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Statement of the Investment Company Institute
Hearing on “Improving Retirement Security for America’s Workers”
Committee on Ways and Means
US House of Representatives
February 20, 2019

The Investment Company Institute¹ is pleased to provide these comments to the Committee on Ways and Means in connection with the February 6, 2019 hearing entitled “Improving Retirement Security for America’s Workers.” The Institute strongly supports efforts to promote savings opportunities for American workers. We thank the leadership of Chairman Neal and Ranking Member Brady and members of the Committee for their interest and recent focus on these important issues.

Thanks in no small part to Congress’s efforts to promote retirement savings, Americans currently have \$29.2 trillion earmarked for retirement, with more than half of that amount in defined contribution (DC) plans and individual retirement accounts (IRAs).² About half of DC plan and IRA assets are invested in mutual funds, which makes the mutual fund industry especially attuned to the needs of retirement savers.

Under the framework of a voluntary system, Congress has made available the tax structure and savings vehicles necessary to promote savings by American workers, and the competitive private marketplace has provided innovative products and services at increasingly lower costs.³

We commend this Committee for considering ways to enhance the US retirement system. ICI believes that, even with the many successes of the US retirement system, we should always be open to considering ways in which that system can be strengthened further to help even more Americans achieve a secure retirement. For its part, the Institute has been vocal in its support for policies that would improve

¹ The [Investment Company Institute](http://www.ici.org) (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI’s members manage total assets of US\$20.7 trillion in the United States, serving more than 100 million US shareholders, and US\$7.0 trillion in assets in other jurisdictions. ICI carries out its international work through [ICI Global](http://www.ici.org), with offices in London, Hong Kong, and Washington, DC.

² At the end of the third quarter of 2018, US retirement assets totaled \$29.2 trillion, DC plan assets were \$8.1 trillion, and IRA assets were \$9.5 trillion. Investors held \$4.5 trillion of IRA assets and \$4.8 trillion of DC plan assets in mutual funds. See Investment Company Institute, *The US Retirement Market, Third Quarter 2018*, available at www.ici.org/research/stats/retirement.

³ See note 15, *infra*.

access to retirement savings opportunities and make retirement plans more efficient and effective—including permitting “open” multiple employer plans (MEPs) and greater use of electronic delivery. Reforms like these recognize the important role that the private marketplace plays and will build upon the strengths of the current system by expanding coverage to more workers.

I. EXECUTIVE SUMMARY

The US retirement system is helping millions of Americans achieve a secure retirement, and there are opportunities to build on its success and cover more workers. Efforts to strengthen the retirement system should be guided by an understanding of how the current system works and the evidence showing that it works well.

- Relying on the complementary components of Social Security, homeownership, employer-sponsored retirement plans, IRAs, and other assets, the American retirement system is working for the majority of American workers and has grown stronger in recent decades.
- Assets specifically earmarked for retirement have increased significantly over time and the majority of private-sector workers needing and demanding access to pensions as part of their compensation have pension plan coverage.
- The flexibility built into the voluntary employer-provided retirement system has led to numerous innovations that benefit savers and decrease costs for retirement plan products and services over time.
- The current retirement-savings tax incentives are crucial to the effectiveness of the US retirement system and Congress should maintain and strengthen these incentives.

Targeted changes building on the strengths and successes of the current national system would reduce cost and increase access. The changes outlined in our statement will foster innovation and growth in the voluntary employer-sponsored retirement plan system by improving access to retirement savings opportunities and making retirement plans more efficient and effective.

- These reforms would build upon the current system by expanding coverage, participation, and savings rates in DC plans and IRAs; improving the delivery and quality of information and education to plan participants and plan sponsors; enhancing flexibility in determining how and when to tap retirement savings; and eliminating unnecessary burdens in plan administration so that plans can function more effectively.
- In addition to these reforms, it is imperative to preserve Social Security as a universal, employment-based, progressive pension income program for all Americans.

II. THE US RETIREMENT SYSTEM IS HELPING MILLIONS OF AMERICANS ACHIEVE A SECURE RETIREMENT

Retirement policy discussions often start from the premise that retirees' pension income has fallen over time. Contrary to this conventional wisdom, private-sector pension income (DB and DC) has become more, not less, prevalent and substantial over time. Since the enactment of ERISA, increasing numbers of retirees receive benefits from private-sector pension plans and receive more in benefits from these plans.

