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What are the Potential Benefits of Universal Access to Retirement Savings?

An Analysis of National Options to Expand Coverage



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Executive Summary

Part 1: Closing the Significant Gaps in Access to Retirement Savings

Workers in the United States are being asked to take responsibility for their financial well-being in retirement now more than ever. What used to be considered the foundation for building a secure retirement — Social Security, employer-provided pensions, and personal savings — has been weakening for decades as traditional defined benefit (DB) pension plans have been replaced by a defined contribution (DC) system of savings that was originally meant to supplement, not replace, traditional pensions.

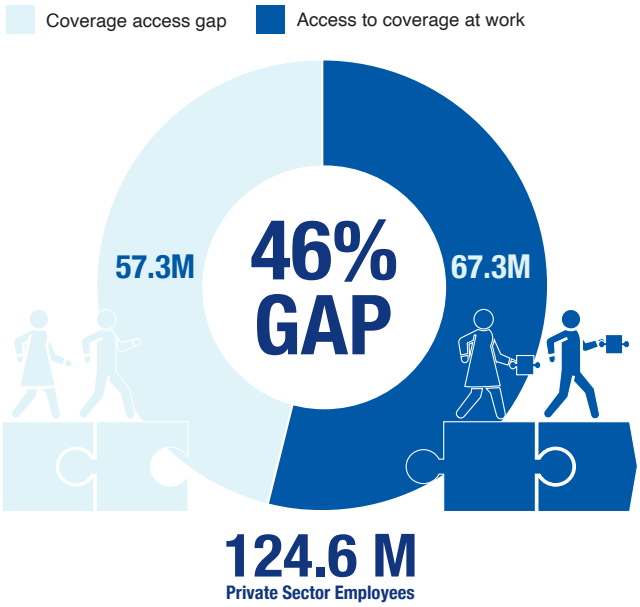
Most employers today that have retirement plans only offer DC options. This shift over time from employer-provided pensions to DC plans has put greater responsibility on workers to make complex savings and investment decisions that will affect the amount of money available in retirement. Americans who have access to retirement savings accounts often do not save enough to maintain their quality of life in retirement.

Making matters worse, while employer-sponsored retirement plans have become the primary way private sector workers build retirement savings, employers in the United States are not required to offer retirement savings plans. Today, there are an estimated 57 million private sector workers (46%) who do not have access to a plan through the workplace (see Figure ES.1). These access gaps are inequitably distributed, affecting more small businesses, and with larger gaps among lower-income workers, younger workers, minorities, and women.

For several years, there have been discussions and proposals in the United States about how to expand access to ways to save for retirement. If we look internationally, there is usually little debate about the value of universal access to retirement savings, and several countries require employers to provide a retirement savings option for their employees. With all workers covered, differences can be found in the design of such options to achieve the levels of savings needed to boost income in retirement.

Universal access to retirement savings options would give all workers the opportunity to save, and evidence from other countries, from individual states, and from private sector plans suggests that many would begin to do so, especially when encouraged using default options, such as automatic enrollment. Workers would benefit from the increased savings and the additional income in retirement. At the same time, the economy benefits from stronger savings, investment, and economic growth, and the nation benefits from a reduction in fiscal pressures to support an aging population lacking sufficient retirement income.

Figure ES.1: More than 57 Million Employees Lack Access to a Retirement Savings Plan in their Workplace (2020)



ESI analysis of Census Bureau Current Population Survey and BLS National Compensation Survey Data.

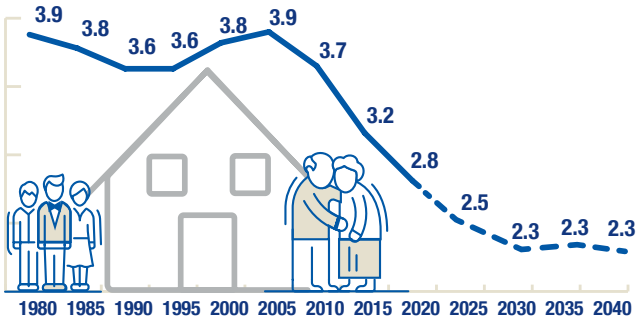
An Aging Population Increases the Urgency

This lack of access to employer-sponsored retirement savings plans takes on greater urgency due to the aging of the US population. Senior households are growing significantly in number and as a share of the population, with the "dependency ratio" projected to fall from its historic norms of almost four working age households for each elderly household to a ratio of closer to two to one (see

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Figure ES.2). Since working age households are the primary contributors to the tax base, this falling dependency ratio creates greater fiscal pressures as the demand for benefit programs increases.

Figure ES.2: Falling Ratios of Working-Age to Elderly Households Create Fiscal Pressure



ESI analysis of US Census Bureau data
and University of Virginia Population Projections.

This shift in population composition also underscores the importance of enabling younger generations like millennials and Gen Z (which will cover the prime working ages of 30–60 by 2040) to have opportunities during their crucial savings years to build resources to support their financial futures.

Policy Approaches Taken to Close the Access Gap

Federal policymakers in the United States have developed and started to implement reforms intended to close the gap in private sector retirement savings access, encourage savings, and strengthen the retirement readiness of workers. International and state examples provide models to achieve universal access that can do much more to expand coverage and savings levels.

International Models Toward Universal Access

Efforts to expand access, participation, and savings are not unique to the US. Many countries have adopted a mix of public and private models to move toward universal access, often requiring employer participation and/or the automatic enrollment of workers who can choose to opt out, that have resulted in significant coverage and savings levels. Established programs in countries like Australia, New Zealand and the United Kingdom have gained significant scale over time, demonstrating the sustainability of these types of programs to help participants save more for retirement (see Figure ES.3).

Figure ES.3: Employer-Based International Savings Programs

Australia Superannuation Guarantee – 16.7 million participants

Requires employers to contribute 9.5% of an eligible employee's earnings to a retirement savings account.

KiwiSaver – 3 million participants

Workers auto enrolled (can opt out) to contribute ≥ 3% of earnings + 3% employer match and a tax credit contribution.

UK NEST – 9 million participants

Uncovered workers auto enrolled (can opt out) at default contribution levels of 5% employee + 3% employer.

US Efforts Have Fallen Short of Universal Access

Several legislative proposals intended to achieve national universal access, modeled on international experience and the innovative design ideas of policy experts, have been introduced in Congress for more than a decade and as recently as 2019. To date, these proposals have not had sufficient support to advance.

In the absence of national action, some states have started to adopt innovative public-private partnership models to expand access to their workers. A few of these new state programs have adopted and launched an Auto-IRA model, which requires employers that do not already offer their workers a retirement savings plan to automatically enroll their workers in the state program to begin to save unless the worker opts out. These state programs are currently providing many employers and their employees with new ways to save, and the number of new accounts and assets is now growing at a steady pace (see Figure ES.4).[1]

Recent Congressional action, such as the SECURE Act (P.L. 116-94), intended to expand the adoption

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Figure ES.4: Recently Launched State Auto-IRA Programs

OregonSaves – Launched 2017

Auto-IRA program required for all employers without an existing qualified plan, 5% default employee contribution with auto-escalation, and no employer match permitted.

Illinois Secure Choice – Launched 2018

Auto-IRA program required for employers with ≥ 25 employees without an existing qualified plan, 5% default employee contribution, and no employer match permitted.

CalSavers – Launched 2019

Auto-IRA program required for employers with ≥ 5 employees without an existing qualified plan, 5% default employee contribution with auto-escalation, and no employer match permitted.

and improve the design of defined contribution plans, is another positive step.[2] While these individual state programs and recent incremental federal reforms are beneficial, these initiatives are unlikely to achieve a significant national expansion of coverage and savings.

Part 2: Analyzing the Potential Benefits of National Universal Access to Retirement Savings Options

The experience of well-established international programs and, more recently, the experience of individual state retirement savings programs point to the need for serious consideration of national universal access to retirement savings options to expand the number of employers who offer their workers a way to save for retirement. Such options would require certain employers to provide their employees with access to a savings option, while retaining the ability of employees to choose to opt out of saving. A national, universal access approach to retirement savings would substantially increase participation and savings levels, particularly among low- and middle-income workers.

Drawing on a range of state, national, and international programs and proposals, this study analyzes the potential impacts for access, savings, and retirement security of a "baseline" national universal access retirement savings option, and the relative impacts on coverage and savings of a number of potential policy variations from this baseline.

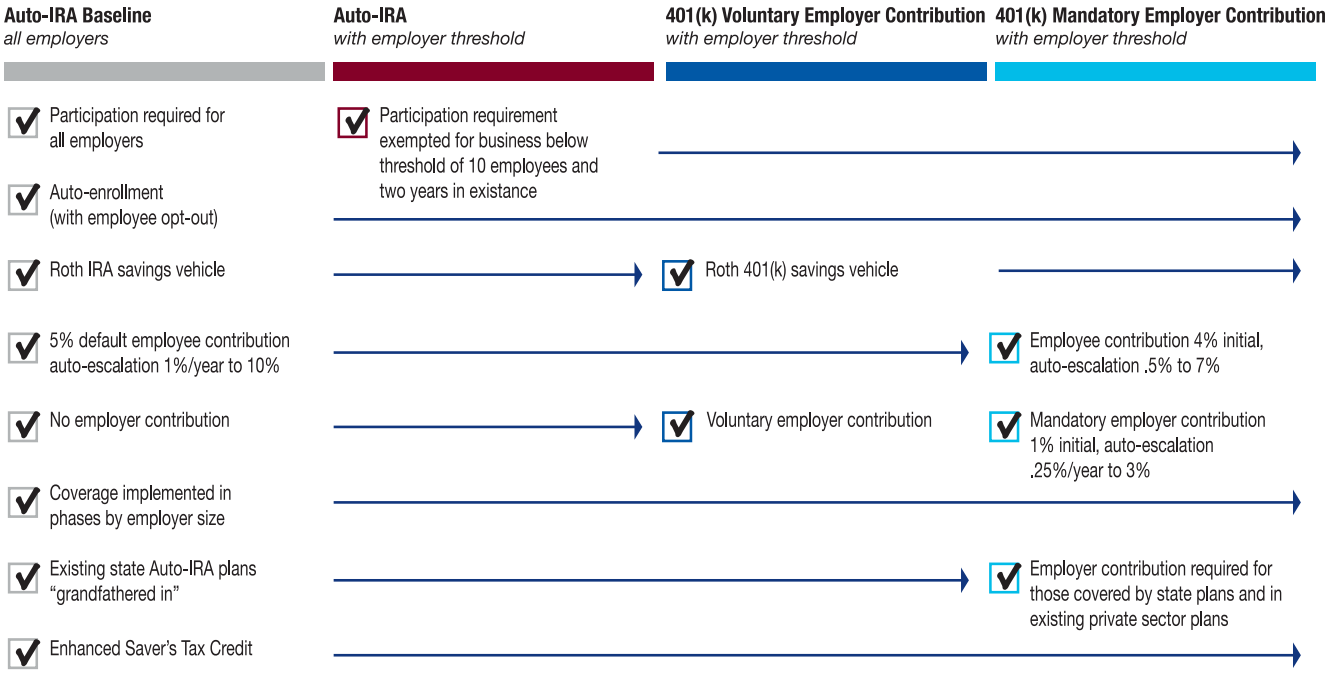
The **baseline model** analyzed is an automatic enrollment payroll deduction individual retirement account (**Auto-IRA**) that is similar to a model currently being implemented by some states and included in legislative proposals introduced in Congress. This streamlined and low-cost approach uses automatic enrollment, default savings, and auto-escalation mechanisms, which encourage participation and savings while leaving participants with full control over their participation and contribution levels. In this model, all contributions are made by the employee with no employer contribution.

This model is used as the baseline because it is comprehensive in requiring workplace access, and simple in its structure and implementation. Alternatives to this baseline are then analyzed by adjusting several design features, including:

- **Varying the type of savings account** used between a payroll deduction Roth IRA and Roth 401(k), factoring in differences in the administrative requirements and the costs of such accounts;
- **Adding employer size and age thresholds,** exempting the smallest and youngest businesses from the requirement to provide their employees with access to retirement savings;
- **Including a voluntary employer contribution,** as permitted in 401(k) accounts to give businesses the discretion to contribute to employee accounts; and
- **Requiring an employer contribution** by adding a new requirement for employers to provide contributions into an employee's 401(k) account, improving the return on investment for savers but generating additional economic implications for businesses and workers.

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Figure ES.5: Modeled Scenarios Isolate the Impact of Policy Variations on Access and Savings



These policy variations are applied to generate four modeled scenarios (see Figure ES.5). Most policy features are retained across the scenarios to isolate the impact of only those features that have been adjusted on access, savings, and retirement security for workers currently lacking access. Modeling and discussion within this analysis reflects the trade-offs among these objectives, the potential challenges for different groups (such as employers and employees), and some of the technical considerations inherent in policy efforts of this scale. Policy options are analyzed through the year 2040, assuming adoption of a policy in 2021 and a phased implementation period from 2022–2026.

Analysis of these scenarios shows that national universal workplace access scenarios could reduce the access gap and expand retirement savings coverage by 28 to 40 million workers (depending on the chosen design features) by the year 2040, with additional participation from 50 to 70% of private sector workers currently lacking access. Because employees can choose to opt out, no scenario will achieve 100% participation by all eligible workers. Nevertheless, by starting to save early in their careers, through simple, automatic, and consistent contributions, and by capitalizing on incentives to save and compounding investment returns over an extended time horizon, millions of additional private sector workers with typical earnings levels will begin to save and build substantial private savings that will increase their retirement incomes.

Starting Sooner and Saving Longer Significantly Improves Retirement Outcomes

Because the scenarios analyzed examine the impact on coverage and savings through the year 2040, retirees within this time frame only include the cohort of older savers who will begin to access retirement savings. However, younger workers from the millennial and Gen Z cohorts who will not yet have reached retirement age within the study period have greater opportunities to build assets through continued contributions and additional years of compounding growth. As a result, future generations of Americans will see far greater benefits from savings than those quantified as of 2040 within these estimates.

A simple illustration of the additional supplemental lifetime income at age 65 for a young Roth Auto-IRA

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saver demonstrates the long-term benefits to the youngest workers, who will not have yet reached retirement age by 2040. A young (25-year-old) saver with modest earnings levels of around $35,000 per year contributing at the default level (5% auto-escalating up to a cap of 10%) envisioned in the baseline scenario would make contributions of about $110,000 over a 40-year period, and have an account that grows to more than $262,000 in assets. If this lump sum is used to purchase an immediate fixed annuity at the age of 65, it would generate an annual supplemental income stream of $14,320 over the remainder of the saver's lifetime (see Figure ES.6). The returns for this young saver could be helped even more by making an enhanced, refundable Saver's Tax Credit ("Saver's Credit") available that would boost savings to more than $390,000 and generate an annual supplemental income stream of $21,300 for the remainder of the saver's lifetime.

The benefits of starting sooner and saving longer can produce significant improvements in retirement income outcomes and long-term retirement security. The passage of time and the power of compound interest boost savings, because future market returns apply not only to initial contributions, but also to the market returns already achieved. This compounding dynamic means that options that encourage savings at a younger age can have significant long-term payoffs for participants, even in instances where savers are not able to contribute to their accounts throughout their entire careers, as balances built up in early years continue to grow throughout the duration of a saver's working years.

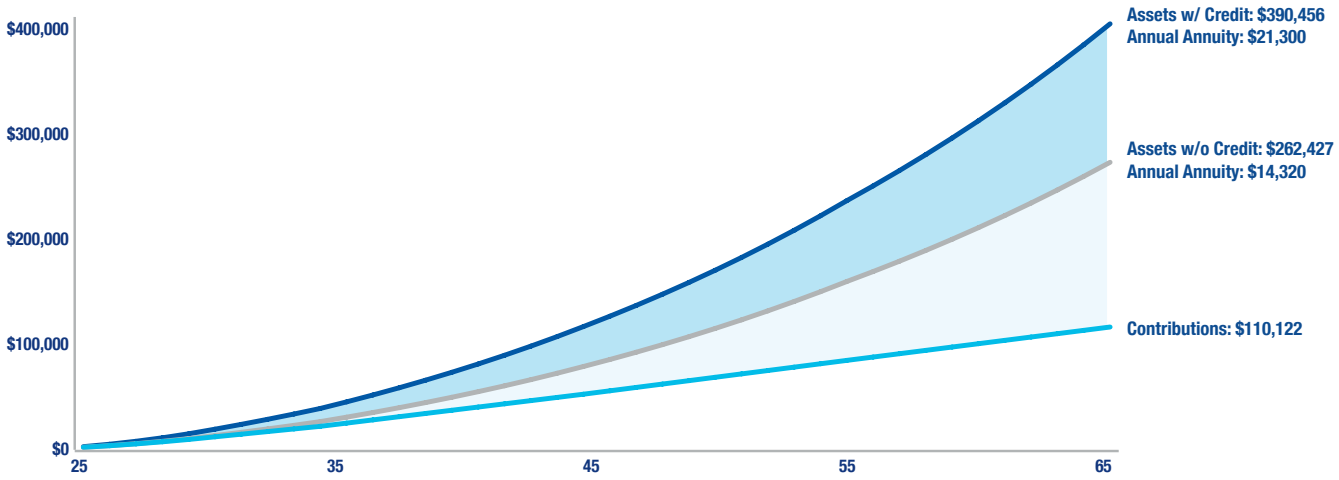
Expanding Access to Retirement Savings

The ability to close the access gap and boost savings will be affected by the design of the savings option. The type of retirement savings accounts (IRA and/or 401(k) structure), the employers required to participate, and the default levels of employee contributions and any employer contributions over time are all factors that will drive access, savings, asset growth, and retirement income.

The Auto-IRA model with no employer threshold ("Baseline Auto-IRA") would expand access to workers at all private sector firms, increasing participation by more than 40 million workers in the year 2040 (with the remaining workers gaining access but choosing to opt-out of saving).

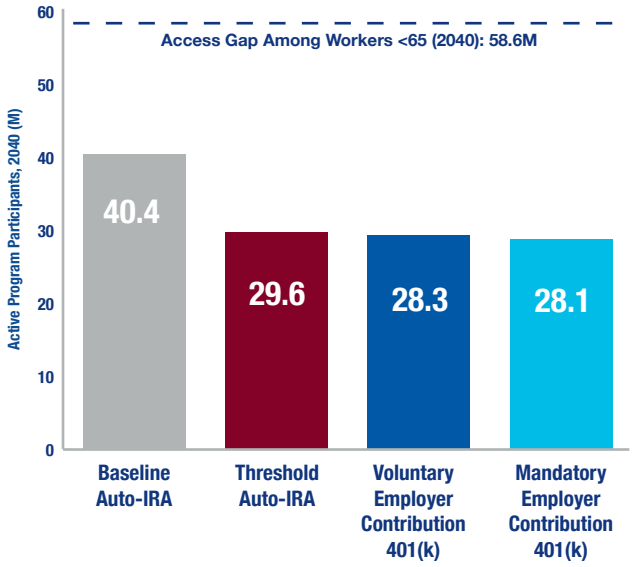
Participation levels fall significantly if employers below a certain employee threshold are exempt. Policy options, whether through an Auto-IRA or 401(k) approach, that exempt smaller and younger firms from the requirement to provide access would limit the degree to which the scenarios can close the access gap. As an example, an exemption of

Figure ES.6: Supplemental Lifetime Income at age 65 for a Young Auto-IRA Saver (With and Without a Refundable Saver's Credit)



firms with fewer than 10 employees or in existence less than two years would reduce participation by an estimated 11 million workers by 2040 under an Auto-IRA model ("Threshold Auto-IRA"), with modest additional reductions in coverage under 401(k) approaches because of anticipated variations in the number of firms and workers likely to participate (see Figure ES.7).

Figure ES.7: Required Universal Access to Savings Options Can Increase Participation by 50 to 70% Among Workers Currently Lacking Access



Encouraging Savings and Asset Growth

While participation levels are lower in models exempting some employers, those participating may have higher average contributions and savings. These differentials are due in part to the characteristics of the covered population (with average participant earnings increasing when excluding firms below an employer size and age threshold). Differences also arise between types of savings accounts, with a 401(k) model producing higher average contributions and savings levels relative to an IRA model for any given employer threshold level.

Average savings levels increase with a 401(k) model with discretionary employer contributions ("Voluntary Employer Contribution 401(k)") when compared to the IRA models due to matching or supplemental contributions from some employers, the effect of the increased annual contribution limit on a small sub-set of savers, and lower anticipated levels of early withdrawals. Savings levels are estimated to be slightly lower under a 401(k) approach requiring employer contributions ("Mandatory Employer Contribution 401(k)" relative to a voluntary employer contribution 401(k) approach, due in part to the constraint on wage growth for workers from the required employer contribution.

Average account balances for participants reaching age 65 in 2040 grow from $66,300 in the threshold Auto-IRA scenario to $75,200 under the voluntary employer contribution 401(k) approach. The tradeoff for the higher balances for some savers is that a larger number of workers will remain uncovered. The baseline Auto-IRA model generates a lower average account balance for participants reaching 65 of $60,600 due to participation of more low-income workers, which decreases average balances.

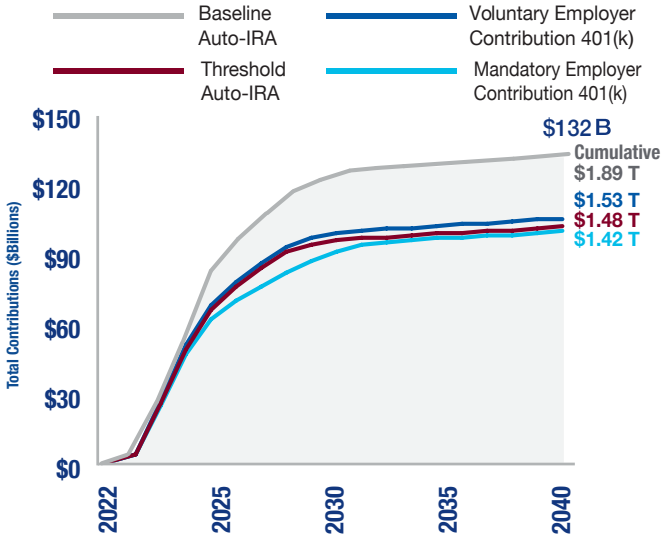
However, the baseline Auto-IRA that covers all employers has the highest overall level of savings. While per-participant savings are higher under alternative approaches, the expansion of coverage anticipated under the baseline Auto-IRA scenario with no employer threshold leads to the largest increase in overall savings among the policy options modeled.

