plan investment options. Finally, in order to maximize the utilization of lifetime income solutions by plan participants, we recommend integrating these solutions into the plan QDIA to deliver the most benefit. Cerulli estimates that 75% of DC plan flows will be directed to target date funds (the most common QDIA) by 2020.[53] Plan default components, such as automatic enrollment and automatic escalation, have proven to be powerful mechanisms to drive positive behavior on the accumulation side of the DC system. We encourage harnessing the power of QDIAs to deliver better outcomes in decumulation as well by allowing inclusion of lifetime income products in QDIAs.

Improve the IRA Rollover Process

Upon retirement (similar to when changing jobs), individuals can choose to rollover their 401(k) plan from a pooled company plan into an IRA – a process called an IRA rollover. The system for rolling over from a 401(k) into an IRA requires a significant amount of paperwork and action from individuals, who may not know where to put their money. Individuals are required to make a number of informed decisions, including selecting a financial provider and investments. To make this process simpler and help retirees achieve better outcomes, we recommend a “waterfall” of rollover options: (i) stay in the company 401(k) if permitted, (ii) roll into a QDIA-like product for retirees, or (iii) opt out of these options and make an alternate choice.

Some companies encourage retirees to remain in the company 401(k). For these situations, staying in the plan could become the default option. For employees leaving a company plan, there could some safe harbor protection if an employer identifies QDIA-like products that a retiree could select in his or her IRA. These products could include a lifetime income component and be designed to meet criteria for an income-tilted multi-asset portfolio intended for retirees. Retirees who may want to manage their assets differently could do so.

Revisit minimum distribution rules for small DC and IRA balances

Required minimum distributions are the minimum amounts that an individual must withdraw annually from certain types of qualified plans starting with the year that the individual reaches 70 ½ years of age.[54] The rules with respect to required minimum distributions are complicated.

To reduce complexity and administrative burden, we recommend that individuals be exempt from the required minimum distribution rules if their aggregate holdings in DC plans and IRA balances is less than a specified amount, for example, $250,000. This would make it easier for individuals to manage their savings throughout retirement and keep some of their assets in their plan balance in years when their financial needs may be met through other savings, enabling them to access those assets later in retirement.

Another way to ease the burden of these rules would be to increase the starting age for required minimum distributions from 70 ½ to 75 years of age, which the U.S. Chamber of Commerce has suggested.[55] The age requirement was established in 1962 and has not been updated to reflect increases in longevity.

We recommend increasing the starting age requirement to encourage individuals to continue to save during their early retirement years, given that they are expected to live longer.

Conclusion

The current approach to retirement saving introduces unnecessary complexity for employers and for employees. As Richard Thaler said, "make it easier." This should be the guidepost in evaluating existing rules and processes. In this *ViewPoint*, we recommend a number of straightforward solutions that would improve retirement savings for millions of Americans by making it easier to prepare for retirement. These are bipartisan ideas that can transform the current landscape.

Related Content

ViewPoint – Increasing Access to Open Multiple Employer Plans – Jan. 2018
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Endnotes