- **The US retirement system is working for millions of American workers and there is opportunity for improvement.** A wide range of work by government, academic, and industry researchers who have carefully examined Americans' saving and spending patterns, before and after retirement, shows that the American system for retirement saving is working for the majority of American workers and has grown stronger in recent decades. Assets specifically earmarked for retirement have increased significantly over time. Adjusted for inflation and growth in the number of households, retirement assets were more than seven times the level at year-end 2017 than at year-end 1975.⁴
- **The US retirement system relies upon the complementary components of Social Security, homeownership, employer-sponsored retirement plans (both DB plans and DC plans offered by both private-sector and government employers), IRAs (both contributory and rollover), and other assets.** In retirement, different households depend on each of these components in differing degrees, subject to overall saving levels, work history, and other factors. For most households, however, employer-sponsored retirement plans are crucial: about eight in ten near-retiree households have retirement assets (DC plans or IRAs), DB benefits, or both.⁵ And, recent joint research by ICI and Internal Revenue Service (IRS) economists,⁶ in addition to research by Census Bureau economists,⁷ confirm that income from these plans is widespread among retirees, more so than commonly understood. The joint ICI and IRS research shows that most individuals in the study were able to maintain spendable income after claiming Social Security, and lower-income individuals typically had higher replacement rates.⁸ The median worker in the study replaced 103 percent of spendable income after claiming Social Security and the median worker in the lowest quintile of income replaced 123 percent. Thanks to this multi-faceted system, successive generations of American retirees have been better off than previous generations.⁹

⁴ See Figure 4, p. 11 (updated to year-end 2017), in Brady, Burham, and Holden, *The Success of the US Retirement System*, Investment Company Institute (December 2012), available at www.ici.org/pdf/ppr_12_success_retirement.pdf.

⁵ See Figure 8.4, p. 167, in Investment Company Institute, *2018 Investment Company Fact Book* (2018), available at www.ici.org/pdf/2018_factbook.pdf. Near-retiree households are working households aged 55 to 64.

⁶ See Brady, Bass, Holland, and Pierce (April 2017), "Using Panel Tax Data to Examine the Transition to Retirement," available at www.ici.org/pdf/ppr_17_brady_tax_panel_data.pdf.

⁷ See Bee and Mitchell (July 2017), "Do Older Americans Have More Income Than We Think?" available at www.census.gov/content/dam/Census/library/working-papers/2017/demo/SEHSD-WP2017-39.pdf.

⁸ See note 6, supra.

⁹ See discussion, pp. 10–14, in Brady, Burham, and Holden, note 4, supra.

- **The significance of Social Security must be considered in any assessment of the US retirement system.** Social Security provides the foundation of retirement security for almost all American workers and it replaces significant portions of income for lower-income retirees. In this respect, Social Security replaces 85 percent of average inflation-indexed annual earnings for workers in the lowest lifetime household earnings quintile; 55 percent for workers in the middle quintile; and 34 percent for workers in the highest quintile.¹⁰ Yet the Social Security system faces a projected long-term imbalance.¹¹ It is absolutely imperative to preserve Social Security as a universal, employment-based, progressive pension for all Americans.¹²
- **Effective policymaking requires a better understanding of the “coverage gap.”** Discussions about pension plan coverage often rely on misleading or incomplete coverage statistics. The fact is that the majority of workers needing and demanding access to pensions as part of their compensation participate in an employer-sponsored retirement plan.¹³ Efforts to expand coverage will be more successful if policymakers better understand the reasons underlying why specific populations are not participating in retirement savings vehicles. In this regard, research suggests that small employers may be less likely than large employers to sponsor plans because a small employer is more likely to have lower-income, younger employees who are less likely to be focused on saving for retirement.¹⁴

¹⁰ Figures represent the mean scheduled replacement rates for retired workers in the 1960s birth cohort, assuming the workers claim Social Security benefits at age 65. See “C-2. Replacement Rate – Prices,” in Congressional Budget Office, *CBO’s 2018 Long Term Projections for Social Security: Additional Information* (September 2018), available at www.cbo.gov/system/files?file=2018-09/54428-supplementalData.xlsx. If these workers delay claiming benefits until age 67 (their full benefit age), replacement rates would increase to 98 percent for workers in the lowest quintile of lifetime household earnings; 63 percent for workers in the middle quintile; and 39 percent for workers in the highest quintile.

¹¹ For projections related to these programs, see Social Security Administration, “Detailed Reports on the Financial Outlook for Social Security’s Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds” (2018), available at www.ssa.gov/OACT/tr/index.html; The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2018 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (June 2018), available at www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2018.pdf; and Congressional Budget Office, *The 2018 Long-Term Budget Outlook* (June 2018), available at www.cbo.gov/publication/53919.

¹² Regardless of the form they take, changes to Social Security will likely increase the importance of employer-sponsored retirement plans and IRAs to provide for retirement adequacy. If Social Security benefits are cut, future retirees will need to accumulate more retirement resources. If taxes are raised on workers, net earnings will fall, but the amount of earnings that would need to be set aside to supplement Social Security benefits in retirement would remain largely unchanged. To the extent that either the benefit cuts or tax increases are structured to exempt workers with low lifetime earnings, it would place an even heavier burden on those already most dependent on employer-sponsored retirement plans and IRAs. For a discussion of how different methods of cutting Social Security benefits would impact workers with different levels of lifetime income, see Brady, “Measuring Retirement Resource Adequacy,” *Journal of Pension Economics and Finance* 9, no. 2 (April 2010): pp. 235–262.