Annual contributions to savings accounts are estimated to total more than $130 billion by 2040 under the baseline Auto-IRA model, adding up to a cumulative $1.89 trillion over the analysis period,* with policy alternatives producing $1.4–$1.5 trillion in cumulative contributions (see Figure ES.8). Among options with an employer threshold, the voluntary employer contribution 401(k) generates slightly higher savings levels than threshold Auto-IRA model.

These results illustrate potential trade-offs for consideration between payroll deduction IRA and 401(k) options. When analyzed using equivalent employer thresholds, an IRA model encourages a higher level of participation by presenting the lowest barriers to participation for businesses and savers. However, a 401(k) approach can encourage

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Figure ES.8: Cumulative Savings Contributions are Highest Within the Baseline Auto-IRA Model, Totaling $1.9 Trillion through 2040



*A phased implementation period is assumed from 2022–2026 for a policy enacted in 2021, with participation in early years consistent with some voluntary early sign-ups by employers before a phased implementation of coverage requirements by employer size.

higher average levels of contributions and asset accumulation over time among those who do participate due to its provisions around contributions and withdrawals.

If feasible, a voluntary employer contribution 401(k) approach without a threshold for required participation (similar to the baseline Auto-IRA scenario) or a mandatory employer contribution 401(k) approach with a more-aggressive employer contribution level could produce higher levels of savings than the baseline Auto-IRA model. However, these approaches and requirements have impacts on participating businesses and the broader savings market, and federal 401(k) or IRA legislative proposals to date have typically contemplated an employer threshold out of consideration for the implications for the smallest businesses. The inclusion of the baseline Auto-IRA scenario is intended to show how important the decision of whether to include and where to draw an employer participation threshold is to overall levels of access, participation, and savings.

Part 3: Long-Term National Impacts from Increased Savings

In addition to the impacts on participating savers, enhancing access, and building retirement savings would have "downstream" impacts on the broader economy and the nation's fiscal health.

Increased Economic Growth and Tax Revenue

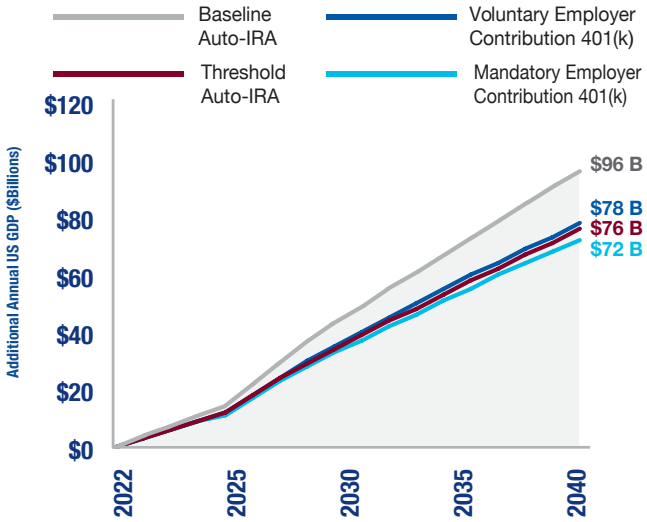
Savings programs have implications for the everyday decision-making of businesses, workers, and families. These individual microeconomic decisions around what job to take, whether to start a business, and how to spend disposable income aggregate together to have significant impacts on the economy. More-accessible savings options help the competitiveness of small businesses and the financial security of workers, including the self-employed, encouraging a more-dynamic economy, while increased savings levels grow the income that senior households have available to spend in retirement. In addition to the returns they generate for individuals, personal savings provide a source of capital for business investment and growth.

Increased productivity growth from increased savings and investment accelerates GDP growth. Expected increases in the growth rate from the scenarios analyzed would add $72–$96 billion (depending on program design) to the national GDP in the year 2040 (see Figure ES.9).

Increases are highest under the baseline Auto-IRA approach, which generates the largest increase in the personal savings rates through the highest coverage levels, thus stimulating the greatest productivity growth. Among scenarios with an employer threshold, the voluntary employer contribution 401(k) generates slightly more growth than the threshold Auto-IRA, though in either case the tradeoff is that the overall coverage is significantly lower than the baseline scenario. Increased economic activity would also grow the tax base, increasing federal tax collections in the year 2040 by $11–$14 billion.

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Figure ES.9: Increased Savings and Investment Boost GDP Growth by $72–$96 Billion in the Year 2040



Reduced Benefit Program Spending

Reduced demand for government benefit programs is another long-term impact of increasing retirement security. Several federal programs provide a range of support resources to elderly Americans with demonstrated needs, including health care, nutrition, housing, and supplemental income. Federal spending on these programs already totals nearly $100 billion per year and is often supplemented by state funding. Federal expenditures on these programs are anticipated to grow by $75 billion over the next two decades (absent any change in retirement income trends) as the composition of the population changes, increasing the demand from an elderly population and the tax burden on proportionately smaller generations of future workers.

The modeled universal access scenarios are all expected to diminish this rate of growth in program expenditures for low-income seniors over time by increasing savings and retiree resources. **Federal and state governments share in these savings,** due to the shared nature of many programs. Federal savings in the year 2040 under the baseline Auto-IRA scenario are estimated at $6.2 billion and state savings at $2.5 billion, for a total of $8.7 billion, while alternative scenarios generate an estimated combined federal and state program savings of approximately $7 billion in 2040.

Conclusion

Any effort to significantly improve retirement readiness must expand access to ways to save for retirement to as many workers as possible. The ability to close the access gap and boost savings will be affected by the way a program is designed. The type of retirement savings accounts (IRA and/or 401(k) structure), the employers required to participate, and the default levels of employee contributions and any employer contributions over time are all factors that will drive access, savings, asset growth, and retirement income.

Regardless of the model selected, what is clear is that the benefits to savers, retirees, and the nation's fiscal and economic well-being can be enormous. Depending on the design features, a national approach to universal access to retirement savings which would require some or all employers to offer their workers either an IRA or 401(k) could:

- Increase the number of workers saving for retirement in the year 2040 by 28–40 million, with participation from about 50–70% of private sector workers who currently lack access;
- Help a young worker with a modest income who starts saving early and follows program defaults for 40 years to save enough to generate as much as $14,320 in additional annual income for retirement, increasing to $21,300 in annual income if eligible to take advantage of a refundable Saver's Credit;
- Increase cumulative total retirement savings by $1.4–$1.9 trillion by the year 2040; and
- Accelerate economic growth, increasing national GDP by $72–$96 billion in the year 2040.

Experiences from other countries and the early evidence from states here in the US demonstrate that increases in access can be achieved in a simple, cost-effective way that supports and includes a private market of providers ready and willing to compete to provide such options for employers and their workers.

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1. Closing the Significant Gaps in Access to Retirement Savings

1.1 Significant Gaps Remain in Access to Retirement Savings

Workers in the United States are being asked to take responsibility for their financial well-being in retirement now more than ever. What used to be considered the foundation for building a secure retirement — Social Security, employer-provided pensions, and personal savings — has been weakening for decades as traditional defined benefit (DB) pension plans have been replaced by a defined contribution (DC) system of savings that was originally meant to supplement, not replace, traditional pensions.

Most employers today that have retirement plans only offer DC options. This shift over time from employer-provided pensions to DC plans has put greater responsibility on workers to make complex savings and investment decisions that will affect the amount of money available in retirement. Even Americans who have access to retirement savings accounts often do not save enough to maintain their quality of life in retirement. Making this situation worse is the reality that almost half of all private sector workers do not have access to employer-sponsored retirement savings plans to help them save.

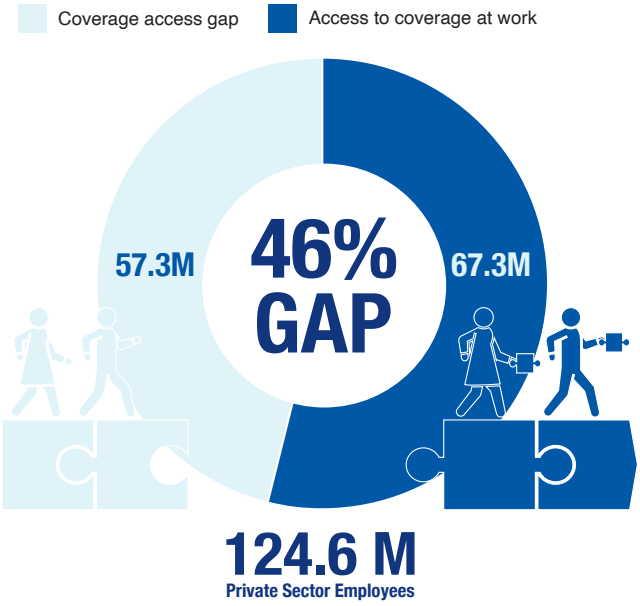
A rapidly aging population and differences across generations increase the urgency to address retirement savings shortfalls. As senior households grow in both in number and as a share of the population, there will be fewer working households to support the needs of the elderly, non-working population. This demographic shift makes the ability of elderly households to maintain their living standards in retirement an important economic and quality of life issue for all US households.

Over the next decade, for example, the final wave of baby boomers will reach retirement age, Generation X will approach retirement, and millennials and increasingly Generation Z will be in their prime working years. This shift in population composition also underscores the importance of enabling younger generations like millennials and Gen Z (which by 2040 will cover the prime working ages of 30–60) to have opportunities during their crucial savings years to build resources to support their financial futures.

Gaps in Private Sector Access Disproportionately Impact Certain Groups

Millions of private sector workers in the United States lack access to an employer-sponsored retirement savings plan. Estimates of the size of this "access gap" range significantly based on the data source and method of analysis, ranging from 33% (about 40 million) to 64% (about 80 million) of the roughly 125 million private sector employees in the United States.[3] Using a blend of data from the Current Population Survey of the US Census Bureau and the National Compensation Survey from the Bureau of Labor Statistics, this analysis estimates that 46% of private sector workers lack access to an employer-sponsored plan, representing about 57 million workers as of 2020 (see Figure 1.1).[4] This figure is anticipated to grow to more than 64 million by 2040 under the continuation of current trends.

Figure 1.1: More than 57 Million Employees Lack Access to a Retirement Savings Plan in their Workplace (2020)



ESI analysis of Census Bureau Current Population Survey and BLS National Compensation Survey Data.

Workers are much more likely to save for retirement if they have access to an employer-sponsored retirement savings plan. Although workers can establish their own retirement savings accounts if they lack such access, they rarely do so in

practice, with workers 15 times more likely to save for retirement if they have access to a payroll deduction savings plan at work.[5] Workers at firms that provide an employer-sponsored plan are considered to have access to coverage, although they may not choose to be participants.

For small businesses, the complexity, cost, and perceived legal risk reduce the likelihood they will offer a plan to their employees. Programs that make access to savings easier by connecting a worker to a savings account and including design features such as automatic enrollment and auto-escalation can significantly increase participation and savings levels.[6]

The gaps in access to retirement savings plans are greater among younger workers, women, minorities, and lower income workers.[7] Access to retirement savings plans also varies significantly by employer size and industry. Larger employers — for example, those with more than 500 employees, and in sectors paying higher wages — are more likely to offer their workers retirement savings plans.[8] These differences contribute to variations in access among demographic groups and widen access gaps among different segments of the population.

Too Many Have Little Saved for Retirement

These gaps in access have serious implications, leaving many ill-prepared financially for retirement. While elderly Americans are supported by Social Security, many elderly households fall short of the income replacement standards recommended to maintain the quality of life they enjoyed during their working years. Even when considering a generous measure of retirement savings (net worth), more than three-quarters of Americans fall short of conservative retirement savings targets for their age and income level.[9]

Putting Social Security in Context

Social Security is one of the key pillars of the American retirement system, but was never designed to meet *all* retirement income needs. Social Security provides a basic retirement income floor for retirees and should be supplemented by employer-based and personal savings. In 2020, the average monthly Social Security retiree benefit was $1,503 per month for an individual, equivalent to an annual income of just 1.4x the Federal Poverty Level, or $2,531 for a couple.[10]

Unfortunately, a significant proportion of the retired population in the US has come to rely on Social Security for a material proportion, if not all, of their retirement income. Among elderly Social Security beneficiaries, 70% of unmarried people receive half or more of their income from Social Security, as do 50% of married couples. About 45% of unmarried people rely on Social Security for 90% or more of their income.[11] While a large share (42%) of the baby boomer cohort expects to rely heavily on Social Security as a source of income in retirement, younger generations are expecting lower income replacement from Social Security and to rely primarily on self-funded savings for retirement income.[12]

Shortfalls in Private Savings

The shift over time from employer-provided pensions to defined contribution plans has put greater responsibility on workers to ensure their financial well-being in retirement. However, even Americans who have access to retirement savings accounts often do not achieve sufficient savings levels to maintain their quality of life in retirement. Researchers from the Center for Retirement Research at Boston College report that median account balances for 55- to 64-year-old working households with incomes near the median are below $100,000.[13] For lower income households who are less likely to have access to retirement savings plans through their employers, the retirement readiness gap is even more stark. Among workers nearing retirement with the lowest 20% of income, 79% have *no retirement account assets whatsoever.*[14]

Younger generations are also struggling to build the foundational savings that will help support their retirement readiness. Young savers face a range of challenges, such as rising educational costs and student loan debt burdens, challenges in securing housing, and a cycle of economic challenges. Amidst these challenges, two-thirds of working millennials lack any retirement savings, raising concerns about their long-term retirement readiness.[15]

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An Aging Population Increases the Urgency

Within this context, a rapidly aging population and differences between generations increase the urgency to address retirement savings shortfalls. Over the next decade, for example, the final wave of baby boomers will reach retirement age, Generation X will approach retirement, and millennials and increasingly Generation Z will be in their prime working years.

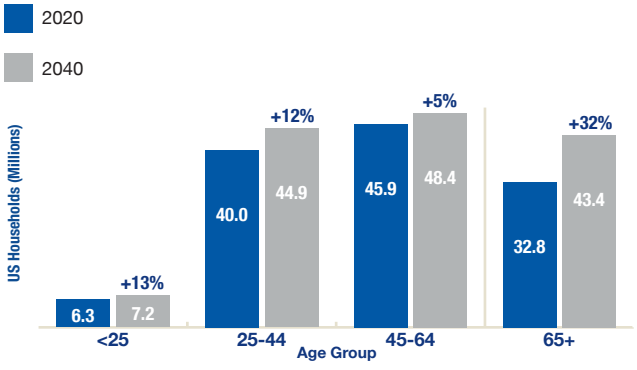
The aging of the baby boomers continues a shift that has been occurring for decades in the balance between the retiree and working-age population. The University of Virginia's Weldon Cooper Center projects the nation's elderly population will increase from 54 million in 2020 to 71 million by 2040, a growth rate of 32%, about three times the rate of the non-elderly population.[16] This also affects the composition of US households, with households headed by seniors anticipated to grow from 33 million in 2020 to 43 million in 2040, an increase of more than three times the expected rate of growth for working age households (see Figure 1.2).[17]

As senior households grow in both in number and as a share of the population, there will be fewer working households to support the needs of an elderly, non-working population. Census Bureau data indicate that the "dependency ratio" is currently falling rapidly from its historic norms — from almost four working age households for each elderly household in 2005 to a ratio of closer to two to one by 2030 (see Figure 1.3).

Since working age households are the primary contributors to the tax base, this falling dependency ratio will create significant fiscal pressures as demand for benefit programs increases. This demographic shift makes the ability of elderly households to maintain their living standards in retirement an important economic and quality of life issue for all US households. While considerable focus has been placed on the future fiscal solvency of Social Security and Medicare, several means-tested programs like Medicaid and the Supplemental Nutrition Assistance Program (SNAP) also will see significant increases in demand if elderly households lack sufficient income in retirement. This also portends a lower economic growth environment, with the workforce growing at a slower rate than in prior generations.

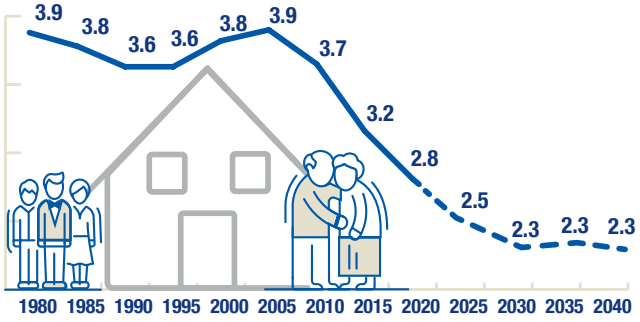
Structural factors indicate that this shift in the balance between retiree and younger households is likely to reflect a new normal. Increasing life expectancy will help to grow the elderly population, while younger generations show declining birth rates and are having their first children later in life (slowing generational replacement cycles). Figure 1.4 shows projected changes to the US "population pyramid" by age and generation over the next two decades. This shift in population composition underscores the importance of enabling younger generations

Figure 1.2: Senior Households are Growing as the Population Ages ...



ESI analysis of American Community Survey Data and University of Virginia Population Projections.

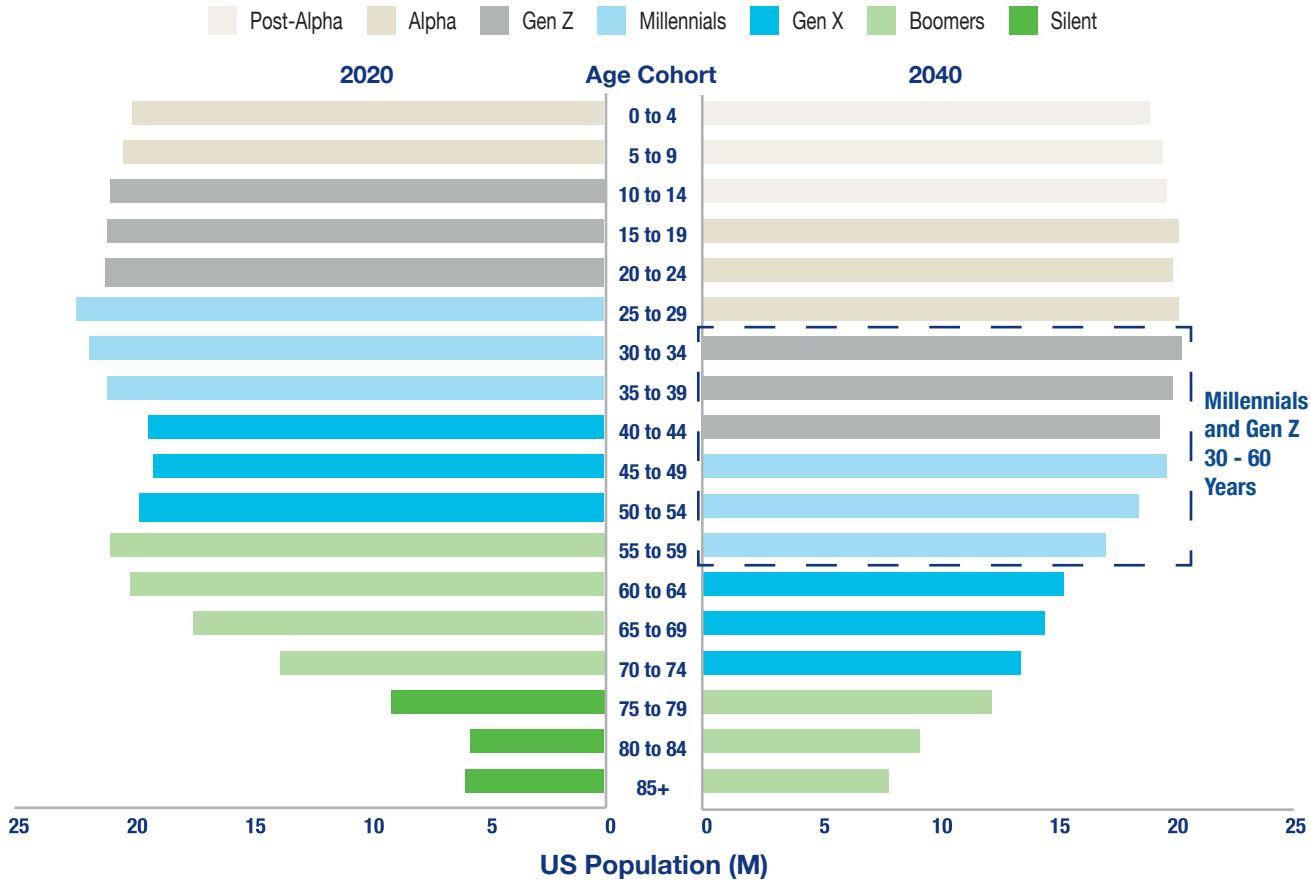
Figure 1.3: ... While Falling Ratios of Working-Age to Elderly Households Create Fiscal Pressure



ESI analysis of US Census Bureau data and University of Virginia Population Projections.

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Figure 1.4: Millennials and Gen Z will be in Prime Earnings and Savings Years by 2040



ESI analysis of American Community Survey Data and University of Virginia Population Projections

like millennials and Gen Z to have opportunities to build resources during their crucial savings years. By 2040, the millennial and Gen Z cohorts will occupy the prime earnings years of ages 30 to 60 and will be helping to supporting a larger retiree population than ever before while trying to ensure their own financial futures. Enhancing the ability of these generations to strengthen their financial security is crucial to the nation's long-term economic health and prosperity.

1.2 Policy Approaches Taken to Close the Access Gap

Policymakers in the United States have developed and started to implement reforms intended to close the gap in private sector retirement savings access, encourage savings, and strengthen the retirement readiness of workers. Such efforts are not unique to the US, with other countries having already adopted a mix of public and private models to move toward universal access that have resulted in significant savings over time.

National universal access models have been proposed by academics and policy experts, and several legislative proposals have been introduced in Congress over the past decade and as recently as 2019. In the absence of national action, several states have adopted innovative public-private partnership models to expand access requiring employers to provide a retirement savings option for their workers. A few of these new state programs have launched, providing many employers and their employees with new ways to save, and the number of new accounts and assets are now growing at a steady pace.[18] At the same time, recent Congressional action, such as the SECURE Act (P.L. 116-94), intended to expand the adoption and improve the design of defined

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contribution plans is another positive step.[19] However, both of these initiatives are unlikely to achieve a significant national expansion of coverage and savings.

International and state examples, as well as national proposals advanced by legislators and policy experts, provide several scenarios intended to achieve the goal of universal access. This section reviews these approaches and outlines a set of policy scenarios that are modeled and analyzed in Part 2 of this study to see how they expand access and boost retirement income.

International Models Toward Universal Access

Several countries have launched programs to provide universal workplace access to retirement savings options. These programs feature a mix of public and private structures for administration and contributions. Common elements include automatic features to help make enrollment and saving easier for participants, which helps to build scale and control costs.