1. Center for Retirement Research at Boston College, National Retirement Risk Index, available at http://crr.bc.edu/special-projects/national-retirement-risk-index; Nari Rhee, National Institute on Retirement Security, The Retirement Savings Crisis: Is it worse than we think? (Jun. 2013), available at https://www.nirsonline.org/reports/the-retirement-savings-crisis-is-it-worse-than-we-think/.
2. US Government Accounting Office (GAO) studies found that increases in life expectancy has contributed to longevity risk in retirement planning, which creates a risk that Social Security and employer-sponsored DB plans will be unable to meet obligations over their beneficiaries' lifetimes. Further, 60% of all households are without any defined contributions savings in 2013. See GAO, Report to the Ranking Member, Subcommittee on Primary Health and Retirement Security, Committee on Health, Education, Labor, and Pensions, US Senate: Shorter Life Expectancy Reduces Projected Lifetime Benefits for Lower Earners (Mar. 2016), available at http://www.gao.gov/assets/680/676086.pdf; GAO, Report to the Ranking Member, Subcommittee on Primary Health and Retirement Security, Committee on Health, Education, Labor, and Pensions, US Senate: Low Defined Contribution Savings may Pose Challenges (May 5, 2016), available at http://www.gao.gov/assets/680/676942.pdf.
3. U.S. Bureau of Labor Statistics, Employee Benefits in the United States (Mar. 2017), available at https://www.bls.gov/news.release/pdf/ebs2.pdf.
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16. H.R. 4523, 115th Cong. (2017).
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19. GAO, Report to Congressional Requesters, Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved (Nov. 2013), available at https://www.gao.gov/assets/660/659211.pdf (GAO Report on Reporting and Disclosures).
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21. GAO, Report to the Ranking Member, Committee on Education and the Workforce, House of Representatives, Targeted Revisions Could Improve Usefulness of Form 5500 Information (Jun. 2014), available at https://www.gao.gov/assets/670/663855.pdf.
22. Proposed Revision of Annual Information Return/Reports, 81 Fed. Reg. 140 (July 21, 2016) at 47534, available at https://www.gpo.gov/fdsys/pkg/FR-2016-07-21/pdf/2016-14893.pdf.
23. Under the current ERISA regulation (29 C.F.R. § 2520.104b-1(c)(1)), electronic disclosure can provided to (a) individuals who provide affirmative consent and (b) individuals who have access to documents in electronic form at their work location and with respect to whom access to an employer's electronic information system is an integral part of their duties. The regulation also requires that the plan administrator take steps that are reasonably calculated to ensure that the document delivery system results in actual receipt of information and preserves confidentiality. In Technical Release 2011-03, the DoL, recognizing concerns regarding the limits of electronic disclosure under this regulation, adopted a more flexible interim policy for new required participant disclosures under 29 CFR 2550.404a-5.
24. Investment Company Institute tabulations of the Federal Reserve Board Survey of Consumer Finances (2016). See Paul Schott Stevens, ICI, Testimony before the House of US Representatives Committee on Education and the Workforce Subcommittee on Health, Employment, Labor, and Pensions (May 16, 2018), available at https://edworkforce.house.gov/uploadedfiles/testimony_p.s._stevens_5.16.18.pdf.
25. See 76 Fed. Reg. 19285 (April 7, 2011).
26. Treas. Reg. § 1.401(a)-21; DoL Reg. § 2510.104b-1; DoL Field Assistance Bulletin 2006-03 (Dec. 20, 2006), available at https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2006-03; DoL Technical Release 2011-03R (Dec. 8, 2011), available at https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/technical-releases/11-03r.
27. Currently, the Treasury requirements for electronic disclosure are different from, and in some cases more flexible than, those required under ERISA.
28. H.R 4610, 115th Cong. (2017).
29. Contribution limits are $12,500 for employees under the age of 50 and $15,500 for employees over 50. See IRS, SIMPLE IRA Plan FAQs – Contributions (last updated Oct. 25, 2017), available at https://www.irs.gov/retirement-plans/simple-ira-plan-faqs-contributions.
30. Investment Company Institute, The US Retirement Market, First Quarter 2018 (Jun. 2018), available at www.ici.org/info/ret_18_q1_data.xls. For number of employers, the firms surveyed held more than three-quarters of all SIMPLE IRA mutual fund assets as of Dec. 31, 2017.
31. Section 408(p) permits a SIMPLE IRA to sit alongside another plan, but only if that plan was collectively bargained.