Programs in Australia, New Zealand, and the United Kingdom, for example, have gained significant scale over time, with millions of participants and billions in assets under management (see Figure 1.5). Their stories demonstrate the sustainability of these types of programs and their potential to build significant wealth.

Figure 1.5: Employer-Based International Savings Programs

Australia Superannuation Guarantee – 16.7 million participants

Requires employers to contribute 9.5% of an eligible employee's earnings to a retirement savings account.

KiwiSaver – 3 million participants

Workers auto enrolled (can opt out) to contribute ≥ 3% of earnings + 3% employer match and a tax credit contribution.

UK NEST – 9 million participants

Uncovered workers auto enrolled (can opt out) at default contribution levels of 5% employee + 3% employer.

Australia: Superannuation Guarantee

Launched in 1992, the Superannuation Guarantee in Australia requires employers to contribute to a retirement savings account on behalf of eligible employees. Employers are currently required to contribute 9.5% of an employee's earnings to a superannuation (or "super") fund on behalf of workers above certain salary and hours thresholds.[20] The guaranteed contribution rate will rise to 12% by July 2025. Contributions are not required for very-low-wage and part-time workers. However, contributions made for low- and middle-income workers are matched by the national government up to a maximum amount of $500 annually to help build assets.[21]

Although most employees are free to determine which fund they prefer their employers contribute to, many allow default investment funds to be applied. Funds can be organized by a financial services company, employer or industry group, or through self-managed funds for five people or fewer.

As of 2020, 16.7 million Australians held super-accounts and super-fund assets totaled $2.9 trillion. The average account balance of those with savings in super-funds (non-zero balances) is approximately $121,000 for women and $169,000 for men.[22]

New Zealand: KiwiSaver

Launched in 2007, the KiwiSaver is a publicly administered defined contribution system in New Zealand. Participation is voluntary, but its auto-enrollment feature requires that a worker must opt out if they choose not to participate. Once an account is created, it is portable among employers and requires contributions from both employers and employees. Employees set a contribution level of 3% or higher of earnings, employers provide a contribution of 3% of earnings, and the government makes an additional "tax credit" contribution.

Early withdrawals are highly restricted before the retirement age of 65, but employees may be able to make early withdrawals of part (or all) of their savings if they are buying a first home, moving overseas permanently, suffering significant financial hardship, or seriously ill. As

of 2020, KiwiSaver has grown to more than 3 million participants and $62 billion in assets.[23]

United Kingdom: National Employment Savings Trust (NEST)

NEST is a defined contribution savings plan in the United Kingdom that launched in 2012. It provides individualized savings accounts to those who do not have access to an employer-based plan. The NEST program's administration is funded through fees on contributions, and program services are contracted to private financial providers by the NEST board. Employers can participate in private sector plans or use the NEST program, which essentially functions as a public option. NEST is required to take any employer, but the self-employed are currently not covered.

Workers must be auto enrolled, and they can choose from a set of investment options, including target date funds, but there must be a default investment option and fees are capped at 75 basis points. Default contribution levels for the plan have grown over time to 5% of earnings for the employee and 3% of earnings for the employer, totaling 8%. The overall savings opt-out rate is about 10% and 99% of participants stay with the default investment option.

As of March 2020, the program had grown to more than 9 million participants, received $4.8 billion in contributions, and had $9.5 billion in assets.[24]

US Efforts Have Fallen Short of Universal Access

State Efforts to Enhance Savings

Due to the continued failure of Congress to take action to close the access gap, several US states are adopting simple, low-cost, easily accessible ways for more private sector workers to save for retirement. States are acting out of necessity. They already understand that they face significant budgetary and economic consequences if their residents retire with insufficient retirement income. As the population ages, states will be increasingly pressed to deal with dramatic increases in the cost of social service programs for seniors living at or below the poverty line — namely, programs related to healthcare, housing, food, and energy assistance.

ESI studies for task forces examining the issue of insufficient retirement savings in Pennsylvania and Colorado have shown that the "cost of doing nothing" for each of these states will amount to several billion dollars in additional state expenditures.[25] For a representative household in Colorado, the study found that additional savings of just over $100 a month over 30 years could close the gap and achieve recommended income replacement levels in retirement.[26]

Recognizing the significant costs of doing nothing, states across the country have initiated a variety of efforts aimed at helping private sector firms overcome the barriers to offering retirement savings options for their employees. Since 2012, at least 45 states have introduced legislation to either establish a state-facilitated retirement program for private sector workers or study the feasibility of establishing one.[27] States are designing different models that seek to address these issues (see Figure 1.6).

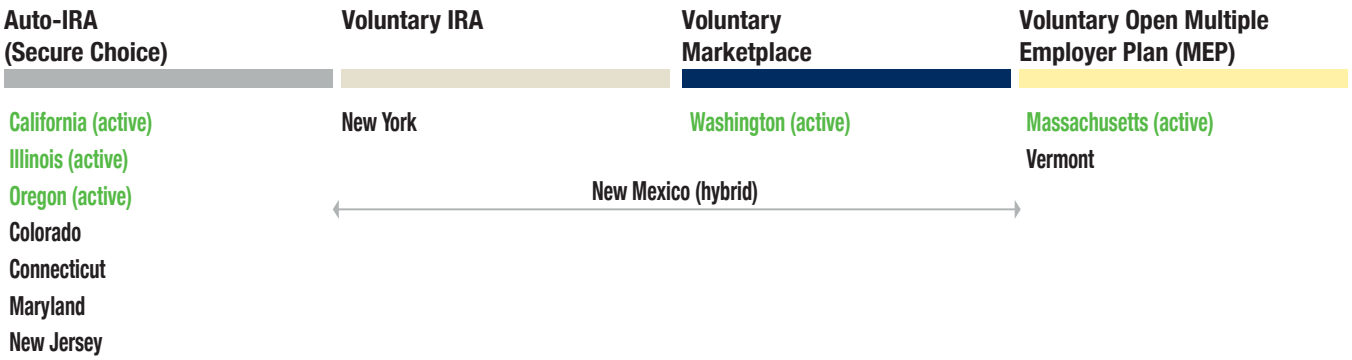
State-facilitated programs seek to establish the program architecture and administration at a statewide level, enabling employers to participate with minimal effort. The state generally appoints a board to develop program rules and contract with administrative and investment managers. Program funding is covered by fees to the participants, and states do not subsidize the program ongoing or assume financial liability for investment outcomes.

There are currently three basic state models with variations considered:

Auto-IRA: The most common approach for state-facilitated programs has been a payroll deduction "Auto-IRA" model. States facilitate a simple and low-cost IRA program using automatic enrollment, a voluntary enrollment mechanism where the saver has complete control over participation in the program and can opt out at any time or change the default contribution level. All the employer must do is provide basic employee information to the program, and remit payroll deductions. Employers who do not already have a plan of their own would be required to facilitate the use of the state program for their workers. These programs seek to maximize participation and savings and

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Figure 1.6: State-Facilitated Retirement Savings Models Adopted to Date



minimize fees through automatic features, simple design in investment options, and scale. Active programs in California (CalSavers), Illinois (Illinois Secure Choice), and Oregon (OregonSaves) follow this approach (see Figure 1.7).

Figure 1.7: Recently Launched State Auto-IRA Programs

OregonSaves – Launched 2017

Auto-IRA program required for all employers without an existing qualified plan, 5% default employee contribution with auto-escalation, and no employer match permitted.

Illinois Secure Choice – Launched 2018

Auto-IRA program required for employers with ≥ 25 employees without an existing qualified plan, 5% default employee contribution, and no employer match permitted.

CalSavers – Launched 2019

Auto-IRA program required for employers with ≥ 5 employees without an existing qualified plan, 5% default employee contribution with auto-escalation, and no employer match permitted.

Participation in the Auto-IRA programs is typically required for private firms meeting certain criteria (such as a size threshold) if they do not already offer their employees a qualifying alternative. However, a program also can be structured as a voluntary payroll deduction option that is voluntary for both employers and employees, requiring opt-in. This approach has been adopted, but not yet implemented, by New York and New Mexico.

Multiple Employer Plans (MEPs): A MEP is essentially a 401(k) used by several businesses that join together to offer a common plan to each employer's workforce, pooling their resources and outsourcing plan management. Because 401(k) plans are ERISA plans, participation by employers must be voluntary.[28] This scenario is currently operating in Massachusetts and will soon launch in Vermont.

Marketplace: A marketplace by design is a voluntary platform that creates a single "clearinghouse" for private sector providers to offer plans. It enables small businesses to find and compare retirement savings plans in an apples-to-apples manner. It presents a diverse array of plans (IRAs and 401(k)s) pre-screened by the state to ensure certain standards are met. This reduces search costs for employers, allowing them to rely on the state to establish certain standards for plans offered and ensure that the offerings meet those standards. This model is currently operating in Washington.

Hybrid: In addition to these three basic models, states also have considered combining these models to create a "hybrid" version of a program. New Mexico is the first state to adopt a hybrid model that includes both a voluntary payroll deduction IRA and a marketplace. Other options considered but not yet adopted include offering both an Auto-IRA and a MEP or combining all three approaches.

To date, international experience with the KiwiSavers program in New Zealand and early state experiences with MEPs and marketplaces in the US suggest that it is much more challenging for a voluntary program to achieve significant reductions in the access gap.[29]

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SECURE Act

In December 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act (P.L. 116-94) to allow small businesses to provide retirement savings options for their employees using Multiple-Employer Plan (MEP) and Pooled Employer Plan (PEP) arrangements.[30]

A MEP structure allows and makes it easier for related businesses to join together in a single retirement plan. MEPs are organized and run by a sponsoring entity (which may or may not be a defined membership organization, such as an industry association) that is responsible for administrative duties and takes on fiduciary liability for the plan. The SECURE Act made this structure easier to establish and more appealing, by reducing auditing requirements and eliminating the "one bad apple" rule, where compliance failures of one employer could disqualify an entire plan. A PEP structure, introduced under the SECURE Act, allows unrelated employers to band together to form a single retirement plan through a 401(k) savings vehicle. This structure envisions common administration through a third-party administrator or bundled record-keeper.

These new provisions, effective as of 2021, give small employers additional options that may reduce costs to plan participants through increased scale. A recent analysis by Morningstar found that "MEP fees decrease and become more predictable as plans grow," with decreases in fees per participant as assets grow outweighing smaller increases in administrative cost per participant as the number of participants grows.[31] This suggests that expanded MEP and PEP availability could provide better options for firms that currently operate on single employer plans. However, fees for MEP plans that fail to achieve significant scale often remain high and may lack transparency due to limited reporting requirements for smaller plans. While these provisions are constructive steps, MEPs and PEPs are unlikely to materially reduce the access gap if they remain voluntary.

The SECURE Act also includes provisions to help savers plan for and manage their savings once they retire, in the form of a monthly income throughout their lifetimes. The Act requires, for the first time, that statements to plan participants include information about the monthly income their current savings would generate in retirement. The SECURE Act also makes it easier from a regulatory standpoint for plan providers to offer lifetime income solutions (annuities). These provisions reflect an increasing emphasis on improving defined contribution plans as lifetime income-generating plans to support a better quality of life in retirement.

In October 2020, House Ways and Means Committee Chairman, Representative Richard Neal and Ranking Member, Representative Kevin Brady introduced the Securing a Strong Retirement Act of 2020 – a "SECURE ACT 2.0."[32] This bipartisan bill builds on the goals of the SECURE Act, with a number of additional measures to increase options and protections for savers and retirees. Among its provisions, it would require certain newly created plans to automatically enroll eligible employees at automatically escalating contribution levels, with voluntary employee opt-out of coverage. The legislation includes financial incentives for small businesses to offer retirement plans and expands savings options for nonprofits. Other provisions in SECURE Act 2.0 increase flexibility for savers over 60 as they near retirement and extend the time individuals can save by increasing the minimum distribution age to 75. SECURE Act 2.0 also aims to support low-income earners to save by enhancing the existing Saver's Credit — a federal tax credit for contributions to a retirement plan. While these measures and those in the original SECURE Act are steps toward improving access and savings levels, they are not expected to significantly reduce the national access gap.[33]

Saver's Tax Credit

The Saver's Tax Credit ("Saver's Credit") was created by Congress in 2001 to encourage savings by low- and moderate-income taxpayers. Structured as a tax credit on federal income tax liability, the Saver's Credit provides an incentive to save through its value as a "match" to lower-income savers' retirement contributions. The amount of the current credit is based on a taxpayer's income level, with the lowest-income earners eligible for a 50% match to their savings contributions and credit amounts falling to 20%, 10%, and 0% (above the highest

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income threshold) as income rises. The maximum credit amount is capped at $1,000 for an individual or $2,000 for a married couple filing together.[34]

Due to its current structure and administration, the Saver's Credit has been underused, limiting its potential to affect the savings behavior of lower-income households. According to a study by AARP, 9.3% of returns were eligible for the credit in 2013, but just 5% claimed it.[35] The credit is complex to apply for, and credit amounts decrease sharply as income increases, meaning a small increase in a filer's income can lead to a significant decrease in their credit amount. Importantly, because the credit is non-refundable, households must have an income tax liability to realize the gains, making many of the lowest-income earners ineligible. According to a 2006 study from the Congressional Budget Office, 18% of filers met the income criteria for the credit but were ineligible because they had no income tax liability.[36]

Many policymakers have suggested enhancements to the credit to increase its impact for lower-income savers. The Brookings Institution has suggested increasing matching rates, increasing eligibility limits, and making the credit refundable.[37] AARP has suggested making the credit a savings match into retirement accounts, and restricting the ability of savers to withdraw those funds, in addition to simplifying the filing process and increasing the eligibility limits and match amounts.[38] Broader reform proposals have linked the saver's credit to other components of the tax code, such as the mortgage interest deduction, proposing a flat credit for all savings.[39] The proposed SECURE Act 2.0 bill includes an expansion of the credit, including a higher maximum credit amount, increased maximum income eligibility, and single credit rate rather than a tiered rate structure.[40] The legislation does not, however, structure the credit as refundable or institute it as a deposit directly into retirement savings accounts.

Fintech Can Help Remove Barriers

In addition to policy innovations, the private market is responding to changes in the landscape with the creation of more data-driven technology companies focused on providing improved financial engagement and performance.

Developing the right technology platforms and the correct messages can help people understand and use customized tools and products. Surveys suggest that consumers, particularly millennials and younger generations, are much more comfortable with technology companies as a vehicle for acquiring financial products.[41]

Entrepreneurial financial technology ("fintech") firms deploy technology in innovative new ways that reach all workers more effectively, including previously underserved communities, to help them save and invest for their futures. Advances in technology focused on financial applications represent another potential path to lower cost and complexity and increased retirement security. The best-known component of this approach is through "robo advisors" that use computerized algorithms to provide financial advice and manage portfolios. As these technologies evolve, they have the potential to provide sound advice about a broader set of financial management strategies, including decumulation, at low cost.[42]

These approaches can help build on the initial wave of digitization and behavioral nudges, such as auto-enrollment, that have helped increase quality and lower costs within retirement savings plans. These efforts still face limitations in expanding access, an uncertain regulatory environment, and challenges in consumer comfort with these technologies, with many providers moving toward a hybrid robo and in-person approach.

Technology can be a tremendous asset when tailoring and customizing plans to meet an individual's goals and long-term needs, but the rise of apps and broader societal concerns about platform data collection, and how that information is used or shared, can potentially be an issue for privacy-minded users.

National Proposals for Universal Access

Congressional Legislation

Over the past several years, Congress has introduced several legislative proposals to expand access to retirement savings for private sector workers. The leading proposals discussed in this report have proposed requiring employers to make available

either Auto-IRAs or 401(k) plans to their employees if they do not already offer a qualified plan.

- The "Automatic IRA Act of 2019" (S. 2370) introduced by Senator Whitehouse in the 116th Congress would require businesses with 10 or more employees that do not currently have a plan to offer a payroll deduction IRA.
- This bill is similar to an earlier version of an Auto-IRA proposal introduced by current US House Ways and Means Committee Chairman Richard Neal in the 115th Congress in 2017 (H.R. 3499) and the 114th Congress in 2015 (H.R. 506).
- Chairman Neal also introduced, in the 115th Congress, the "Automatic Retirement Plan Act of 2017" (H.R. 4523), which establishes a requirement that employers that do not already have a qualified retirement plan adopt a 401(k)-type plan.

While the type of savings account may differ, these proposals are similar regarding requiring employer participation for firms with 10 or more employees, automatic enrollment, protecting current state-level programs, and other features.

There have also been other legislative proposals intended to expand access to retirement savings. These approaches include automatically enrolling uncovered or contract workers in a national retirement savings plan modeled on the Thrift Savings Plan offered to federal workers ("American Savings Account Act"), establishing a universal savings account plan for uncovered workers with a mandatory employer contribution ("American Savings Act"), establishing national retirement fund options to be made automatically available to employees of firms without qualifying plans ("USA Retirement Funds Act"), and creating a portable account at birth that would follow workers from job to job throughout their careers ("Portable Retirement and Investment Account Act").[43]

National Reform Proposals

Many of the Congressional proposals have been based, in whole or in part, on proposals developed by academic and policy experts. A few of the more widely considered examples include:

- The concept of a national Auto-IRA was first proposed in 2006 by David John of the Heritage Foundation and Mark Iwry of the Brookings Institution.[44] This bipartisan effort gained the support of both presidential campaigns in 2008, maintains appeal to policymakers across the ideological spectrum, and is currently the most commonly adopted model at the state level.
- The Bipartisan Policy Center convened a Commission on Retirement Security and Personal Savings that issued a 2016 report recommending that employers with 50 or more employees that do not already offer a plan should be required to offer their employees a national Retirement Security Plan administered by a third party or the federal myRA program, which has since been terminated.[45] Smaller employers would have the option to participate in the national plan. The report also includes additional recommendations to enhance savings and increase retirement security.
- The Center for American Progress developed a blueprint in 2016 for a "National Savings Plan" modeled on the Thrift Savings Plan (a 401(k) plan open to federal employees and members of Congress).[46] This plan featured an initial default employee contribution of 3% (with auto-escalation to higher levels) into an appropriate life cycle fund, with optional employee contributions at a universal dollar amount or percentage for all employees.
- The Economic Policy Institute advocates for a "Guaranteed Retirement Account" proposed by New York University's Economist Theresa Ghilarducci and Blackstone President Hamilton James.[47] This approach mandates an employer and employee contribution for all, regardless of current retirement plan status, and extends the model to all workers, including the self-employed.

For several years now, presidential campaigns representing both political parties have also

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made references in their platforms to either Auto-IRAs or 401(k) national models, or models similar to the federal Thrift Savings Plan (TSP).

Analyzing How Different Design Options Affect Access and Savings

Drawing on the range of state, national, and international programs and proposals, this study analyzes a "baseline" universal access option, the payroll deduction Auto-IRA, and then builds upon this baseline scenario by examining a number of alternative policy options. National impacts are modeled over a 20-year time horizon, with results shown as of 2040 (with all results reported in 2020 dollars to allow for easy comparison of impacts through the analysis). Notably, this time frame does not capture the full benefit for younger workers, who will derive the biggest gains from a career of accumulating retirement savings but will realize those gains in retirement beyond the year 2040.

Modeling a baseline universal access retirement savings scenario and then examining the impact of varying design features and options allows an exploration of the potential implications of policy variations for access; savings accumulations; retirement income; and the longer-term impacts on the economy, federal expenditures, and tax revenues. This can provide information helpful to decisions about future US retirement system reforms focused on expanding access and enhancing retirement security.

Baseline Universal Access Design Option: The Payroll Deduction Auto-IRA

A "baseline" universal access scenario is defined in this study by following the Auto-IRA model adopted in several states and implemented on a universal basis in Oregon. This report uses a payroll deduction Auto-IRA structure requiring the participation of employers of all sizes as a baseline because it is comprehensive in expanding access and simple in its structure and implementation.

The baseline Auto-IRA scenario is defined as:

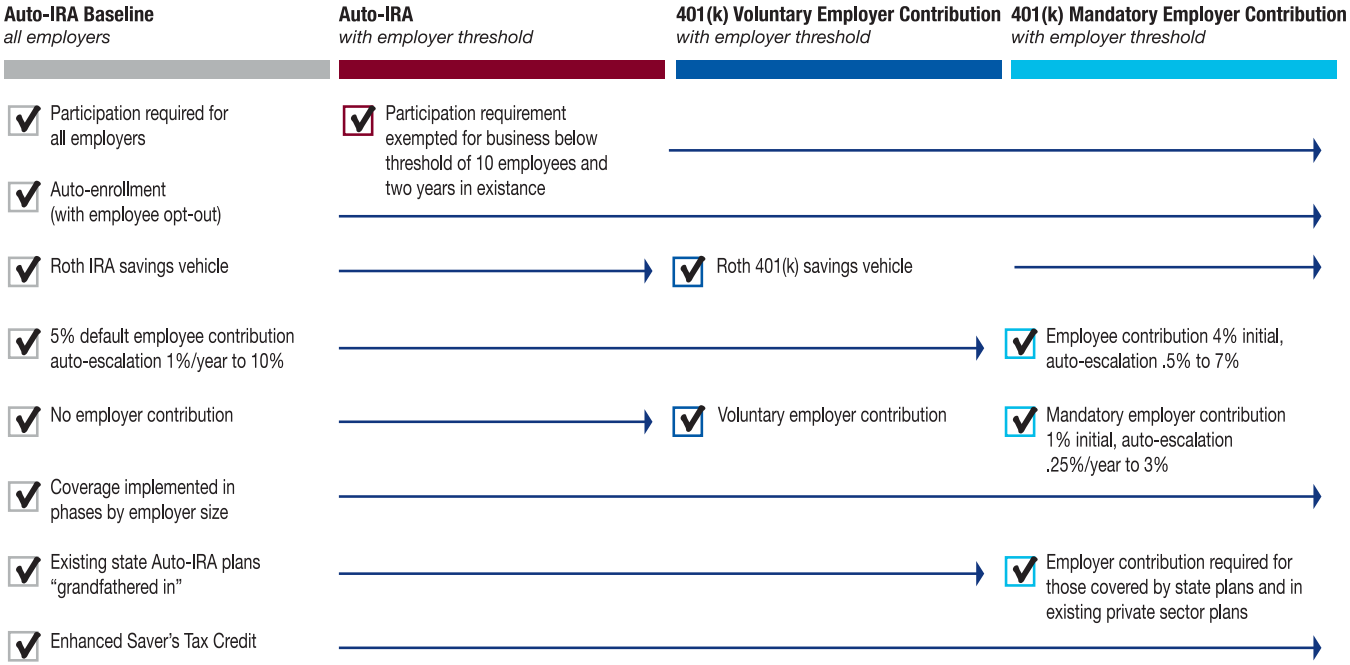
- All firms required to provide coverage to their employees;
- Automatic enrollment with an ability for employees to opt-out;
- A Roth-IRA savings account, with contributions made post-tax (no tax on qualified withdrawals of account contributions or earnings);
- 5% default initial employee contribution, with an auto-escalation of 1% per year up to 10%;
- No employer contribution;
- Coverage requirements implemented in three phases by employer size, starting with the largest employers (100 or more employees) two years after enactment (assumed to be December 31, 2021) and covering mid-size employers (20–99 employees) three years after enactment and all firms within four years of enactment;
- Existing state Auto-IRA programs "grandfathered in" (consistent with federal legislative proposal);
- Enhancement of the Saver's Credit to incorporate the higher income limits, credit amount, and credit maximum reflected in the SECURE Act 2.0 legislative proposal, as well as a refundable structure providing for matching funds to be deposited directly into savings accounts (a component not included in the SECURE Act 2.0 proposal).

Section 2.1 details the potential impacts of this baseline approach in terms of coverage and retirement assets for individual savers and at the national level. Analysis is included that isolates the impact of the enhanced Saver's Credit, which is included in modeling across all scenarios, on savings accumulations for representative savers.

Other Policy Design Options Modeled

Building from this baseline scenario, a number of alternative policy options are modeled to understand their impacts on participation, savings, and government expenditures and revenues. The policy options and features modeled broadly reflect the range of national legislative proposals discussed. This analysis is not intended to designate a single

Figure 1.8: Modeled Scenarios Isolate the Impact of Policy Variations on Access and Savings



proposal as optimal, but rather to provide policymakers with insight into the differential impacts of policy variations on access and savings.

Alternative policy options are modeled by adjusting several design features, including:

- **Varying the type of savings account** used between a payroll deduction IRA and 401(k), factoring in differences in the administrative requirements and the costs of such accounts;
- **Adding employer size and age thresholds,** exempting the smallest and youngest businesses from the requirement to provide their employees with access to retirement savings;
- **Including a voluntary employer contribution**, as permitted in 401(k) accounts to give businesses the discretion to contribute to employee accounts; and
- **Requiring an employer contribution** by adding a new requirement for employers to provide contributions into an employee's 401(k) account, improving the return on investment for savers but generating additional economic implications for businesses and workers.

These policy variations are applied in sequence, producing four modeled scenarios (see Figure 1.8 above). Modeled results for each scenario are compared to the baseline Auto-IRA scenario outlined above to understand the implications of different policy options for participation and savings levels. Next, Section 3 details the long-term national impacts of the baseline scenario and each policy option for economic growth, tax revenues, and government expenditures on benefit programs.

This analysis assumes stable employment conditions and a lower-growth economic environment across all scenarios (consistent with projections from the Congressional Budget Office).[48] Continuity is assumed in federal policy outside the specified initiatives concerning retirement security. Employers are assumed to build up to full compliance with the requirements of the policy options over time.[49]

Additional information about the modeling approach used in this study is included in a supporting Methodology Appendix.[50]

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2. Analyzing the Potential Benefits of National Universal Access to Retirement Savings Options

2.1 Participation, Savings, and Assets under a Baseline Auto-IRA Scenario

National universal access to retirement savings for private sector workers means opportunities for millions of lower- and middle-income households to build wealth over time and significantly boost income in retirement through simple, automatic, and consistent contributions.

By starting to save early in their careers, taking advantage of available incentives to save, and benefiting from compounding investment returns over an extended time horizon, low- and moderate-income workers can generate meaningful account balances by end of their working careers. Modeling potential returns for representative participants following the default contributions in the payroll deduction Auto-IRA baseline scenario covering all employers ("**baseline Auto-IRA**") shows how workers could generate meaningful assets to supplement other sources of income, like Social Security, to enhance their retirement security.

Design features in the baseline Auto-IRA scenario, such as auto-enrollment and auto-escalation of contribution levels, would expand access and help participants build savings. Protecting these savings by minimizing fees and leakage and capitalizing on market returns is crucial to growing the balances available to participants as they approach retirement. Modeling of the national impacts of the baseline Auto-IRA design, accounting for mitigating factors like opt-outs, discontinued accounts, fees, and early withdrawals, still shows significant potential increases in access, savings, and asset levels among workers.

Starting Sooner and Saving Longer Significantly Improves Retirement Outcomes

Beginning to save as soon as possible and saving consistently for as long as possible makes an enormous difference in a worker's ability to build savings and convert those savings into retirement income when it is needed.

Since national impacts are modeled over a 20-year time horizon (through 2040), younger workers from the millennial and Gen Z cohorts who will not yet have reached retirement age within the study period. However, these younger workers will have greater opportunities to build assets through continued contributions and additional years of compounding growth. Extending the analysis of individual savers to a full career illustrates the potential benefits of universal access for future generations, and the power of starting sooner and saving longer.

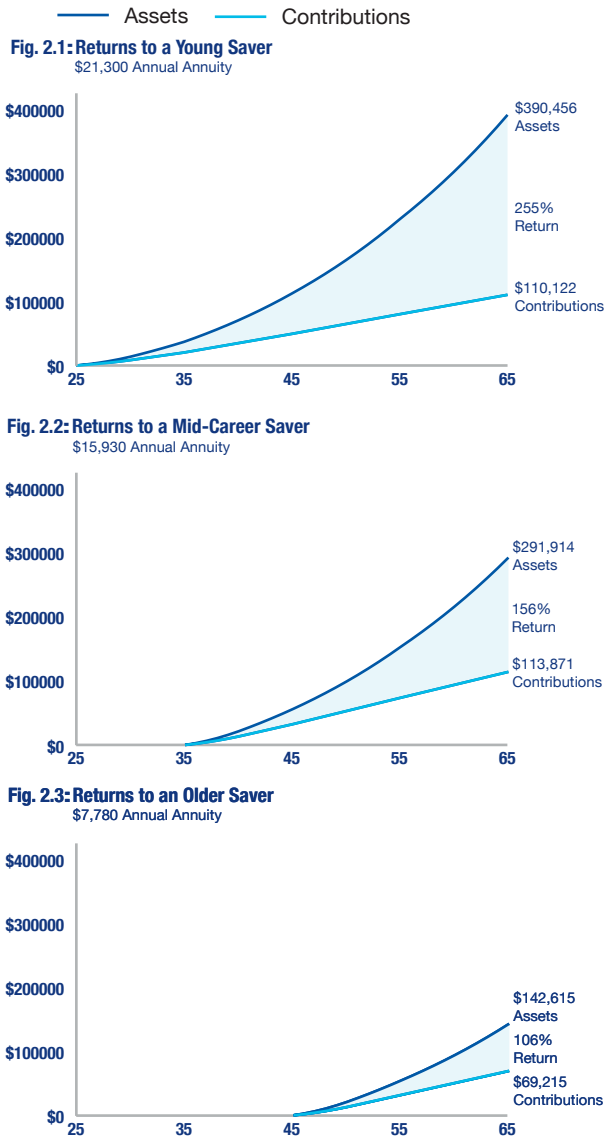
An examination of three savings scenarios illustrates differences in savings and retirement income for participants based on the starting age, years of participation, and employer size. Using rates of contributions and returns drawn from the Auto-IRA baseline scenario, three representative savers are modeled:

- A "young saver" starting their account at age 25 and earning the average salary at a small employer over a 40-year career. These workers could generate substantial returns even with modest earnings, through consistent contributions and compounding returns over the span of their careers.
- A "mid-career saver" starting at age 35 and earning the average salary for a mid-size firm over the remaining 30 years of their career. These workers have fewer years of accumulation than those starting at the beginning of their careers, but may be able to support higher contribution levels to generate assets to supplement other forms of retirement income, such as Social Security.
- An "older saver" starting at age 45 and earning the average salary for a small employer over the remaining 20 years of their career. These workers have missed important accumulation years, but still could accumulate material assets for their retirement. These savings can still improve retirement security and help delay the start of drawing Social Security benefits, which would increase benefit levels in later years of life.[51]

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Figures 2.1 to 2.3 show the total contributions, rate of return on those contributions, assets at retirement, and annual annuity amounts supported by these assets for the representative saving scenarios, assuming an enhanced Saver's Tax Credit. For example, a young (25-year-old) saver with modest earnings levels of around $35,000 per year contributing at the default level (5%, auto-escalating up to a cap of 10%) envisioned in the baseline Roth Auto-IRA design would make contributions of about $110,000 over a 40-year period, and see their account grow to $390,000 in assets. If they use this lump sum to purchase an immediate fixed annuity at the age of 65, it would generate an annual supplemental income stream of $21,300 per year over the remainder of the saver's lifetime. Parallel calculations are shown for the mid-career and older savers.

Figure 2.1, Figure 2.2, and Figure 2.3: Supplemental Lifetime Income at Age 65 for an Auto-IRA Saver with Enhanced Saver's Tax Credit



Isolating the Impact of the Enhanced Saver's Credit

A substantial component of the return on investment from the perspective of a saver can come from matching funds with their initial contributions. For a many savers using a 401(k) model through a private sector employer or a government-sponsored plan, these supplements may come from an employer match. Another means to enhance returns and incentivize contributions is the Saver's Tax Credit.

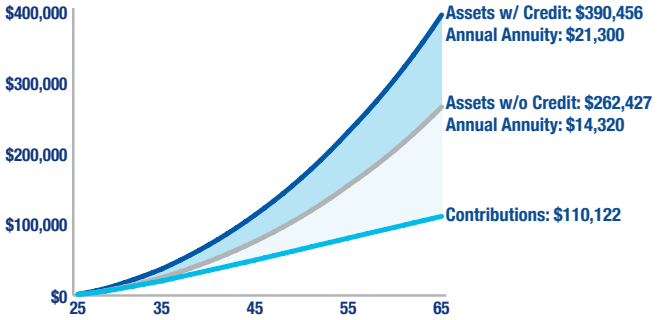
As currently designed, the Saver's Credit offsets federal tax liabilities up to 50% of contribution levels for qualifying low- and moderate-income savers, but does not directly supplement retirement savings accounts. This analysis includes a refundable credit structured as a matching contribution into a savings account. This approach greatly enhances the return on investment for savers — both immediately through the match of up to 50% of contributions, and to an even-greater degree over time through market returns.[52]

The impact for a representative household of the Saver's Credit under this enhanced design can be isolated by estimating the asset accumulations for the representative savers (under the baseline Auto-IRA approach) modeled above, with and without this enhancement:

- Returns to a young Roth Auto-IRA saver on contributions of $110,000 across their career grow from 138% to 255% due to the Saver's Credit, supporting an annual income stream of $21,300 with the credit, compared to about $14,300 without (see Figure 2.4).
- Similar proportional increases are observed in the other savings examples, with the mid-career saver experiencing an annual increase in supplemental retirement income from $11,500 to $15,900 due to the enhanced Saver's Credit, and the older saver seeing an increase from $5,500 to $7,800.

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Figure 2.4: An Enhanced Saver's Credit Increases Lifetime Returns to a Young Auto-IRA Saver



Isolating the Impact of Starting to Save Early

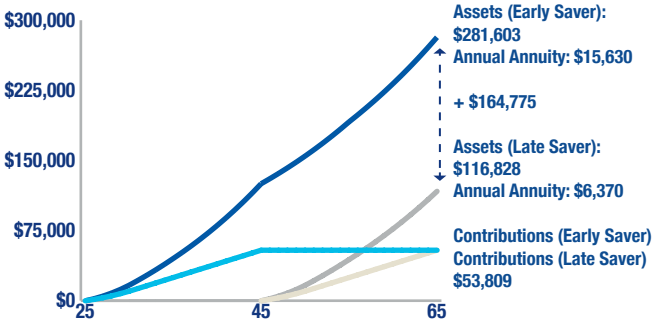
The passage of time and the power of compound interest also boost savings. Savings are invested and as the market grows, so do account balances. Future market returns apply not only to initial contributions, but also to the market returns already achieved. This compounding dynamic means that encouraging savings at a younger age can have significant long-term payoffs for participants.

This compounding effect holds even when savers are not able to contribute to their accounts throughout their entire careers. Many workers face growing financial pressures over time, leading them to allocate their income to costs like childcare and educational savings for their children, mortgage payments, or support for aging family members. Workers who cease contributions within their careers for these or other reasons (such as a change in their employment situation) still enjoy further market-driven benefits from their initial contributions as balances built up in early years continue to grow throughout the duration of a saver's working years.

The impact of starting savings early for a representative household is isolated by comparing two households with identical earnings (around $35,000) and identical contributions (totaling around $54,000) made over 20 years out of a 40-year career, using the baseline Auto-IRA savings model in this analysis (see Figure 2.5).

- The "early saver" contributes from ages 25–45, and then ceases contributions but maintains their account. Assets continue to grow to about $282,000 by age 65, supporting an annual income stream of around $15,400 in retirement.
- The "late saver" contributes from ages 45–65, making an identical total contribution throughout the overall period as the early saver. However, due to the shortened period of compounding growth, this saver achieves a balance of around $117,000, supporting an annual income stream of around $6,400 in retirement. This represents less than half of the retirement resources achieved by the young saver despite an identical level of total contributions.

Figure 2.5: Starting to Save Early Dramatically Increases Account Balances



How a Payroll Deduction Auto-IRA Expands Access and Builds Savings

Universal access would significantly expand the number of households saving for retirement. Because employees can choose to opt out, no scenario will achieve 100% participation by all eligible workers. However, the design will have an impact on levels of participation and savings, with default settings playing a particularly important role.

Modeling the baseline Auto-IRA scenario generates estimates of participation and contribution levels among the population of workers currently lacking access to a savings plan. In this baseline scenario, only employers who do not already have a qualified retirement plan would have to meet the requirements to offer coverage, and any existing state-level programs enacted as of 2020 would continue uninterrupted.

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Auto-Enrollment Significantly Boosts Participation

Research shows that automatic enrollment of employees (with the option to opt-out) produces significantly higher participation rates than models that require active opt-ins.[53] Participation rates among workers with access also vary significant by employee and firm type, with the lowest participation among the youngest workers (those below age 25) and higher participation among workers at larger firms.[54] Recognizing that not all groups will behave the same way, opt-out estimates are differentiated by age and employer size. The average opt-out rate among employees gaining access is estimated at 30% for the purposes of this analysis, based on early participation data from state programs.

Scenarios are modeled to include a phased implementation, with large firms (100+ employees) required to provide coverage in 2024 (or two years after the potential enactment), mid-size firms (20–99 employees) in 2025, and all firms by 2026. Full compliance with the requirement is assumed after the initial phase-in period.

Based on these assumptions, the analysis illustrates:

- **Significant expansions in access and participation.** By the required implementation year of 2026, more than 35 million workers are expected to be saving. By the year 2040, participation is expanded to more than 40 million, or nearly 70% of the population of nearly 59 million private sector workers under the age of 65 who would otherwise lack access to coverage (see Figure 2.6).
- **Growth in the number of workers with retirement savings accounts.** Total accounts among workers under 65 will grow beyond the implementation phase, as normal turnover within the labor force results in a substantial number of workers who have account balances that continue to grow through investment returns, even though they are not contributing in a given year. Total accounts are estimated to grow to around 71 million by 2040 (of which about 40 million are active contributors, and 31 million are accounts growing through investment returns only).
- **More workers with additional savings at age 65.** Each year, a subset of participants will reach the age of 65 (the assumed retirement age in this analysis).[55] This cohort totals an estimated 9.6 million by the year 2040, about two-thirds of the 14.5 million workers currently lacking access who are expected to reach the age of 65 over this time period (see Figure 2.7). Workers who reach this age having participated and saved will have additional resources to support their quality of life in retirement.

Figure 2.6: A Universal Access Auto-IRA Scenario Significantly Closes the Access Gap …

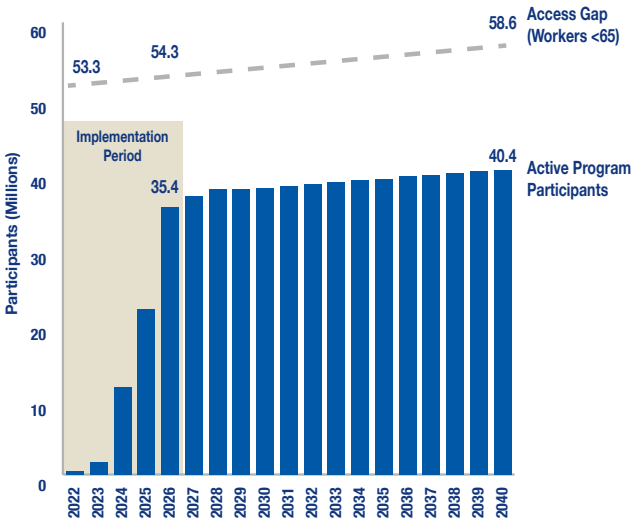
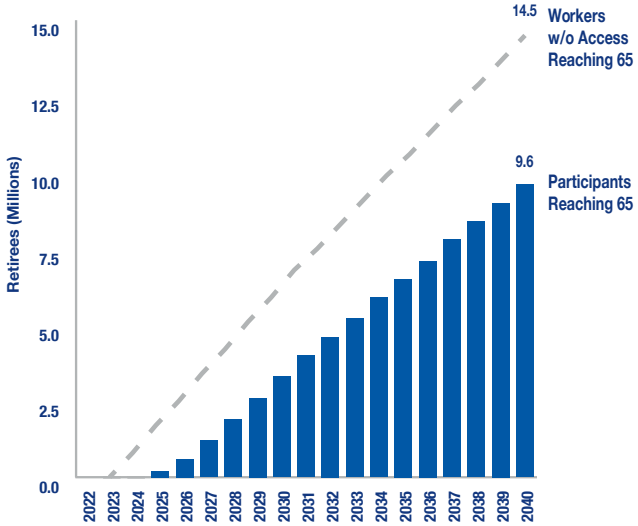


Figure 2.7: … Allowing Millions of Workers to Arrive at Age 65 with Additional Private Savings



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While the analysis period ends in 2040, there are nearly eight account holders under 65 for each participant that has reached 65 as of that year. This ratio is indicative of the substantial benefits that would be achieved among future generations of retirees in the years beyond 2040.

Building Savings Account Contributions

Default plan features are similarly important to encouraging contributions once workers are enrolled. The default initial contribution levels in state programs in Oregon, Illinois, and California have been set to 5% of post-tax earnings (due to the Roth IRA default structure of those programs), and the majority of participants have used this default contribution level as a starting point. Notably, several state feasibility studies explored potential negative effects of initial default rates on participation, and states like California, Illinois, and Connecticut concluded, through survey research and academic literature, that a default rate of 5% or 6% is unlikely to discourage participation relative to a default rate of 3%.[56] This higher savings rate has a significant impact on how much the individual would accumulate over their savings lifetime.[57]

Design also typically includes the auto-escalation of the contribution over time. These auto-escalations typically take place annually as a percentage increase in contributions as a share of income, and are ideally aligned with increases in earnings over time, so workers do not experience a decrease in take-home pay. Rather, they see a small share of pay increases devoted to additional savings. Early experience with OregonSaves and CalSavers suggests the vast majority of savers accept their annual auto-escalation.

For purposes of analysis, the default initial employee contribution level in the baseline Auto-IRA scenario is modeled at 5%, with an auto-escalation of 1% each year of participation, up to a total of 10%. A degree of opt-outs is anticipated from each stage of escalation, and new savers continuously start at the initial contribution level, leading to a "blended rate" among participants at any point in time that is below the maximum auto-escalation rate of 10%.

Employee contribution amounts are a function of both the contribution level (in percentage terms) and the post-tax earnings of the participant. Based on data from state programs, the set of participants currently lacking coverage is anticipated to have somewhat lower average incomes than the overall population of private sector workers. Incomes are modeled using expected patterns in participation by age and employer size, with higher earnings for older workers and those at larger employers. Pre-tax incomes for program participants are estimated to be approximately $38,000 on average, which translates to post-tax earnings of around $31,700.[58]

Contributions are assumed to made into a Roth IRA account in the baseline scenario. Under a Roth structure, contribution percentages are applied to "post-tax" or "take-home" earnings, as opposed to the "pre-tax" contributions in a traditional IRA or 401(k) structure, which create tax implications at the point of withdrawal. The Roth structure is simpler from the perspective of the saver and has been the preferred approach in most state Auto-IRA programs.[59]

Post-tax earnings are combined with the contribution rate to estimate employee contributions in dollar terms. Adjustments are made to account for the small proportion of savers who would otherwise exceed annual IRA contribution limits ($6,000 for employees under 50 and $7,000 for employees 50 and older in 2020), based on their anticipated earnings and contribution percentage.

Employee contributions are supplemented by annual contributions through an enhanced, refundable Saver's Tax Credit. Saver's Tax Credit amounts are modeled based on the applicable share of contributions (50% for most savers, up to a cap of $3,000). Employee contribution and Saver's Credit amounts are summed into a total annual contribution for participants.

Based on these assumptions, the analysis illustrates:

- **Employee contribution growth over time with auto-escalation**. Average employee contributions grow from $1,880 in 2026 (after the phase-in period) to around $2,600 by 2030. This average contribution stabilizes with the

cap in auto-escalation, job turnover, and the assumption of stable earnings patterns in real terms.

- **Enhanced savings from the Saver's Credit**. Average deposits from the Saver's Credits grow to around $650 per participant by 2040. Through this enhancement, the $2,630 in employee contributions grows to around $3,280 in total contributions for the average participant in 2040 (see Figure 2.8).
- **Significant annual savings levels**. Across the population of participants, annual employee contributions and Saver's Credits are estimated to total $132 billion annually by 2040 (see Figure 2.9).