Endnotes

32. David Laibson, Lecture at the American Economic Association, "The Psychology and Economics of The Psychology and Economics of Household Investment Decisions Household Investment Decisions" (Jan. 2010), available at http://scholar.harvard.edu/files/laibson/files/thepsychologyandeconomicsofdefaults_laibsonaealecture3.pdf.
33. Federal Reserve, Report on the Economic Well-Being of U.S. Households in 2017 (May 2018), available at https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf.
34. John A. Turner and Jennifer Erin Brown, National Institute on Retirement Security, Issue Brief: The United Kingdom's New Retirement Savings Program (Dec. 2016), available at https://www.nirsonline.org/reports/the-united-kingdoms-new-retirement-savings-program/.
35. See Vanguard, How American Saves 2016: Vanguard 2015 Defined Contribution Plan Data: Utkus and Young (2016), available at https://institutional.vanguard.com/iam/pdf/HAS2016.pdf; WEF 2018 Report.
36. Callan Investments Institute Survey, 2018 Defined Contribution Trends (Jan. 2018), available at https://www.callan.com/wp-content/uploads/2018/01/Callan-2018-DC-Survey.pdf.
37. Id.
38. Code § 401(k)(13).
39. The Internal Revenue Code has long included a safe harbor that eliminates the need for a defined contribution plan to run complicated non-discrimination tests. The basic safe harbor match for a 401(k) plan is 100 percent not to exceed 3 percent of compensation plus 50 percent of what exceeds 3 percent, but does not exceed 5 percent. The idea behind the PPA QACA safe harbor is to provide incentives to expand the use of auto-enrollment and auto-escalation by providing for lower employer contributions than the traditional safe harbor and permitting vesting of those contributions. However, the existing QACA is narrow and proscriptive. To qualify as a QACA, employees must automatically be enrolled at an elective contribution rate equal to at least 3% for the first plan year, at least 4% for the subsequent year; at least 5% for the year after that; and at least 6% for any subsequent years. While these percentages are minimums, the Code provides that a percentage exceeding 10% will not qualify as a QACA. The plan also must make a matching contribution to all non-highly compensated employees equal to 100% of elective contributions up to 1% of compensation, plus 50% of elective contributions between 1% and 6% of compensation. Alternatively, the plan can make a non-elective contribution equal to 3% of compensation. The plan may not increase the matching rate as the employee's deferral rate increases. Unlike the traditional 401(k) safe harbor, the QACA permits 2 year cliff vesting.
40. The 10% cap has impacts beyond QACAs, as it is sometimes interpreted as an implied limit for plans that have auto-enrollment and auto-escalation provisions but are not QACAs.
41. IRS, FAQs - Auto Enrollment - Are there different types of automatic contribution arrangements for retirement plans? (last updated Mar. 30, 2018), available at https://www.irs.gov/retirement-plans/faqs-auto-enrollment-are-there-different-types-of-automatic-contribution-arrangements-for-retirement-plans.
42. Opt out rates among employees tend to be similar at 3% up to 6%. Research shows that the optimal savings rate for individuals is between 10% and 20% of annual income, which is much higher than the most common current rate of 3%. One way to get individuals to a better savings rate would be to start initial default rates at 6% with auto-escalation up to a more optimal rate. For example, the Defined Contribution Institutional Investment association (DCIIA) has recommended starting contribution rates at 6% and increasing by 1% annually up to 15% of pay. See Robert Steyer, Pensions & Investments, Default deferral rates for DC plans get a nudge up (May 15, 2017), available at http://www.pionline.com/article/20170515/PRINT/305159980/default-deferral-rates-for-dc-plans-get-a-nudge-up; BlackRock, Reexamining "To Versus Through": New Research Into an Old Debate (May 2014), available at https://www.blackrock.com/investing/literature/whitepaper/to-versus-through-whitepaper.pdf; DCIIA, Automatic Plan Features in Defined Contribution Plans: What's in it for Plan Sponsors? (Jul. 2016), available at http://www.dciia.org/assets/Publications2/WhitePaper/whitepaper_072016_whats_in_it_for_plan_sponsors_2.pdf.
43. GAO, 401(k) Plans: Labor and IRS Could Improve the Rollover Process for Participants (Mar. 2013), available at http://www.gao.gov/assets/660/652881.pdf.
44. Section 402(f) of the Code requires notice of the tax implications of different distribution options and Section 411(a)(11) of the Code and applicable regulations require that plan sponsors provide information to participants about their right not to take a distribution from the plan.
45. IRS, Retirement Topics, Termination of Employment, available at https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-termination-of-employment.
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51. See, e.g., S. 3471, 114th Cong. (2016) (not enacted); the USA Retirement Funds Act, S. 1979, 113th Cong. (2014) (not enacted); and the SAFE Retirement Act of 2013, S. 1270, 113th Cong. (not enacted).
52. H.R. 4604, 115th Cong. (2017).
53. Cerulli, U.S. Retirement Edition, Improving Participant Outcomes: No Silver Bullet (2Q17), available at https://www.cerulli.com/subscriptions/us-retirement-P0000I6?ref=/products-services/cerulli-publications/edge-series/.
54. Generally, IRA plans require minimum distributions beginning at age 70 ½ regardless of employment status. DC plans require minimum distributions at this age or at the year of retirement, if allowed by the plan. There are some exceptions. See IRS, RMD Comparison Chart (IRAs vs. Defined Contribution Plans) (Dec. 29, 2017), available at https://www.irs.gov/retirement-plans/rmd-comparison-chart-iras-vs-defined-contribution-plans.
55. U.S. Chamber of Commerce, Securing America's Retirement: A Legislative Roadmap (Winter 2017), available at https://www.uschamber.com/sites/default/files/ccmc_securingamericasretirement.pdf.

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