Figure 2.8: Employee Contributions Augmented by Saver's Credits Total Nearly $3,300 per Year for the Average Participant under the Baseline Auto-IRA …

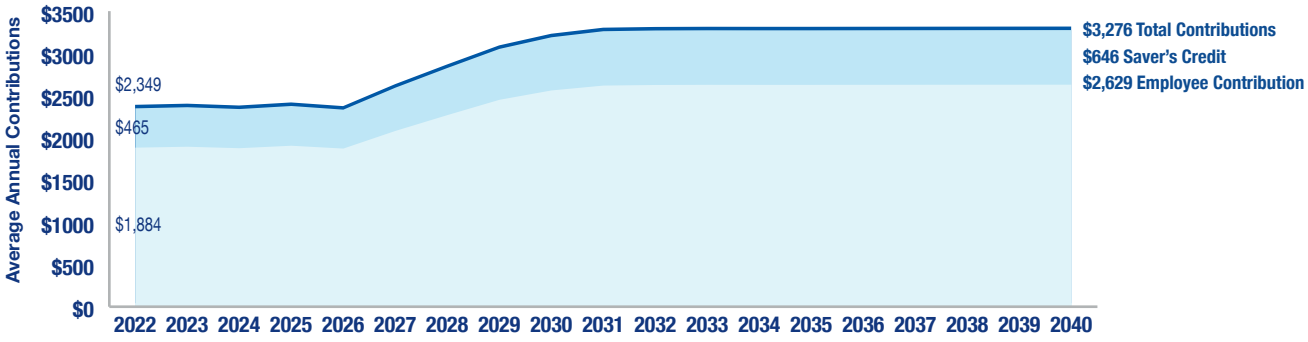
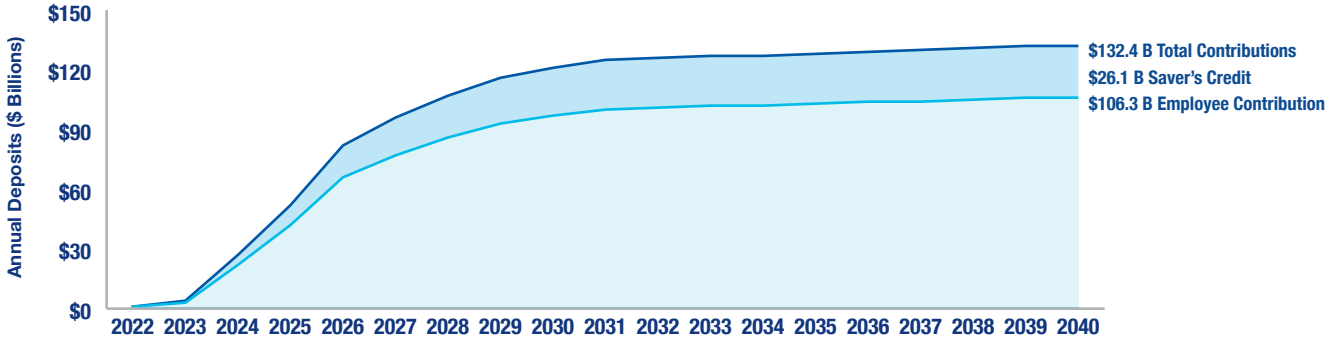


Figure 2.9: … and More than $130 Billion per Year in Total



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Protecting Savings is Critical to Asset Growth and Retirement Income

If the long-term goal of expanding access and participation is to boost savings to build retirement income, design considerations also must encourage and support consistent contributions, low fees, and avoiding withdrawals. These components will allow compounding returns over time to accumulate significant assets for the average participant. Minimizing fees and leakage, and using default investment options, such as target date funds, can help to achieve these objectives.

Minimizing Fees and Leakage

With universal access to retirement savings required, savers would still pay fees for administration and investment management, just as savers typically do in existing employer-sponsored retirement plans. Fees effectively reduce investment returns, meaning that minimizing fees can be as important as maximizing gains to asset growth. Large-scale plans or programs can provide significantly lower fees than those available to small individual providers. Approaches that offer straightforward design structures and limited options are also able to limit costs more effectively.[60]

Fees in the baseline universal access Auto-IRA scenario are modeled to start at 0.90% of assets and decline to 0.35% over time as assets grow, below private sector benchmarks of more than 1.00%.[61] Some universal access structures rely largely on a single provider, achieving scale to help control costs, while others divide the market through various mechanisms. In that case, a combination of scale and competition between providers has a similar effect in achieving reductions in cost.

Leakage through early withdrawals is a risk that can create challenges for building savings. The Roth IRA investment vehicle envisioned in the baseline scenario does make early withdrawals easier, when compared to traditional IRAs and 401(k)s, by allowing for the withdrawal of post-tax contributions and, in some cases, earnings with limited penalties.[62]

In some cases, a household may need to tap its retirement savings account to cover unexpected expenses that would otherwise have negative consequences. The availability of such savings can create a buffer that allows households to avoid financially damaging options, such as taking unfavorable loans or eroding their credit in response to short-term financial shocks, which may lead to greater financial stability over the long term. However, many retirement experts have advocated for finding a way to offer short-term liquidity in the form of a "sidecar" savings account — a separate savings account — available for emergencies to avoid withdrawals of retirement funds.

Due to the modest income profile of workers currently lacking access, withdrawals have the potential to erode a material share of the assets held by new savers. Withdrawals are modeled as a share of annual contributions in initial years as the baseline Auto-IRA option gains scale, with higher relative levels among younger savers, consistent with the levels and patterns of withdrawals seen in the initial years of state programs.[63] Over time, withdrawals are modeled to represent 2.25% of account assets, growing in dollar terms as account balances grow, based on benchmarks among current savers.[64]

Asset Growth through Compounding Market Returns

Retirement savings plans enable workers to see their assets (net of fees and withdrawals) benefit from market returns. While results for any time period are variable, market growth has been reliable over time in growing the real value (above and beyond inflation) of contributed assets.

To navigate market variability, savers are typically advised to pursue a more-aggressive mix of investments in their younger years, and then shift to a more-conservative mix as they approach retirement age. Target date funds implement this approach for the saver over time by gradually shifting from higher yield/higher risk assets for younger savers toward lower yield/safer assets as savers near the targeted retirement age. Expected returns in this analysis are modeled to vary by age from 5.4% annually for the youngest savers to 4.3% annually for the oldest savers, based on data from the Employer Benefits Research Institute (EBRI) on the mix of asset types held by savers at different ages, and benchmarks of anticipated performance by asset type.[65]

Account balances for participants are modeled as a function of contributions and market returns, net of fees and withdrawals. At the national level, assets held by participants reaching the assumed retirement age of 65 are treated as withdrawn, because these participants exit their saving years and use their accumulated assets to supplement their income in retirement.

Based on these assumptions about fees, withdrawals, and returns, the analysis illustrates:

- **Growing account balances over time**. Each cohort of savers over the analysis period reaches the age of 65 with additional years of accumulation, increasing the average account balance. Participants reaching 65 in the year 2040 have an average account balance of more than $60,000 (see Figure 2.10).

Average account balances for each cohort reaching 65 exceed the average account balance among all participants, because older savers have higher average earnings and lower job turnover. However, younger cohorts have additional years of contributions and investment returns ahead of them. This pattern will enable the trend of increasing average balances as of age 65 to continue for future retirees beyond 2040.

Supplementing Retirement Income through Private Savings

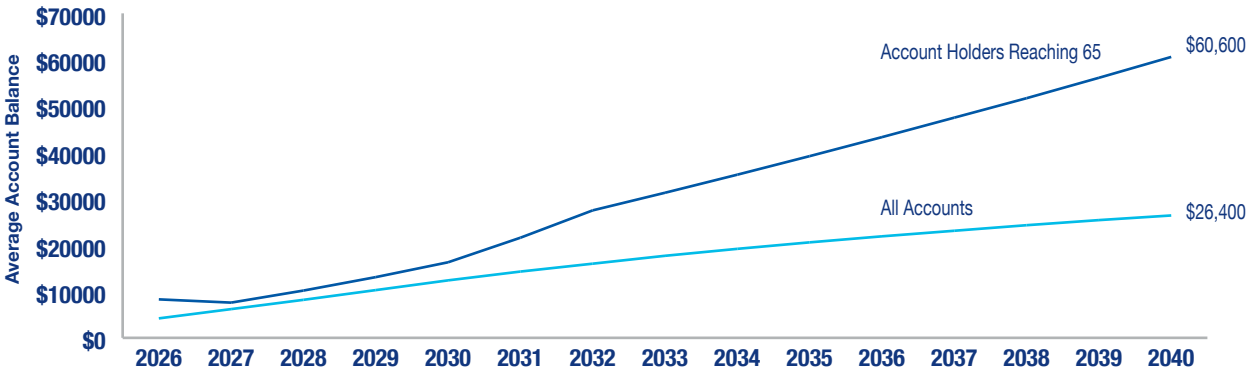
Because the goal of any national universal access proposal is to reach workers who previously lacked access to savings through their employers, the assets that they accumulate saving for retirement serve to supplement other sources of income, including Social Security, through their retirement years.

Retirement experts are increasingly focused on the range of "decumulation" strategies to help retirees optimize their lifetime income and quality of life. A 2019 CRI report, in conjunction with financial experts Willis Towers Watson, explores the growing demand for lifetime income solutions, and the range of models that can protect assets and mitigate risk for retirees, depending on their financial situations.[66] That analysis compares the trade-offs of different income solutions to the income generated by an immediate fixed annuity.

To illustrate how a "lump sum" account balance can translate into a stream of lifetime income in retirement, this analysis uses the simplified framework of the "immediate annuity." This approach is just one of many potential strategies for generating lifetime income, and will not be appropriate for all households, but nonetheless, represents a common basis on which to understand the ongoing value of accumulated assets to savers. Based on market rates, an average account balance of around $60,000 would support an annual annuity of around $3,300 for the average saver for the remainder of their life.[67]

Savings accumulations will vary for individual workers and can be substantially higher even at modest contribution levels if savers can avoid early withdrawals, start saving early, and accumulate returns over an extended period. Results estimated as of 2040 by definition only

Figure 2.10: Average Account Balances Under an Auto-IRA Grow through Additional Years of Savings



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include the cohort of older savers who will begin to access retirement savings. Younger workers from the millennials and Gen Z cohorts who will not yet have reached retirement age within the study period will have greater opportunities to build assets through continued contributions and additional years of compounding growth. As a result, future generations of Americans will see far greater benefits from increased savings than those quantified as of 2040 within these estimates.

2.2 Policy Choices Have Impacts on Coverage and Savings

Universal access programs implemented internationally and by US states have varied in their design characteristics. These design differences have included the type of retirement savings account (IRA and/or 401(k) structure), which employers are subject to coverage requirements, whether employer contributions are available, and whether these employer contributions are voluntary or required. Such differences reflect the consideration of trade-offs to achieve the shared policy goals of expanding access and increasing savings. They also include the consideration of the potential adoption challenges for different groups (such as employers and employees), and the technical considerations inherent in policy efforts of this scale.

Modeling of the impact of different retirement savings design options is intended to help inform the conversation and consideration of these differences in approach and their trade-offs.

The following scenarios are quantified and compared:[68]

- Auto-IRA baseline covering all employers ("**Baseline Auto-IRA**"), with features such as auto-enrollment and auto-escalation described above;
- Auto-IRA with employer threshold ("**Threshold Auto-IRA**"), which applies a threshold for employer size and age below which firms are exempted from the requirement to provide access to coverage;
- 401(k) Voluntary Employer Contribution with employer threshold ("**Voluntary Employer Contribution 401(k)"**), which changes the savings account type from an IRA to a 401(k), which — among other implications — gives employers the discretion to make contributions; and
- 401(k) Mandatory Employer Contribution with employer threshold ("**Mandatory Employer Contribution 401(k)**"), in which employer contributions are required rather than discretionary.

Policy variations are applied in sequence, retaining most features from scenario to scenario to isolate the impact of specific features on outcomes. In practice, it may be possible for policymakers to "mix and match" these design components, although the scenarios defined in this analysis are broadly reflective of models enacted at the state levels and those envisioned in national legislative proposals.

Thresholds for Employer Participation Dictate the Remaining Access Gap

Results from voluntary programs, both internationally and in US states, suggest a limited impact in closing the access gap.[69] Efforts to achieve universal access thus generally include a requirement for employers to offer some type of retirement savings option to their employees, often with a fine or penalty for non-compliance as an enforcement mechanism. While this approach maximizes access and participation, concerns have been raised about the challenges of compliance, especially for small businesses.

As a consequence, here in the US, state programs often establish a "threshold" in firm size with an additional consideration for how long a firm has been in business, with firms below this threshold exempted from the provisions to offer coverage to their employees. State Auto-IRA programs in California and Illinois each include a minimum employer size for required employer participation, which is set at five employees in California and 25 employees in Illinois. Oregon's program, by contrast, does not have a threshold requirement, making it "universal" in application to all full- and part-time employees who have worked at least 60 days.[70]

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Federal Auto-IRA proposals introduced in the Senate (S. 2370) and in the House (H.R. 3499) each set a threshold that exempts employers with 10 or fewer employees, and exempt businesses that have not been in existence for two full calendar years.[71] The Automatic Retirement Plan Act (H.R. 4523), which envisions a national 401(k) requirement, exempts businesses with 10 or fewer employees on a "typical business day," as well as employers that have not been "in existence for three years."[72] This legislation also envisions a phase-in of the coverage requirement, with small businesses (under 100 employees) receiving additional time to comply. This phased implementation has also been built into state approaches and is assumed in this analysis for all scenarios.[73]

OregonSaves, which does not have a minimum employer threshold, has a participation deadline in January 2021 for businesses with fewer than five employees. Research conducted by the Pew Charitable Trusts in July 2020 showed high levels of satisfaction with the program among employers that have participated to date, with nearly three-quarters of employers expressing a positive or neutral impression of the program and 79% reporting that they had not experienced any out-of-pocket costs associated with the program.[74] The experience of the smallest employers as their participation becomes required will be important to monitor in 2021.

The intent of these employer exemptions to the coverage requirement is to avoid the imposition of even a de minimis effort on the smallest and newest businesses. These businesses are least likely to have the administrative apparatus (such a human resources department or manager, or payroll provider) that makes it even easier to facilitate their employees' ability to save. However, the smallest firms are currently also the least likely to offer coverage to their employees. As a consequence, these thresholds can perpetuate the access gaps that universal programs seek to close.

Employees at Firms Required to Participate under Potential Employer Thresholds

The inclusion of a threshold for required employer participation, the level at which that threshold is set, and who is eligible to participate have significant implications on the number of workers gaining access to retirement savings through their workplace. To estimate the number of employees working at firms required to provide access under different potential thresholds, data sets from the US Census Bureau are combined to develop a snapshot of the composition of private sector employment by firm size and firm age as of 2020.[75] Potential firm size thresholds of five, 10, and 20 employees are considered, along with potential firm age thresholds of 1, 2 and 3 years.

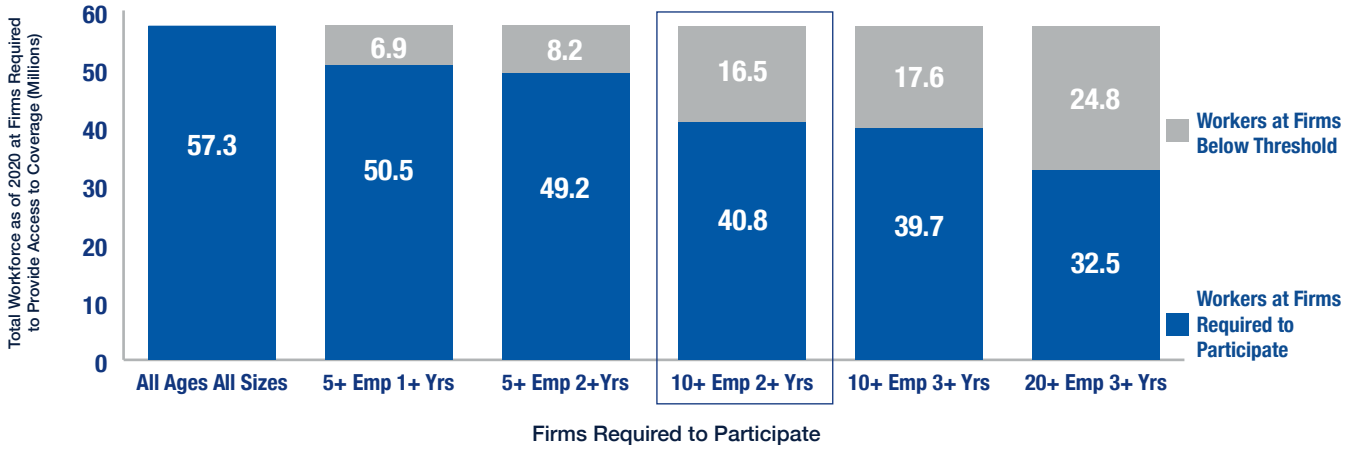
Through this approach, the analysis illustrates:

- **The size of the workforce at firms required to participate varies significantly by potential threshold**. A threshold defined as five employees and one year in existence would include 50 million out of the 57 million private sector workers at businesses that do not currently provide access. By contrast, a threshold defined as 20 employees and three years in existence would apply to firms with 32 million workers, with 25 million working at exempted firms (see Figure 2.11).
- **Firm size thresholds have a greater impact than firm age thresholds**. Each increment in exempted firm size (from five to 10 to 20 employees) exempts firms employing several million workers nationally, while each additional year of firm age (from one to two to three years) exempts firms with a total workforce closer to 1 million.

Consistent with federal legislative proposals that have typically included an employer threshold of 10 employees, and the importance of the employer size threshold on access, modeling of each of the policy variations (beyond the baseline Auto-IRA scenario) assumes an employer threshold of 10 workers and two years in existence for the requirement to provide access. If fully implemented among the current private sector workforce (as of 2020), required participation above this threshold would apply to firms employing an estimated 40.8 million workers, with 16.5 million workers at exempted firms.

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Figure 2.11: Employer Thresholds Have Significant Impacts on the Number of Workers at Firms Required to Provide Access to Savings



ESI analysis of US Census Bureau Business Dynamic Statistics and Quarterly Workforce Indicators Data.

Voluntary Employer Contributions Can Increase Participant Savings

The Auto-IRA model implemented in several states and modeled in this analysis (with and without a threshold) does not allow for contributions by employers to supplement the savings of employees. This constraint could be addressed through the use of a Roth 401(k) rather than Roth IRA as the retirement savings account option, which would enable employer contributions.

However, the use of the 401(k) brings additional considerations into play for employers, notably that 401(k)s are retirement plans covered by the Employee Retirement Income Security Act (ERISA) of 1974 and would have to meet the administrative and regulatory requirements of this law. These requirements must be considered, along with potential hybrid and alternative approaches, in contemplating approaches to allow voluntary contributions and support greater levels of savings.

Changing the Type of Savings Account from an IRA to a 401(k)

The most-recognizable savings option that combines employee and employer contributions is the 401(k). Data from Vanguard indicates that the contribution levels within this model have been relatively stable in recent years, with employee contributions averaging around 7% of income and employer contributions around 3.7% for a total of 10.7%.[76]

The national approach envisioned by the Automatic Retirement Plan Act of 2017 introduced by House Ways and Means Chair Representative Richard Neal envisions a requirement for all private sector employers above a size and age threshold to enable their employees to participate in a 401(k) plan, if they do not currently offer a qualifying alternative.[77] Employer contributions in this approach would be voluntary and left to the discretion of the employer.

If the employer chooses to make such contributions, they are deciding to take on the additional costs to do so. Firms that are required to enable their employees to have access to a 401(k) vehicle may find it in their interest to offer a voluntary match for competitive reasons, especially if other firms are doing so. However, the group of employers that are affected by a participation requirement because they do not currently offer access has revealed a preference to limit their expenses on employee benefits. Modeling of a voluntary employer contribution scenario through a 401(k) assumes that employers would contribute an average of 5 cents for each dollar contributed by employees.[78]

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IRAs vs. 401(k)s: Differences to Consider

ERISA sets forth consumer protection and coverage standards that firms must adhere to when offering retirement savings plans to their employees. These regulations mean that employers assume a certain degree of legal risk and associated cost in providing retirement savings options for their employees.

States that have adopted an Auto-IRA model have done so with confidence that such a program is not subject to ERISA, because employers perform only "ministerial" functions, such as making and remitting payroll deductions, and do not have any responsibility or discretion in the administration of the state-facilitated program.[79]

By contrast, 401(k) models that enable employer contributions are subject to ERISA protections. Employers contributing to an auto-401(k) plan exercise discretion and control over the plan's assets, typically assuming fiduciary responsibilities for the plan's investment "menu," selection of service providers, and operations. Thus, employers can be liable for non-compliance with the basic standards of conduct and subject to monetary penalties.[80]

This additional complexity associated with 401(k) models adds to the administrative burden, compliance costs, and risks associated with participation from the perspective of a business. However, it is important to note that the expansion of alternative 401(k) arrangements in the SECURE Act, such as Multiple Employer Plans (MEPs) and new Pooled Employer Plans (PEPs), may help to reduce these burdens by outsourcing administrative and most fiduciary responsibilities relative to a traditional standalone 401(k) plan.[81] In addition, many national universal access proposals have included provisions for tax credits to help businesses with one-time start-up costs associated with providing access.[82]

401(k) and IRA models also vary in terms of the degree to which they increase access among the youngest workers. Within a 401(k) plan, employers have the discretion to set an age threshold (with a maximum allowable age of 21) for employee participation, and IRS data indicate that the majority of 401(k) plans use this provision.[83] The Automatic Retirement Plan Act of 2017 (which uses a 401(k) option) requires employers to provide access only to workers 21 and older, while the Automatic IRA Act of 2019 requires access once an employee reaches the age of 18. This differential in the starting age for required coverage contributes to larger remaining access gaps for a 401(k) model compared with an IRA.

Hybrid IRA and 401(k) Approach

Some alternative approaches have been suggested that seek to capitalize on the asset-building advantages of the 401(k) while minimizing the cost and administrative burden on certain businesses. Universal access to retirement savings could be designed using a "hybrid" approach that allows employers to choose whether they adopt a payroll deduction IRA or a 401(k) option to meet their requirements to offer access of some kind. Employers could then decide, taking into consideration the fundamental differences between the two types of accounts, which one they prefer. Because of the simplicity of an Auto-IRA, more employers are likely to choose it, but some employers, especially mid-size firms that may not yet have plans of their own, may choose a 401(k), concluding that the benefits of higher contribution levels and the potential for an employer match is important to help their businesses become more competitive in attracting and retaining talent. Notably, participation requirements in states with Auto-IRA programs have led to some businesses that previously did not provide coverage opting to institute their own 401(k) plan. This dynamic illustrates the potential for Auto-IRA models to complement the robust existing 401(k) space.

It is important to keep in mind that any employer that adopts an Auto-IRA can always choose later to move to a 401(k) model through a private provider. This is another advantage of having all firms offer their employees a way to save. For newer businesses, this approach helps to get them started, but then gives them the experience to consider moving to a 401(k) as their company grows and resources allow.

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"IRA Plus" Approach

Finally, the limitations discussed in the Auto-IRA model are statutory and could be addressed through policy changes. Congress could innovate by creating another type of IRA. For example, Congress has previously created a variant of the traditional IRA: the Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRA, available to businesses with 100 firms or less. This option, which is ERISA-regulated, features a simplified set-up and administrative structure relative to 401(k) plans, requires an employer contribution, and has a higher annual contribution limit for employees ($13,500 in 2020) relative to a traditional IRA.[84] Similarly, an "IRA Plus" approach could be developed that retains the simplicity and minimal burden of the IRA structure, while enabling voluntary employer contributions into employee accounts.

Required Employer Contributions Can Increase Employee Returns — with Economic Trade-offs

Options that allow for voluntary employer contributions give businesses the choice to contribute to the savings accounts of their employees, and the discretion not to do so. Alternative proposals developed and advanced by policy and industry experts would require mandatory contributions from employers as a means to build savings, through programs similar to the federal Thrift Savings Program (TSP), a 401(k) program for millions of federal workers (including members of Congress).

This approach to universal access would enable low- and moderate-income households to access the benefits from employer contributions that many higher-income workers already enjoy, improving the effective return on investment on employee contributions. However, this approach would create a new non-discretionary direct cost to employers, which raises a set of challenges within the labor market that are unique to this policy approach. From an economic perspective, this required cost functions similar to a tax, with the incidence either passed back to the employee (through a reduction in wages or other benefits) or absorbed by businesses (limiting their ability to invest and grow). This approach would also have implications for the existing savings marketplace, which would have to be brought in alignment with the employer match requirement to avoid creating an uneven playing field between new and existing employer retirement plans and grandfathered state programs.

Constructing and Analyzing a Required Employer Contribution

Employer contribution proposals envision a shared responsibility for funding savings accounts between the employer and the employee to reach equivalent (or better) savings levels compared to employee-only contribution models. Required contribution levels would have to be carefully calibrated to limit the increase in costs to businesses at implementation, and to minimize disincentives for hiring over the long term.

Modeling assumes an initial employee contribution of 4% and an initial employer contribution of 1%, equaling the overall contribution level of 5% envisioned under each approach. These levels are envisioned to escalate slowly, with employee contributions growing 0.5% per year up to 7% (after Year 6) and employer contributions growing 0.25% per year up to 3% (after Year 8). This escalation schedule, which seeks to minimize disruptive impacts on businesses, results in a slightly slower acceleration of total contributions to the long-term level of 10% than is envisioned under models relying entirely on employee contributions.

Implications for Participating Businesses

While the direct expenditures from a required contribution are made by employers, labor market dynamics would dictate how the true economic cost of the requirement is shared. A portion of costs are likely to be passed back to employees in the form of reductions in wages or other benefits — undercutting some of the benefits from increased savings — and a portion is likely to be borne by employers, limiting future hiring, business investment, and growth. The economic framework of cost incidence generally establishes that when a new cost is imposed, the party (between buyers and sellers or between employers and employees) that is more price-sensitive will be least willing to absorb the additional costs, shifting the majority of the incidence to the other party.

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Empirical research suggests a high level of wage sensitivity for low-income workers, who value changes in wage earnings at the expense of other aspects of employee compensation.[85] This puts lower-income workers in a stronger position relative to higher-income earners to minimize wage reductions and offset increases in benefits (assuming stable economic conditions). In addition, offsetting reductions in fringe benefits would be relatively unlikely in this case, because the employers that currently do not offer retirement access are often those that have limited benefits packages for their employees in other areas, such as healthcare coverage, from which they could recoup these costs.[86] Due to this combination of factors, **employers would be expected to bear the majority of cost incidence from an employer contribution requirement**, although workers would be expected to see some reduction in earnings over time.[87]

This additional cost would have a dampening effect on business investment and growth over time. Impacts would fall primarily on small and mid-size firms, which often do not operate with excess profits or reserves. On the margins, increased cost will reduce demand for future hiring, investment, and expansion among these businesses. Market pressures will also threaten the viability of firms in highly competitive markets and firms that rely heavily on low-wage workers, potentially accelerating existing trends toward the market consolidation of larger employers.

Implications for Existing Savings Programs

In addition to the effects on the millions of workers currently lacking access to a retirement savings plan, this approach would necessitate changes to the framework of existing private market and state retirement programs to effectuate the aim of required employer contributions. The universal access models analyzed in this study are generally structured to complement the existing savings framework, with firms that already offer coverage options exempted from new requirements. Employer contributions are common but voluntary among private sector plans, and state programs following the Auto-IRA model do not enable these contributions. Absent any additional changes, businesses that do not currently provide access could (and probably would) procure a private plan without an employer contribution component or join state Auto-IRA programs if available. This would, in effect, function as a "loophole" to the employer contribution requirement, limiting its effect.

Therefore, it is envisioned that a mandatory employer contribution approach would have to extend the contribution requirement among all qualifying employers, including those that offer existing coverage to their employees and including existing state efforts as well. Implementation would be expected to be gradually phased in over several years to allow for those employers that do not currently make employer contributions to be able to do so and to ensure consistent standards across employers. The potential disruptive effects of this approach on employers currently offering coverage and on their employees are not directly accounted for within this study, which limits analysis to the population of firms and workers that currently lack access, and does not capture the full range of potential dynamic effects from changes in policy affecting businesses with existing plans.

Analyzing How Policy Choices Affect Participation, Savings, and Asset Building

Analysis of the policy options — the type of savings account, thresholds for participation requirements, and the ability or requirement for employer contributions — through a consistent modeling approach enables a comparison of these policy variations to the baseline Auto-IRA scenario, and to each other. This sequential process enables estimates to be developed of the incremental impacts on participation, savings, and asset building of each policy option in isolation. Comparative analysis shows results for participation, contribution levels, and savings, reflecting both per-participant measures and aggregate measures across all participants.

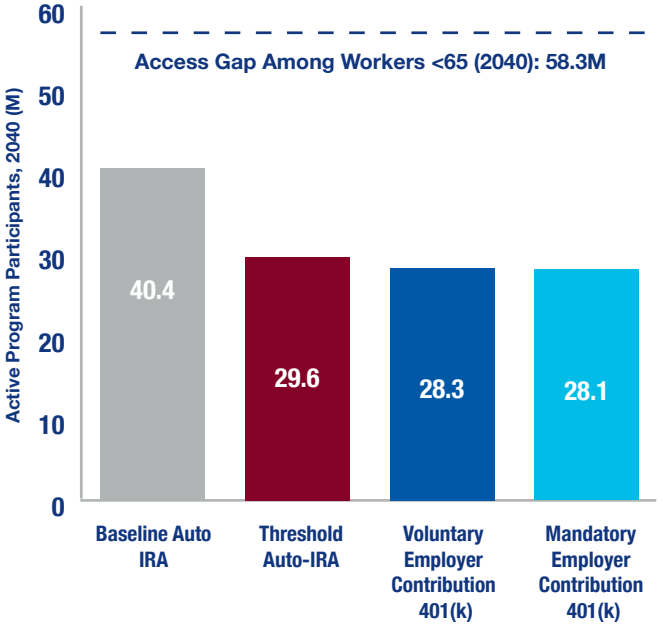
Analysis of participation by scenario illustrates:

- **Universal access models increase the number of workers saving for retirement in 2040 by 28 to 40 million.** Participation through active contributions to a savings

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account is anticipated from about 50 to 70% of private sector workers who currently lack access (see Figure 2.12);

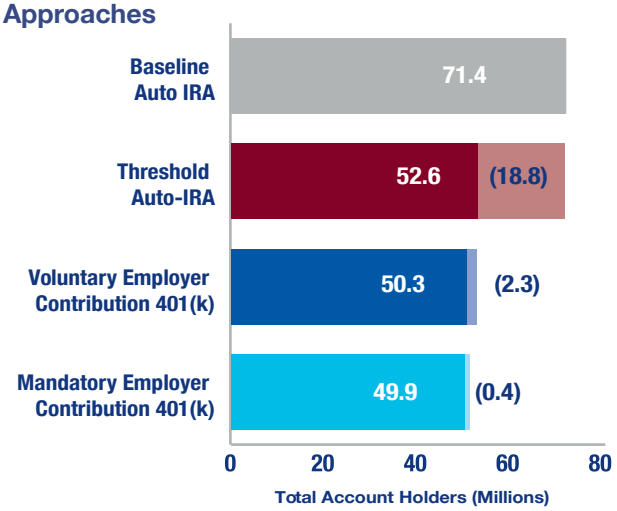
Figure 2.12: Required Universal Access Can Increase Participation by 50 to 70% Among Workers Currently Lacking Access



- **Participation levels fall significantly if employers below a certain employee threshold are exempt.** Policy options, that exempt smaller and younger firms from the requirement to provide access would limit the degree to which the models can close the access gap (whether within Auto-IRA or 401(k) approach). An exemption of firms with fewer than 10 employees or in existence for less than two years would reduce participation by an estimated 11 million by 2040 under an Auto-IRA model, with additional reductions in coverage under 401(k) approaches.
    - Additional reductions in participation of 1.3 to 1.5 million workers are anticipated with the 401(k) models under the same employer thresholds. This is due to differentials in coverage requirements by age, as well as lower anticipated levels of voluntary participation from firms exempt from the coverage requirement under the more-challenging administrative structure of the 401(k).

Differentials between models in total account holders (including accounts growing without contributions) are larger still, with nearly 19 million fewer accounts as of 2040 (a decrease of 26%) under the employer threshold IRA model relative to the baseline Auto-IRA, and additional declines under the 401(k) approaches (Figure 2.13).

Figure 2.13: Participation Falls with an Employer Threshold, and Slightly Further with 401(k) Approaches



Analysis of savings and asset growth by scenario illustrates that:

- **While participation levels are lower in models exempting some employers, those participating may have higher average contributions and savings.** Policy alternatives are likely to increase average contributions and account balances among those who have access and participate relative to the baseline Auto-IRA model. These differentials are due in part to the characteristics of the covered population (with average participant earnings increasing when excluding firms below an employer size and age threshold), and due in part to the scenario characteristics.
- **Average contributions and savings are highest in the 401(k) scenarios.** Average savings levels increase with a voluntary employer contribution 401(k) when compared to the threshold Auto-IRA, due to contributions from some employers, the effect of the increased annual contribution

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limit on a small sub-set of savers, and lower anticipated levels of early withdrawals.

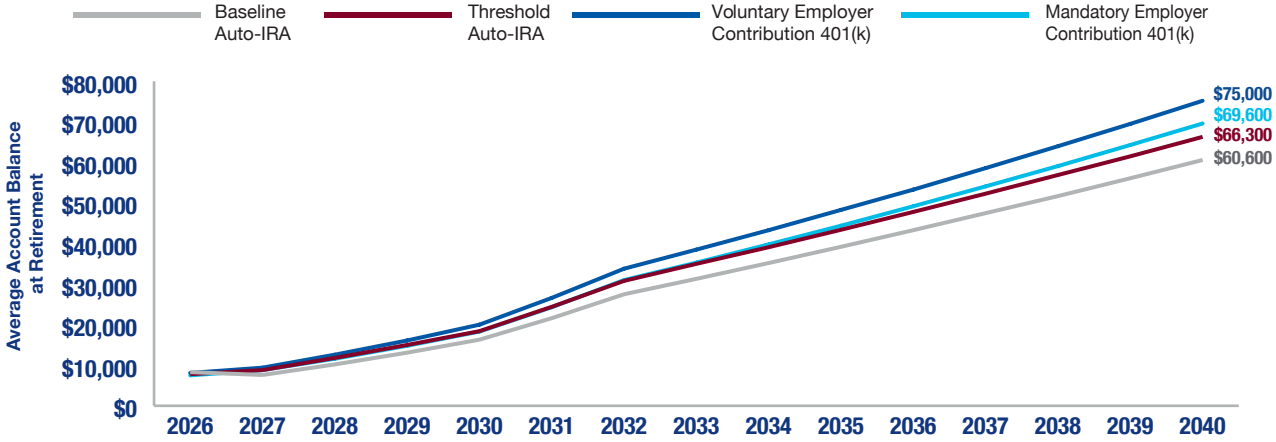
- Savings levels are estimated to be slightly lower under a mandatory employer contribution 401(k) approach than a voluntary employer contribution 401(k) approach, due to the constraint on wage growth from the required employer contribution, as well as a slower pace of escalation in contributions implemented to mitigate the impacts on employers in this scenario.
- Average balances for participants reaching age 65 in 2040 grow from $66,300 in the threshold Auto-IRA scenario to $75,200 under the voluntary employer contribution 401(k) approach (see Figure 2.14).
- The baseline Auto-IRA model generates a lower average account balance for participants reaching 65 of $60,600 due to participation of more low-income workers, which decreases average balances.

These results illustrate potential trade-offs for consideration between payroll deduction Roth IRA and Roth 401(k) options. When analyzed using equivalent employer thresholds, an IRA model encourages a higher level of participation by presenting the lowest barriers to participation for businesses and savers. However, a 401(k) approach can encourage higher average levels of contributions and asset accumulation over time among those who do participate due to its provisions around contributions and withdrawals.

Analysis of overall savings levels, accounting for both participation and average participant outcomes, illustrates that:

- **Overall savings are highest in the baseline Auto-IRA scenario, which covers all employers**. While per-participant savings are higher under alternative approaches, the expansion of coverage anticipated under the baseline Auto-IRA scenario with no employer threshold leads to the largest increase in overall savings among the policy options modeled.

Figure 2.14: Average Account Balances at 65 Range from $60,000 - $75,000 by 2040 and are Largest within the 401(k) Models



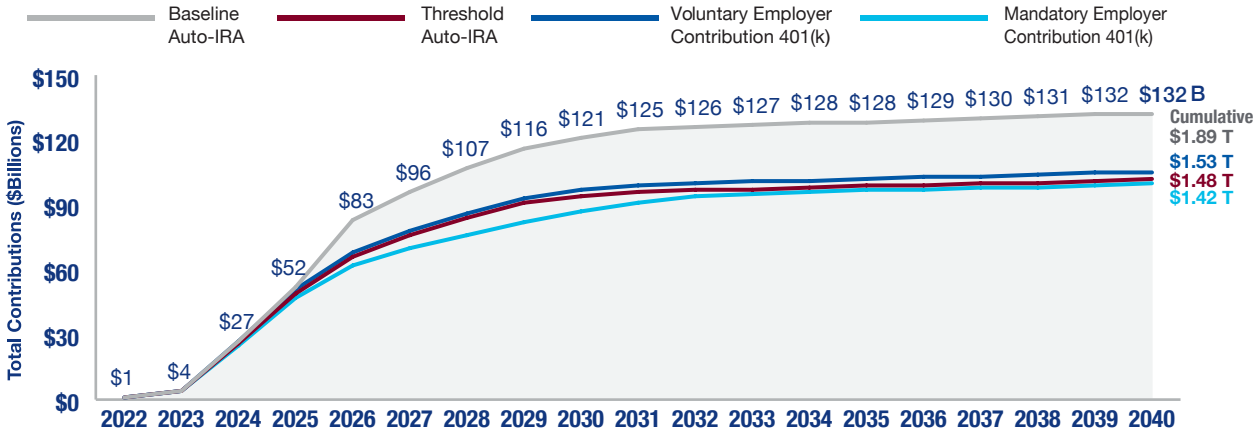
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- Annual contributions to savings accounts are estimated to total more than $130 billion by 2040 under the baseline Auto-IRA model, adding up to a cumulative $1.89 trillion over the analysis period, with policy alternatives producing $1.4–$1.5 trillion in cumulative contributions (see Figure 2.15).

- **The voluntary employer contribution 401(k) scenario generates the highest savings levels among policy alternatives with an employer threshold**. Higher participation levels under threshold Auto-IRA approach are balanced by higher savings levels per participant in the 401(k) models, with the voluntary employer contribution 401(k) model producing slightly higher total savings and the mandatory employer contribution 401(k) producing slightly lower total savings than the threshold Auto-IRA.

This analysis affirms the value of the 401(k) as a savings vehicle that maximizes the potential asset accumulation among those who have access and participate. If feasible, a voluntary employer contribution 401(k) approach without a threshold for required participation (similar to the baseline Auto-IRA scenario) or a mandatory employer contribution 401(k) approach with a more-aggressive employer contribution level could produce higher levels of savings than the baseline Auto-IRA model. However, these approaches and requirements have impacts on participating businesses and the broader savings market, and federal 401(k) or IRA proposals to date have typically contemplated an employer threshold out of consideration for the implications for the smallest businesses. The inclusion of the baseline Auto-IRA scenario illustrates the importance of considering whether to include and where to draw an employer participation threshold on overall levels of access, participation, and savings.

Figure 2.15: Cumulative Savings Contributions are Highest Within the Baseline Auto-IRA Model, Totaling $1.9 Trillion through 2040



3. Long-Term National Impacts from Increased Savings

3.1 Increased Economic Growth and Tax Revenue

In addition to the positive impacts on participating workers, expanding coverage and increasing retirement savings would create additional positive "downstream" impacts for the nation's economy. More-accessible savings options would help the competitiveness of small businesses and the financial security of workers, including the self-employed, encouraging a more-dynamic economy, while increased savings levels will grow the income that senior households have available to spend in retirement.

In addition to the returns they generate for individuals, personal savings provide a source of capital for business investment and growth. This positive cycle produces stronger growth in employment and activity across the economy, and in turn generates additional tax revenue. Established models of the relationship between savings, investment, and growth are used to translate the national increases in savings under the savings scenarios into increases in GDP growth. These relationships also inform analysis of the impact on government tax revenue.

Enhancing Economic Productivity and Accelerating Growth

Micro Effects on Small Businesses, Workers, and Households

The design of savings options have implications for the everyday decision-making of businesses, workers, and families. These individual microeconomic decisions about what job to take, whether to start a business, and how to spend disposable income aggregate together to have significant impacts on the economy.

Making Small Businesses More Competitive

Closing retirement savings access gaps has the potential to increase business dynamism by leveling the playing field between small and large businesses in employee recruitment and retention. As smaller employers and providers adapt to new requirements and coverage options are widely adopted, the competitive advantages currently held by larger businesses will diminish. Removing this barrier would allow for better preference matching between employees and employers, improving overall productivity and job satisfaction.[88] This would increase business dynamism by removing a growth constraint on small businesses, the key engine of growth and dynamism in the US economy.

Flexible Work Arrangements

Policy makers also need to wrestle with changes in the relationship between businesses and workers, as non-traditional work arrangements become increasingly prevalent as workers look to combine multiple approaches to contribute to their total income. Analysts studying broad trends about "the future of work" expect these patterns to intensify over time, driven by forces like technology (which allows for greater remote work and flexibility) and automation (which will reshape traditional business models).[89] Increasing the availability of retirement savings options will help more workers to establish accounts and begin saving. Crucially, modeling does not assume that savers will stay at the same employer across their career, but recognizes that more universal access will enable workers to continue to build savings across multiple jobs and work arrangements.[90] Facilitating this can enable workers to be more flexible and entrepreneurial in their career choices, and adapt to changing conditions.

Increasing Disposable Income for Senior Households

As they grow in number, seniors are also an increasingly important consumer segment with their household spending power. Retirees with insufficient savings and a shortage of disposable income are forced to cut back on their spending patterns, forgoing purchasing goods, services, and recreation to focus their spending on the essentials like housing and food.[91] These cutbacks have material impacts on the economy, reducing the demand for a variety of goods and services that are often sold and produced locally.[92] Initiatives to enhance savings will help retirees better maintain their established spending patterns, benefiting the economy and the businesses that serve them.

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Macro Effects on GDP Growth

In addition to micro-level effects on individual households and businesses, universal retirement access would affect the macroeconomy by increasing the level of national savings and investment. When individuals save a portion of their earnings, they make an immediate trade-off between consumption and savings. At the macro level, these savings do not sit idle, but instead represent available capital for business investments that improve the productivity of workers and the economy. This effect accelerates economic growth, increasing GDP per capita and the overall standard of living.

Macroeconomic models describe the relationships between the levels of consumption, savings and investment and the rate of economic growth. This analysis uses the well-established "Solow Growth Model" to run simulations of the effect of the increase in savings generated by the scenarios on the growth path of the US economy over the next two decades.[93] Impacts are calibrated to the slow growth environment projected by the Congressional Budget Office (CBO), which anticipates that changes in the demographic composition of the population will limit workforce growth below past norms over the 2020–2040 period.[94] Since the standard of living is directly tied to economic growth, these projections highlight the growing importance of policies aimed to improve productivity and output per worker.

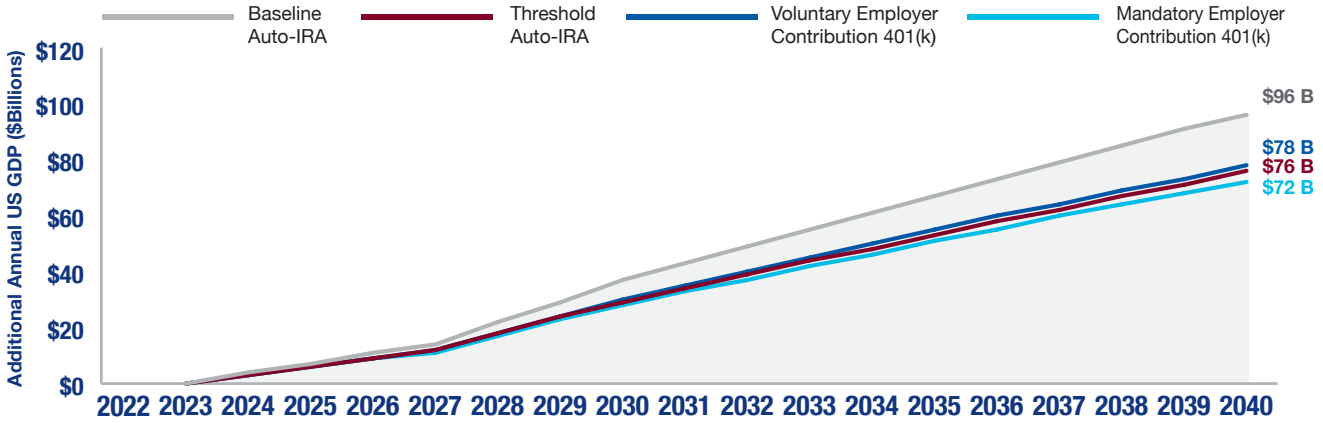
The annual savings anticipated from the coverage approaches studied would be expected to increase the personal savings rate nationally from an existing benchmark of around 7.5% to a range of 8.0%–8.2% (varying by scenario). This in turn would translate to increases in the total national savings rate and would increase private business investment, stimulating increases in productivity in the private sector.

Based on this framework, the analysis illustrates that:

- **Increased productivity growth from increased savings and investment accelerates GDP growth**. The annual rate of real GDP growth is estimated to grow from the 1.70% per year projected over the next two decades by the CBO to 1.71%–1.72% annually. While subtle, this rate increase applies across the full US economy and compounds each year, producing significant incremental growth over time. This increase in growth rate would add $72–$96 billion to the national GDP in the year 2040 (see Figure 3.1).
- **Increases are highest under the baseline Auto-IRA approach**. National GDP is estimated to be nearly $100 billion higher in the year 2040 under this scenario, which generates the largest increase in the personal savings rates through the highest participation levels, thus stimulating the greatest productivity growth. Among scenarios with an employer threshold, the voluntary employer contribution 401(k) generates slightly more growth than the threshold Auto-IRA.

This effect translates to growing wealth and increasing living standards over time for all

Figure 3.1: Increased Savings and Investment Boost GDP Growth by $72–$96 Billion in the Year 2040



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Americans, whether or not they participate directly in a savings option. The increased rate of growth results in a per capita GDP increase of $240–$310 per US resident in the year 2040, which fundamentally translates to higher earnings levels and standard of living across the economy.

Increased Tax Revenues from Economic Growth

Accelerating rates of economic growth also translates into increases in tax revenue collected by governments at the federal, state, and local levels. Current ratios of tax collections to economic activity can be used to analyze the tax revenue implications of additional economic growth (assuming a continuation of existing tax policy).

Federal revenues largely result from taxes on households, payroll, and corporate earnings that are fundamentally income-generated. Increasing the rate of GDP and national income growth, therefore, translates directly to increased tax revenues for the federal government.

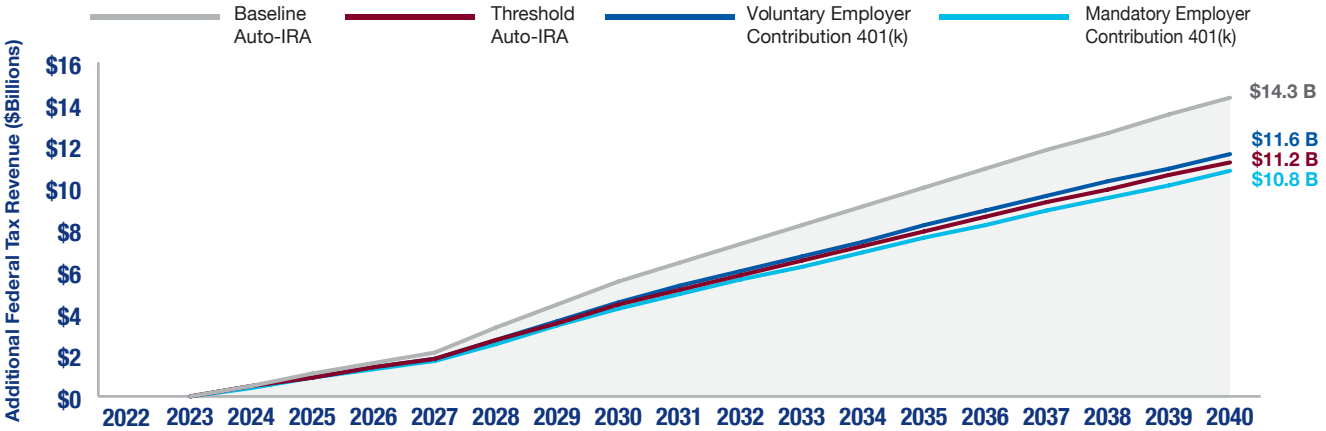
Based on this framework, the analysis illustrates that:

- **Economic growth will produce increased tax revenue for the federal government.** The additional economic growth, stimulated by the cycle of increased savings, investment, and productivity, is estimated to generate an increase of $11–$14 billion in federal tax revenue in the year 2040 (see Figure 3.2).
    - The largest overall increase is again seen under the baseline Auto-IRA scenario, and among scenarios with an employer threshold, within the voluntary employer contribution 401(k) model.

This level represents a new, higher base of activity relative to current trends. These annual increases would be expected to continue, and to magnify as more participants reach retirement, in subsequent years.

State and local governments have separate and distinct tax bases from the federal government, and often apply their own taxes to personal and business income, as well as other assets (such as real estate) that would benefit from enhanced economic security and growth. Tax rates and growth implications vary by location; specifying the level and distribution of these state and local benefits would require a more-granular assessment not addressed in this report.

Figure 3.2: Increased Economic Growth Leads to $11 - $14 Billion in Additional Federal Tax Revenues in the Year 2040



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3.2 Assessing the Impact on Federal Benefit Programs

As the nation's population ages and too many have too little saved for retirement, the projected cost of federal benefit programs supporting seniors is anticipated to increase substantially. Helping future retirees increase their savings and their resources in their retirement years has the benefit of reducing their need for these programs, many of which are means-tested.

Program data and eligibility rules are used in the analysis to define the current relationship between income and benefit program expenditures for the senior population. The modeled universal access scenarios are all expected to diminish the rate of growth in program expenditures for low-income seniors over time by increasing savings and retiree resources.

Federal Benefit Program Spending is Anticipated to Rise Significantly

Federal and state governments operate a number of benefit programs that serve, in part or in total, lower-income seniors. As the population ages, demand for these programs is expected to grow materially. Increasing the resources available to seniors would help reduce the government spending associated with these programs.

Federal programs provide a range of support resources to elderly Americans with demonstrated needs, including health care, nutrition, housing, and supplemental income. Federal spending on these programs already totals nearly $100 billion per year and is often supplemented by additional state funding.

Importantly, this figure does not include the two largest senior-targeted programs: Social Security and Medicare (for which government expenditures are not directly tied to retiree incomes), or generalized spending (such as defense, infrastructure, etc.) that benefits the full population but is not targeted to seniors.

The largest means-tested program is Medicaid, which represents $62 billion of the $96 billion and funds supplemental health insurance and long-term care for many low-income seniors.[95] An additional $19 billion is spent on low-income subsidies within Medicare Part D, for a total of $81 billion in healthcare costs.

Other key support programs fund services for the elderly population, such as supplemental income ($6 billion in Supplemental Security Income), food ($6 billion in the Supplemental Nutritional Assistance Program and Nutrition Program for the Elderly), heating ($1 billion in Low Income Home Energy Assistance), housing ($1 billion on Supportive Housing for the Elderly), and additional supportive and caregiver services ($1 billion). Collectively, these programs represent another $15 billion in support spending for the elderly population as of 2020, for a total of $96 billion when combined with healthcare costs.

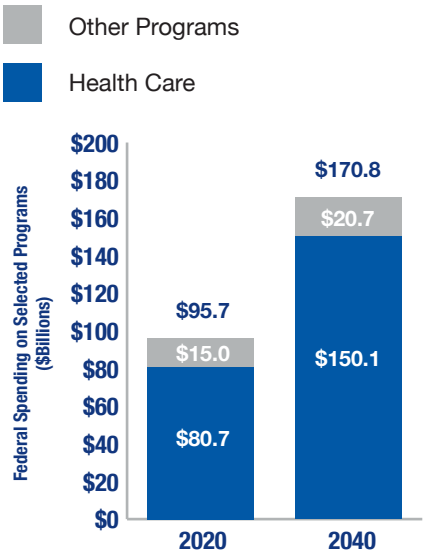
Absent any changes in policy, benefit program spending on the elderly is anticipated to grow rapidly over the next two decades. Much of this expected growth is driven by both the aging of the population and the addition of more than 10 million elderly households over this period (an increase of 32%).

In addition to population change, medical care costs are expected to continue to grow in real terms, with the CBO projecting growth of 1.1–1.6% per year in "excess medical costs" (beyond inflation) over the next three decades for the Medicare and Medicaid programs, respectively.[96] Since programs providing medical care represent the majority of benefit expenditures for the elderly, this excess growth means that, in addition to increases in demand, the cost per participant will also rise to maintain the same level of services.

Under current trends in elderly incomes, the combination of the growth in senior households and increasing medical costs are anticipated to increase federal spending on these senior support programs by 78% over the next two decades (see Figure 3.3). This represents an increase of $75 billion, of which $69 billion is associated with healthcare programs and $21 billion with other support programs.

The growing senior population and associated expenditure needs are coupled with a decline

Figure 3.3: Federal Spending on Means-Tested Benefit Programs for the Elderly is Substantial and Growing



from historic norms in the ratio of working age households to retiree households. This change in composition, and the increased fiscal pressure associated with it, are expected to endure beyond the current generation of baby boomer retirees.

Increasing Retiree Incomes Can Reduce Program Expenditures

Because the financial security of future retirees is directly linked to future demand for benefit programs, efforts that improve the income and financial security of future retirees will also contribute to slowing the rate of growth in government spending.

To understand the contribution of supplemental savings income to the well-being of the senior population, current trends in retiree incomes are extrapolated forward to 2040. Within this scenario, the incomes of the elderly population as of 2040 match those of the prior generation in terms of income replacement levels achieved.[97] Since universal access scenarios analyzed in this report are targeted to workers who currently lack access to savings, additional savings generated through these policy approaches can be understood as supplemental to incomes anticipated under the continuation of current trends.

Next, current and anticipated program expenditures are estimated by household income level, using a mix of program data from administering departments and program eligibility rules.[98] On a per-household basis, benefit program expenditures fall significantly as incomes rise, particularly for the lowest-income households that comprise the majority of program expenditures. Using this relationship between elderly incomes and government expenditures, potential government savings can be estimated for each of the policy approaches considered. The level of possible expenditure savings associated with each scenario is driven by the degree to which it could increase the resources of future retirees.

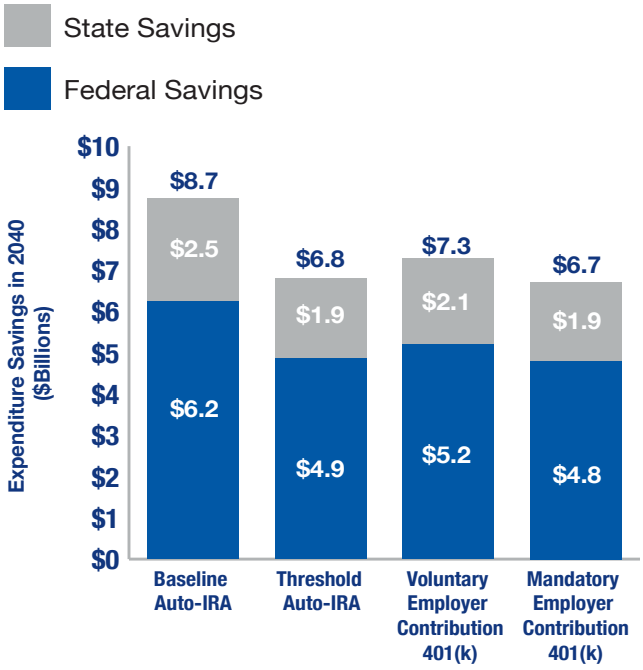
Many of the benefit programs reviewed in this report have significant state funding components in addition to the federal expenditures. Most notably, states provide an additional $0.55 for every dollar of federal funding for Medicaid. While specific rules and match rates vary by state, the ratio of federal and state expenditure for each program analyzed can be used to understand the order of magnitude of the effect of increased retiree resources on state benefit program spending.

Based on this framework, the analysis illustrates that:

- **Savings increases result in material decreases in benefit program spending**. Universal access scenarios that increase savings are all expected to diminish the rate of growth in program expenditures for low-income seniors over time.
- **Federal and state governments share in the savings.** Due to the shared nature of many of these benefit programs, both federal and state governments yield savings from reduced need.
- **The baseline Auto-IRA model produces the largest benefits through the broadest expansion of coverage and savings.** Federal savings in the year 2040 are estimated at $6.2 billion and state savings at $2.5 billion, for a total of $8.7 billion under the baseline Auto-IRA scenario, alternative models generate combined program savings of around $7 billion in 2040 (see Figure 3.4).

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Figure 3.4: Increased Retiree Resources Leads to Government Program Savings of $7–$9 Billion in the Year 2040



Benefits would grow substantially larger beyond 2040, as the population of participants reaching retirement with additional income continues to increase, and later cohorts arrive at retirement age with more-substantial account balances each year due to the additional years of savings and returns.

While the federal government would realize about 70% of the savings from these shared federal and state programs, increasing retiree income probably would also provide states with additional savings on state-specific efforts that support quality of life for seniors above and beyond state contributions to the federal programs described above. State-level studies conducted by ESI in Pennsylvania and Colorado indicate significant potential savings for state governments associated with increasing retiree incomes, including state-level programs providing property tax relief, transportation, and other support services in addition to shared federal and state programs.[99]

Within this analytical framework, increases in elderly income translate to decreases in benefit program demand (holding program features constant). This mechanism can, in some cases, represent a cost shift from government to private households for the same services (for example, if a household no longer qualifies for Medicaid due to income eligibility and purchases a comparable private insurance plan). As an alternative policy consideration, there has been some discussion of whether some additional retirement income would be excluded from consideration for one or more of these programs, such as SNAP. This approach would have the effect of reducing the savings to the government and transferring gains to households. The degree of this transfer would vary depending on the expenditures associated with the program, with medical insurance programs representing the most material cost drivers. From an economic standpoint, the net social benefit remains the same regardless of this transfer.

Government savings from enhanced revenues (from increased economic growth) and expenditures (from reduced benefit program demand) can be measured against the additional federal expenditures associated with the enhanced Saver's Credit envisioned within the universal access models studied in this report.

Annual deposits to savers through the enhanced Saver's Credit are estimated to total $20–$26 billion under these models, growing about $18–$25 billion on net from the current net fiscal impact of the credit ($1–$2 billion in foregone revenue). Federal revenue increases of $11–$14 billion from economic growth and federal expenditure savings of $5–$6 billion from reduced program demand nearly offset the entire cost increase associated with the enhanced credit by 2040. The net fiscal effect is likely to be positive in future years, as future generations of participants reach retirement and fiscal benefits grow at a faster rate than Saver's Credit expenditures.

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Conclusion

Any effort to significantly improve retirement readiness must expand access to ways to save for retirement to as many workers as possible. If we look at how this is done internationally, there is usually little debate about the primary goal of universal access, and several countries require employers to provide a retirement savings option for their employees. With all workers covered, differences can be found in aspects of model design to achieve the levels of savings needed to boost income in retirement.

Policymakers here in the US have been willing to learn from experience of other countries, but have stopped short of a fundamental redesign of the system that would reshape the existing private sector retirement market. As a consequence, efforts to significantly improve retirement readiness must expand access to ways to save for retirement within a payroll deduction IRA and/or 401(k) structure. The type of retirement savings accounts, the employers required to participate, and the default levels of employee contributions and any employer contributions over time are all factors that will drive coverage, savings, asset growth, and retirement income.

Of the scenarios analyzed in this report, the largest reductions in the access gap and largest increases in overall savings are achieved by the simplest model that follows a payroll deduction Auto-IRA approach, covering all employers (even without the opportunity for employer contributions). Modifying this approach to include an employer threshold, exempting the smallest and newest businesses from required participation to reduce the administrative imposition on small employers, will leave a larger access gap with fewer workers covered.

On the other hand, giving employers the ability to make contributions would help to boost the average levels of savings among those that participate. A 401(k) option that allows for employer contributions achieves modest increases in average contribution levels, and further increases in asset levels at retirement. However, it does have some additional administrative burdens and risks to employers, reducing likely coverage levels relative to an Auto-IRA at any required participation threshold. A 401(k) approach with a mandatory employer contribution would increase the return on investment from the standpoint of the saver, but would have more-disruptive impacts on existing businesses and savings plans.

Regardless of the model selected, what is clear is that the benefits to savers, retirees, and the nation's fiscal and economic well-being can be enormous. Depending on the design features, a national approach to universal access to retirement savings which would require some or all employers to offer their workers either an IRA or 401(k) could:

- Increase the number of workers saving for retirement in the year 2040 by 28–40 million, with participation from about 50–70% of private sector workers who currently lack access;
- Help a young worker with a modest income who starts saving early and follows savings defaults for 40 years to save enough to generate as much as $14,320 in additional annual income for retirement, increasing to $21,300 in annual income if eligible to take advantage of a refundable Saver's Credit;
- Increase cumulative total retirement savings between $1.4 trillion and $1.9 trillion by the year 2040; and
- Accelerate economic growth, increasing national GDP by $72 billion to $96 billion in the year 2040.

Experiences from other countries and the early evidence from states here in the US demonstrate that increases in access can be achieved in a simple, cost-effective way that supports and includes a private market of providers ready and willing to compete to provide options for employers and their workers.

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Endnotes

Endnotes below reflect sourcing for citations contained within this report. The accompanying Methodology Appendix contains a complete explanation of the approach and calculations used to model the impact of universal access scenarios.

1 For more information about state initiatives to expand retirement access, see information maintained by the Georgetown University Center for Retirement Initiatives: < https://cri.georgetown.edu/states/>

2 Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, Pub.L. 116–94, <https://www.congress.gov/116/plaws/publ94/PLAW-116publ94.pdf>

3 Private sector employment estimates are based on "covered employment" as defined by the Bureau of Labor Statistics, excluding independent contract work. Low- and high-end estimates of retirement savings access are derived from the 2019 National Compensation Survey of the Bureau of Labor Statistics (low end) <https://www.bls.gov/ncs/> and analysis of Current Population Survey data by Ghilarducci and Papadopoulos (2020), *Retirement Plan Coverage by Industry, Firm, and Worker Characteristics*. Schwartz Center for Economic Policy Analysis at the New School. <https://www.economicpolicyresearch.org/images/docs/research/retirement_security/Research_Note_1_2020_Retirement_Plan_Coverage_by_Industry_Firm_and_Worker_Characteristics.pdf>

4 This estimate is derived by averaging the estimates of access to coverage among private sector workers based on two leading data sources: the National Compensation Survey of the Bureau of Labor Statistics and the Current Population Survey of the US Census Bureau. The Methodology Appendix to this report describes how this calculation is applied (as well as others throughout the analysis) at [https://cri.georgetown.edu/research]

5 Information about worker contributions to retirement plans from Harvey (2017), *Access to Workplace Retirement Plans by Race and Ethnicity*, AARP Policy Institute, citing analysis from the Employee Benefit Research Institute of data from the Survey of Income and Program Participation (SIPP). <https://www.aarp.org/content/dam/aarp/ppi/2017-01/Retirement%20Access%20Race%20Ethnicity.pdf>

6 See: Cohen, et al. (2019), *DCIIA Fourth Biennial Plan Sponsor Survey — Auto Features Continue to Grow in Popularity*. Defined Contribution Institutional Investment Association. <https://cdn.ymaws.com/dciia.org/resource/collection/23D6FA15-31A6-4ABA-826B-A8718DC03E59/DCIIA_Fourth_Biennial_Plan_sponsor_survey_8._FINAL.11.30.17.pdf>

7 Additional information about retirement access gaps from Ghilarducci and Papadopoulos (2020), Retirement Plan Coverage, and Scott, John, et al. (2016), *Who's In, Who's Out: A look at access to employer-based retirement plans and participation in the states.* Pew Charitable Trusts. <https://www.pewtrusts.org/~/media/assets/2016/01/retirement_savings_report_jan16.pdf>

8 Of workers at firms with fewer than 10 employees, 22% report access to a workplace savings plan or pension, whereas at firms with 500 or more employees, 74% of workers report access. See Scott (2016), *Who's In, Who's Out*.

9 Estimates of retirement adequacy in different cohorts of the population from Brown, Saad-Lessler, and Oakley (2018), *Retirement in America: Out of Reach for Working Americans?* National Institute on Retirement Security. < https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis_Final.pdf>

10 See estimated average monthly Social Security benefits for retired workers from *Social Security Fact Sheet* (2020), Social Security Administration. <https://www.ssa.gov/news/press/factsheets/colafacts2020.pdf>

11 See *Social Security Fact Sheet* (2020) — Social Security data as of June 2020, Social Security Administration. <https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>

12 Collinson, Rowey, and Cho (2019), *What Is "Retirement"? Three Generations Prepare for Older Age*. Transamerica Center for Retirement Studies. <https://transamericacenter.org/docs/default-source/retirement-survey-of-workers/tcrs2019_sr_what_is_retirement_by_generation.pdf> and Munnell and Hou (2018), *Will Millennials Be Ready for Retirement?* Center for Retirement Research at Boston College. <https://crr.bc.edu/wp-content/uploads/2018/01/IB_18-2.pdf>

13 Incomes near the median are based on households in the third income quintile (those with incomes between the 40th and 60th percentile). Munnell and Chen (2020), *401(k)/IRA Holdings in 2019: An Update from the SCF*. Center for Retirement Research at Boston College. <https://crr.bc.edu/wp-content/uploads/2020/10/IB_20-14.pdf>

14 *Ibid*.

15 Information about relative preparedness for retirement of millennials, Generation X, and baby boomers from Brown (2018), *Millennials and Retirement: Already Falling Short*. National Institute on Retirement Security. <https://www.nirsonline.org/wp-content/uploads/2018/02/Millennials-Report-1.pdf> and Munnell and Hou (2018), *Will Millennials Be Ready* (see link above).

16 University of Virginia Weldon Cooper Center Demographics Research Group (2018), *National Population Projections.* <https://demographics.coopercenter.org/national-population-projections>

17 Population projections from the University of Virginia are converted to household projections using American Community Survey (ACS) data to calculate the current (2018) average household size for each age cohort by dividing the population by the number of "householders" in each age bracket. This ratio (also known as the "headship rate") is held constant for each age cohort across the analysis period and applied to the population forecasts by age group to translate population estimates to household estimates (see Methodology Appendix for further detail).

18 For more information about state initiatives to expand retirement access, see information maintained by the Center for Retirement Initiatives at Georgetown University. < https://cri.georgetown.edu/states/>

19 Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, Pub.L. 116–94. <https://www.congress.gov/116/plaws/publ94/PLAW-116publ94.pdf>

20 Information about the current and future superannuation guarantee percentages from the Australian Taxation Office (2020), *Table 21 – Super Guarantee Percentage.* <https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/?page=24#Super_guarantee_percentage> Information about eligible employee thresholds from the Australian Taxation Office (2020), *Working Out if You Have to Pay Super*. <https://www.ato.gov.au/business/super-for-employers/working-out-if-you-have-to-pay-super/>

21 See *Low Income Super Tax Offset* (2020). Australian Taxation Office. <https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/?anchor=Lowincomesuperannuationcontribution#Lowincomesuperannuationcontribution>

22 Information about super-fund accounts and assets based on data from the Australian Prudential Regulation Authority (APRA) and the Australian Bureau of Statistics (ABS) as cited in *Superannuation Statistics August 2020* (2020), Association of Superannuation Funds of Australia. <https://www.superannuation.asn.au/ArticleDocuments/269/SuperStats-Aug2020.pdf.aspx?Embed=Y>

23 For more information about the KiwiSaver program, see *KiwiSaver Annual Report 2020* (2020). Financial Markets Authority. <https://www.fma.govt.nz/assets/Reports/Kiwisaver-Annual-Report-2020.pdf>

24 For more information about the UK NEST program, see *UK NEST Quarterly Investment Report Q1 2020*. <https://www.nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html>

25 See *The Fiscal Impacts of Insufficient Retirement Savings in Colorado* (2020), Econsult Solutions. <https://econsultsolutions.com/wp-content/uploads/2020/02/The-Fiscal-Impacts-of-Insufficient-Retirement-Savings-in-Colorado-Feb-2020.pdf> and T*he Impact of Insufficient Retirement Savings on the Commonwealth of Pennsylvania*, Econsult Solutions (2018). <https://patreasury.gov/pdf/Impact-Insufficient-Retirement-Savings.pdf>

26 Annual savings required to close the income sufficiency gap for an average elderly household with income of less than $75,000, following standard investment assumptions, a flat annual savings level over 30 years, an investment return of approximately 6.5% annually, and an annual drawdown on savings of 4.5%. See additional detail in *The Fiscal Impacts of Insufficient Retirement Savings in Colorado* (2020), Econsult Solutions.

27 See information maintained by the Center for Retirement Initiatives at Georgetown University. < https://cri.georgetown.edu/states/>

28 MEPs fall within the scope of plans regulated by the Employee Retirement Income Security Act (ERISA) of 1974. However, a state-facilitated structure enables a state board or similar entity to serve as the named fiduciary of the a plan, limiting the administrative burden and risk on the participating employers. For more information about the state-level MEP model, see Morse and Antonelli (2017), *Multiple Employer Plans: An Overview of Legal, Regulatory and Plan Design Considerations for the States.* Center for Retirement Initiatives at Georgetown University. <https://cri.georgetown.edu/wp-content/uploads/2017/08/CRI_MEP_PolicyReport17-2.pdf> Any federal 401(k) universal access proposal would address the requirement for employers to offer a plan.

29 The Colorado Secure Plan Savings Board, for example, evaluated marketplace efforts at the federal and state levels (most notably in Washington State) and concluded that "the trend data on coverage indicate that these programs have not led to a significant expansion of coverage on either a nationwide or state-wide basis" as part of its recommendation to pursue an alternative approach. *Recommendations to Increase Retirement Savings in Colorado* (2020), Colorado Secure Plan Savings Board, p. 23. <https://www.colorado.gov/pacific/sites/default/files/atoms/files/CSSP_Retirement%20Security%20in%20Colorado_02-28-2020.pdf>

30 Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, Pub.L. 116–94. <https://www.congress.gov/116/plaws/publ94/PLAW-116publ94.pdf>

31 Mitchell and Szapiro (2020), *Paperwork or Panacea: As PEPs Come of Age, What Can Their Forebearers Tell Us About How They Will Work?* Morningstar Policy Research. <https://www.morningstar.com/lp/paperwork_or_panacea>

32 Information about provisions of SECURE Act 2.0 from *The Securing a Strong Retirement Act of 2020 — Expanding Coverage and Increasing Retirement Savings – Section-by-Section Summary* (2020), House Committee on Ways & Means. <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/2.0Sectionbysection_final.pdf>

33 See: Iwry, John, and Gale (2020), *The SECURE Act: A Good Start but Far More Is Needed*. Brookings Institution. <https://www.brookings.edu/blog/up-front/2020/01/08/the-secure-act-a-good-start-but-far-more-is-needed/>

34 Details about the structure of the existing Saver's Credit from *Retirement Savings Contributions Credit* (2020). Internal Revenue Service. <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit>

35 Brown and John (2017), *Improving the Saver's Credit for Low- and Moderate-Income Workers.* AARP Public Policy Institute. <https://www.aarp.org/content/dam/aarp/ppi/2017/09/improving-the-savers-credit-for-low-and-moderate-income-workers.pdf>

36 *The Use of Tax Incentives for Retirement Saving in 2006* (2011). Congressional Budget Office. <https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/2011-10-14-TaxIncentives.pdf>

37 Gale, Iwry, and Orszag (2004), *The Saver's Credit: Issues and Options* (2004). Brookings Institution. <https://www.brookings.edu/wp-content/uploads/2016/06/20040503.pdf>

38 Brown and John, *Improving the Saver's Credit* (2017).

39 For an overview of policy proposals, including the Simpson-Bowles plan, Sperling proposal, and others, see: Busette and Eizenga, A Small Change to the Saver's Credit Can Go a Long Way (2012). Center for American Progress. <https://www.americanprogress.org/wp-content/uploads/issues/2012/01/pdf/small_change_savers_credit.pdf> For information about the Biden Campaign Plan, see: Biden proposes 401(k) changes to give low-income savers bigger tax benefits (2020), CNN. <https://www.cnn.com/2020/09/19/politics/biden-plan-retirement-savings-tax-benefits/index.html>

40 House Committee on Ways & Means (2020), *Securing a Strong Retirement Act of 2020* Section-by-Section Summary.

41 For a summary, see: Rooney (2018), *After the crisis, a new generation puts its trust in tech over traditional banks*. CNBC. <https://www.cnbc.com/2018/09/14/a-new-generation-puts-its-trust-in-tech-over-traditional-banks.html>

42 For an overview of research on the influence of FinTech, see Agnew and Mitchell (2019), *The Disruptive Impact of FinTech on Retirement Systems*. Pension Research Council, Wharton School, University of Pennsylvania. <https://pensionresearchcouncil.wharton.upenn.edu/wp-content/uploads/2020/01/FinTech-Chapter-1-Agnew-and-Mitchell.pdf>

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43 For more information about legislation and hearings related to expanding access to and strengthening retirement security for private sector workers, see information maintained by the Center for Retirement Initiatives at Georgetown University. <https://cri.georgetown.edu/federal-legislative-proposals/>

44 A comprehensive version of the proposal from 2007 is available through the Brookings Institution. Iwry and John (2007), *Pursuing Universal Retirement Security through Automatic IRAs.* The Retirement Security Project. <https://www.brookings.edu/wp-content/uploads/2016/06/04_universal_retirement_iwry_john.pdf>

45 Securing Our Financial Future: Report of the Commission on Retirement Security and Personal Savings (2016). Bipartisan Policy Center. <https://bipartisanpolicy.org/report/retirement-security/>

46 Madland, Rowell, and Davis (2016), *Improving Americans' Retirement Savings Outcomes through the National Savings Plan.* Center for American Progress. <https://www.americanprogressaction.org/issues/economy/reports/2016/01/28/128146/improving-americans-retirement-outcomes-through-the-national-savings-plan/>

47 Ghilarducci and James (2016), *A Comprehensive Plan to Confront the Retirement Savings Crisis*. <https://www.economicpolicyresearch.org/images/Retirement_Project/Retirement_Security_Guaranteed_digital.pdf>

48 *2020 Long-Term Budget Outlook* (2020). Congressional Budget Office. <https://www.cbo.gov/publication/56516>

49 Modeling assumes a degree of early adoption by employers before required participation dates and lesser participation levels (90–95%) in the first two years of required participation, followed by full compliance in subsequent years (see Methodology Appendix for further detail).

50 The Methodology Appendix can be accessed at: [https://cri.georgetown.edu/research]

51 For discussion of the potential impact of this financial option, see: *Auto-IRAs Could Help Retirees Boost Social Security Payments* (2018). Pew Charitable Trusts. <https://www.pewtrusts.org/-/media/assets/2018/03/auto_ira_accounts_and_social_security_brief.pdf>

52 Under the revised income limit, credit levels and qualified contribution limits envisioned in the SECURE Act 2.0 proposal, a single filer earning up to $40,000 would be eligible for a 50% tax credit on qualified contributions of up to $3,000, with reductions in the qualified contribution level on a sliding scale for higher incomes (see Methodology Appendix for further detail).

53 For discussion of the impact of automatic enrollment and other plan features on participation, see: Choi, et al. (2002), "Defined Contribution Pensions: Plan Rules, Participant Choices, and the Path of Least Resistance," *Tax Policy and the Economy,* vol. 16. National Bureau of Economic Research Inc., p. 67–114. See also: Clark and Young (2018), *Automatic Enrollment: The Power of the Default*. Vanguard Research. <https://institutional.vanguard.com/iam/pdf/CIRAE.pdf>

54 These estimates are derived from a combination of custom analysis of Current Population Survey (CPS) data on participation by age and Social Security Administration analysis of Survey of Income and Program Participation (SIPP) data by firm size (see Methodology Appendix for further detail).

55 It is recognized that in practice, retirement ages will vary by individual, and that trends in recent years have been toward higher labor force participation among the elderly. Notably retirement decisions are not made independent of available assets, meaning that retirement savings associated with the modeled program may, in practice, affect pre-existing patterns of retirement ages. Modeling should be understood to reflect the assets with which participants would arrive at age 65, whether or not they choose to exit the workforce at that time.

56 See findings on the impact of various initial default contribution rates on participation from:

California Secure Choice – Market Analysis, Feasibility Study, and Program Design Consultant Services – Final Report to the California Secure Choice Retirement Savings Investment Board (2016). Overture Financial. <https://cri.georgetown.edu/wp-content/uploads/2020/05/CA-Mar-2016-MArket-Analysis-Feasibility-Study-nad-Program-Design-Report.pdf>

Report on Design of Connecticut's Retirement Security Program (Appendix) (2015). Center for Retirement Research at Boston College. <https://www.osc.ct.gov/crsb/docs/finalreport/Appendix_A_CRSB.pdf> Beshears, et al. (2009),

The Importance of Default Options for Retirement Saving Outcomes: Evidence from the United States. National Bureau of Economic Research. <https://www.nber.org/system/files/working_papers/w12009/w12009.pdf>

57 For example, using sample "young saver" under the baseline Auto-IRA model described is this analysis would see their savings at age 65 reduced by more than 20% (reaching about $307,000 rather than $390,000) if they start savings at 3% and escalate to 8% over time, rather than the 5% initial rate and auto-escalation to 10% assumed in the baseline Auto-IRA scenario.

58 This estimate is derived through analysis of contribution amounts and levels reported in the state program data from California and Oregon, accounting for the effective tax rates in those states (see Methodology Appendix for further detail).

59 Each of the active state Auto-IRA programs (Oregon, Illinois, and California) uses a Roth IRA as the default investment options, although traditional IRAs are available.

60 For a review of key determinants of fee levels, see: *The Economics of Providing 401(k) Plans: Services, Fees, and Expenses*, 2019 (July 2020). ICI Research Perspective. <https://www.ici.org/pdf/per26-05.pdf>

61 *Ibid*.

62 Roth IRAs are structured as post-tax contributions, meaning that funds can be withdrawn without tax implications once the saver is 59½ years old and the account is at least five years old. In addition, earlier withdrawals can be made in some instances without penalty, if they are for a qualified reason or are funded only through contributions and not account earnings.

63 Analysis of program data from CalSavers from Q3 2019–Q2 2020 shows that savers under age 45 (as indicated by Target Date Fund selections) withdraw assets at about 1.5x the rate of contributions of savers over age 45 (see Methodology Appendix for further detail).

64 A 2019 Government Accountability Office (GAO) analysis using administrative data from the Internal Revenue Service (IRS) and Department of Labor (DOL) represents the most recent and comprehensive review identified of early withdrawal behavior among savers in the US. This study and its implications for early withdrawals among universal access program participants are discussed at length in the Methodology Appendix. Jeszeck, et al. (2019). *Retirement Savings: Additional Data and Analysis Could Provide Insight into Early Withdrawals*. United States Government Accountability Office. <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3389474>

65 Data on the mix of asset types are drawn from research published by the Employee Benefits Research Institute (EBRI) on asset mixes by age group, while anticipated returns for those assets are drawn from a mix of historic performance and market forecasts (see Methodology Appendix for further detail). Vander Hei, et al. (2018). *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016*. Employee Benefits Research Institute. <https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_458_k-update-10sept18.pdf?sfvrsn=bca4302f_6>

66 Antonelli, et al. (2019), *Generating and Protecting Retirement Income in Defined Contribution Plans: An Analysis of How Different Solutions Address Participant Needs.* Georgetown University Center for Retirement Initiatives, in conjunction with WillisTowerWatson. <https://cri.georgetown.edu/wp-content/uploads/2019/06/policy-report-19-02.pdf>

67 This calculation is based on market rates reflected in the 2019 CRI analysis in conjunction with WillisTowerWatson, adjusted to reflect the declining value of a consistent nominal income stream in real terms (see Methodology Appendix for more detail).

68 These scenarios are described in more detail in Section 1.2 of this report, with complete detail on each found in the Methodology Appendix.

69 See results in Recommendations to Increase Retirement Savings (2020). Colorado Secure Plan Savings Board, cited previously in this report, which show limited impacts to coverage levels of a voluntary program such as a marketplace model, as well as limitations of expanded MEP availability in expanding coverage as raised in Iwry, John, and Gale (2020), T*he SECURE Act: A Good Start*.

70 See information on state program regulations on firm size and age thresholds from: *CalSavers Retirement Savings Program* (2020). State of California Employment Development Department. <https://edd.ca.gov/employers/calsavers.htm> See also: *Program Details – Facilitate Oregon Saves* (2020). Oregon Saves. <https://employer.oregonsaves.com/home/employers/program-details.html> As well as: Iekel (2019), *Mid-Size Employers Must Register for Illinois Secure Choice by July 1*. National Association of Plan Advisors. <https://www.napa-net.org/news-info/daily-news/mid-size-employers-must-register-illinois-secure-choice-july-1>

71 See: Automatic IRA Act of 2019, S.2370, 116th Cong. (2019). <https://www.congress.gov/bill/116th-congress/senate-bill/2370/text> and: Automatic IRA Act of 2017, H.R.3499, 115th Cong. (2017). <https://www.congress.gov/bill/115th-congress/house-bill/3499/text>

72 See: Automatic Retirement Plan Act of 2017, H.R.4523, 115th Cong. (2017). <https://www.congress.gov/bill/115th-congress/house-bill/4523/text>

73 For additional detail on the phase-in approach for state programs, see: *Program Details – Facilitate Oregon Saves* (2020). Oregon Saves. See also: *CalSavers History: From Pioneering Vision to Launch* (2020). California State Treasurer's Office. <https://www.treasurer.ca.gov/calsavers/history.asp> and *CalSavers Retirement Savings Program* (2020). State of California Employment Development Department. See also: *State-Facilitated Retirement Savings Programs for Private Sector Workers* (2018). National Conference of State Legislatures. <https://www.ncsl.org/research/fiscal-policy/state-facilitated-retirement-savings-programs-for-private-sector-workers.aspx> and Iekel (2019), *Mid-Size Employers Must Register for Illinois Secure Choice*.

74 See Scott and Hines (2020), *Employers Express Satisfaction with New Oregon Retirement Savings Program*. Pew Charitable Trusts. <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/30/employers-express-satisfaction-with-new-oregon-retirement-savings-program>

75 Estimates are derived from analysis of Census Bureau Business Dynamics Statistics on firm size and tenure, which are matched with more-recent Census Bureau Quarterly Workforce Indicators data on employment by firm size (see Methodology Appendix for further detail).

76 Data from Vanguard reported in Munnell and Chen (2020), *401(k) / IRA Holdings in 2019.*

77 Automatic Retirement Plan Act of 2017, H.R. 4523.

78 This employer contribution level should be understood as a blended rate, which most employers expected to decline to contribute (effective rate of zero), and higher effective rates relative to employee contributions among those that choose to offer matching or supplemental employer contributions.

79 The structure of CalSavers was affirmed as exempted from ERISA by a federal District Court in a March 2020 decision. See: Wille (2020), *California's Auto-Retirement Program Upheld from ERISA Challenge*. Bloomberg Law. <https://news.bloomberglaw.com/employee-benefits/californias-auto-retirement-program-upheld-from-erisa-challenge>

80 *Fact Sheet: Adjusting ERISA Civil Monetary Penalties for Inflation* (2020). US Department of Labor. <https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/adjusting-erisa-civil-monetary-penalties-for-inflation.pdf>

81 Multiple Employer Plans (MEPs) and Pooled Employer Plans (PEPs) allow groups of businesses to join together to form a single retirement plan through a 401(k) savings vehicle. MEP arrangements allow related businesses to join to form a plan, whereas PEP arrangements allow unrelated businesses to join to form a plan. MEP and PEP structures allow businesses to pool their resources and outsource plan management to a sponsoring entity that is responsible for administrative duties and takes on fiduciary liability for the plan. For additional detail on the expansions to MEPs and PEPs in the SECURE Act, see: Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, Pub.L. 116–94.

82 Tax credit provisions to address start-up costs are included in both the Automatic IRA Act of 2019 (S. 2370) and the Automatic Retirement Plan Act of 2017 (H.R. 4523).

83 IRS data indicate that 64% of employers set an age requirement of 21 for participation, with an additional 16% setting a requirement of 18–20 years, and 20% setting no requirement. *Section 401(k) Compliance Check Questionnaire: Interim Report* (2012), Internal Revenue Service, Employee Plans Compliance Unit, Figure 2. <https://www.irs.gov/pub/irs-tege/401k_interim_report.pdf>

84 See: *Simple IRA Plans for Small Businesses* (2019). Employee Benefits Security Administration (EBSA). US Department of Labor and Internal Revenue Service. <https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/publications/simple-ira-plans-for-small-businesses.pdf> See also: *Retirement Topics - SIMPLE IRA Contribution Limits* (2020). Internal Revenue Service. <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-simple-ira-contribution-limits>

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85 See the Appendix for further discussion, as well as the following study, which evaluates the relative wage sensitivity of higher and lower income workers, as well as wage sensitivity by gender: Smith and Toder (2011), *Do Low-Income Workers Benefit from 401(k) Plans?* Urban Institute. <https://www.urban.org/sites/default/files/publication/26771/412463-Do-Low-Income-Workers-Benefit-from--k-Plans-Full-Report-.PDF>

86 According to the Bureau of Labor Statistics' National Compensation Survey, 52% of private firms with fewer than 50 employees offer some form of retirement benefits compared to 95% for firms with more than 100 employees. *National Compensation Survey: Employee Benefits in the United States,* March 2019 (2019). US Bureau of Labor Statistics, p. 179. <https://www.bls.gov/ncs/ebs/benefits/2019/employee-benefits-in-the-united-states-march-2019.pdf>

87 Based on elasticities estimated by Smith and Toder (2011), adjusted to the characteristics of the uncovered employee population, employers are anticipated to bear about 60% of the incidence of each marginal dollar of direct costs. See the Methodology Appendix for further detail on this calculation and research.

88 Research shows that employees value retirement benefits, making them more likely to stay at a firm that offers them. See for example: *Thriving in the New Work-Life World: MetLife's 17th Annual US Employee Benefits Trends Survey 2019* (2019). MetLife. <https://www.metlife.com/content/dam/metlifecom/us/ebts/pdf/MetLife-Employee-Benefit-Trends-Study-2019.pdf> as well as employer focus group research such as *Business Owners' Perspectives on Workplace Retirement Plans and State Proposals to Boost Savings* (2016). Pew Charitable Trusts. <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/09/business-owners-perspectives-on-workplace-retirement-plans-and-state-proposals-to-boost-savings>

89 See: McKinsey & Company (2020), *Future of Work*. <https://www.mckinsey.com/featured-insights/future-of-work>

90 Estimates of enhanced participation in savings in this analysis include only traditional employees, meaning that enhanced savings among these independent workers outside of periods of traditional employment would produce additional benefits beyond those modeled.

91 Ebrahimi (2019), *How Do Retirees' Spending Patterns Change Over Time?* Employee Benefit Research Institute. <https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_492_spendovertime-3oct19.pdf?sfvrsn=9f503c2f_10>

92 A state-level analysis by ESI projected that insufficient resources will reduce spending by retiree households in Pennsylvania by more than $3 billion in 2030 under current trends. These reductions have further spillover effects on businesses, their supplies, and their employees, reducing output in the state by around $4.3 billion and shrinking the economy by about 30,000 jobs. T*he Impact of Insufficient Savings in Pennsylvania* (2018). Econsult Solutions.

93 This analysis relies on standard macroeconomic models of the relationship between national savings behavior and economic growth, as defined in the "Solow Growth Model" developed by Nobel-laureate Economist Robert Solow. Notably, population and employment growth estimates are held consistent across program scenarios, meaning that increased growth translates to an increased national standard of living for the same pool of future residents. This framework and modeling approach is discussed at length in the Methodology Appendix. Solow (1956), "A Contribution to the Theory of Economic Growth." *Quarterly Journal of Economics,* vol. 70(1), pages 65–94. This framework is consistent with approaches to modeling potential economic growth from national savings used by the Government Accountability Office (GAO) and Congressional Research Service (CRS). See: *National Saving: Answers to Key Questions* (2001). Government Accountability Office. < https://www.govinfo.gov/content/pkg/GAOREPORTS-GAO-01-591SP/pdf/GAOREPORTS-GAO-01-591SP.pdf> *Saving in the United States: How Has It Changed and Why Is It Important?* (2003). Congressional Research Service. <https://www.everycrsreport.com/files/20030117_RL30873_dcb36d191b110ddc22915ebca58c7126b629e30e.pdf>

94 *2020 Long-Term Budget Outlook* (2020). Congressional Budget Office. <https://www.cbo.gov/publication/56516>

95 Annual total federal expenditures per program in 2020 are defined by extrapolating forward Federal Fiscal Year (FFY) 2018 budget data presented in *Federal Spending on Benefits and Services for People with Low Income: FY2008–FY2018 Update* (2020). Congressional Research Service. Expenditures on the elderly population (65+) are isolated using budget and program data sources detailed by program in the Methodology Appendix.

96 *2019 Long-Term Budget Outlook* (2019). Congressional Budget Office. <https://www.cbo.gov/system/files/2019-06/55331-LTBO-2.pdf> See Methodology Appendix for further discussion of this calculation.

97 This calculation is undertaken through a longitudinal comparison of changes to the income distribution of working age and retiree cohorts over time, using data income date from the Current Population Survey and decennial Census (see Methodology Appendix for further detail).

98 In Section 3 of the Methodology Appendix, additional detail is provided on the approach and data sources used to allocate program expenditures across elderly households of different income levels. See in particular, Figure 3.5, which outlines the specific data sets used for each program.

99 The referenced state-level studies conducted by ESI in Pennsylvania and Colorado used a different modeling framework to quantify the fiscal "cost of doing nothing." These studies do not examine the impact of any potential policy or scenario, but rather, estimate the fiscal cost of the total gap in retirement savings sufficiency in the state. For this reason, the order of magnitude of government expenditure impacts in these studies cannot be compared in an apples-to-apples manner with the results of this study. See the full studies for additional detail: *The Fiscal Impacts of Insufficient Savings in Colorado* (2020). Econsult Solutions, and *The Impact of Insufficient Savings in Pennsylvania* (2018). Econsult Solutions.

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