¹³ See Brady and Bass, “Who Participates in Retirement Plans, 2014,” *ICI Research Perspective* 24, no. 1 (April 2018), available at www.ici.org/pdf/per24-01.pdf.

¹⁴ See Brady and Bogdan, “Who Gets Retirement Plans and Why, 2013,” *ICI Research Perspective* 20, no. 6 (October 2014), available at www.ici.org/pdf/per20-06.pdf.

- **The voluntary employer-provided retirement system is characterized by flexibility, competition, and innovation.** A strength of the voluntary employer-sponsored retirement system is the flexibility built into its design. Combined with competition—among employers to offer attractive benefits packages that include retirement plans, and among financial services firms to provide services to those plans—this flexibility has led to tremendous innovation in retirement plan design over the past few decades and to continually lower costs for retirement products and services.
- **Retirement plan sponsors and investors are cost conscious and 401(k) plan assets tend to be concentrated in lower-cost mutual funds, even as 401(k) plan services have expanded.** The cost of 401(k) plans has fallen over time. Fees paid on mutual funds in particular have trended down over the past two decades—both on mutual funds invested in 401(k) plans and industrywide—and investors tend to concentrate their assets in lower-cost funds.¹⁵ For example, since 2000, expense ratios that 401(k) plan participants incurred for investing in equity, hybrid, and bond mutual funds have decreased by 42 percent, 29 percent, and 46 percent, respectively; and in 2017, 401(k) plan participants incurred an asset-weighted average expense ratio of 0.45 percent for equity mutual funds.¹⁶ In addition, employers sponsoring 401(k) plans and their financial services providers have worked together to automate and simplify the enrollment process, expand the range of investment options, expand the services provided by the plans, and broaden the array of educational materials offered to participants.
- **The current tax structure—including allowing the deferral of tax on compensation contributed to employer-sponsored retirement plans—provides a strong and effective incentive for individuals at all income levels to save for retirement and, by providing significant tax benefits to American workers of all income levels, encourages employers to sponsor plans.** Changes in the retirement tax incentives could dramatically affect decisions to sponsor a plan and require employers to reevaluate and potentially redesign their retirement plan offerings, or even to decide to eliminate their plans entirely. Consistent with the views of the overwhelming majority of Americans,¹⁷ we urge Congress to maintain the current retirement-savings tax incentives, including the contribution limits, and other features that successfully encourage millions of Americans to accumulate savings during their working lives and therefore generate adequate income in retirement.

¹⁵ See Holden, Duvall, and Chism, “The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2017,” *ICI Research Perspective* 24, no. 4 (June 2018), available at www.ici.org/pdf/per24-04.pdf. Competition and a growing asset base have contributed to the success of 401(k) plans by reducing plan costs, resulting in cost-effective investing for 401(k) participants. For an analysis of the “all-in” fees of 401(k) plans, based on in-depth surveys of plan sponsors, see Deloitte Consulting LLP and Investment Company Institute, *Inside the Structure of Defined Contribution/401(k) Plan Fees, 2013: A Study Assessing the Mechanics of the “All-In” Fee*, available at www.ici.org/pdf/rpt_14_dc_401k_fee_study.pdf. For analysis of “total plan cost,” based on Form 5500 and industry data, see BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2015*, available at www.ici.org/pdf/ppr_18_dcplan_profile_401k.pdf. For insight into the changing services and educational materials provided by 401(k) plans, see Plan Sponsor Council of America member surveys.

¹⁶ See Holden, Duvall, and Chism, note 15, *supra*.

¹⁷ See Figures 2 and 3 in Holden, Schrass, Seligman, and Bogdan, “American Views on Defined Contribution Plan Saving, 2018,” *ICI Research Report* (February 2019), available at www.ici.org/pdf/ppr_19_dc_plan_saving.pdf.

III. TARGETED CHANGES TO THE CURRENT NATIONAL SYSTEM WOULD REDUCE COST AND INCREASE ACCESS

In our May 16, 2018 testimony before the Committee on Education and the Workforce,¹⁸ we included a set of proposals supported by ICI that, as summarized below, would improve access to retirement savings opportunities and make retirement plans more efficient and effective. Beyond reforms to the private-sector system, Congress should ensure Social Security is on sound financial footing and maintain its current character as a universal, employment-based, progressive pension for all Americans.

A. Expand Coverage, Participation, and Savings

The following changes would help bring more employers into the system and generate better outcomes for plan participants, without detracting from the system's successful features.

New SIMPLE Plan. Small businesses often face challenges in establishing and maintaining retirement plans. Fifty-three percent of workers at firms with fewer than 100 workers are covered by a plan, as compared with 85 percent of workers at larger firms.¹⁹ While the SIMPLE IRA and other existing plan options offer relatively simple solutions to plan sponsorship, none of the existing plan options work well for workplaces where the majority of workers are focused on saving for goals other than retirement—such as education, a home, or an emergency fund. For employers whose workforces place less value on compensation paid as retirement benefits as opposed to take-home wages, the required employer contributions discourage the adoption of SIMPLE plans. Creating a new type of SIMPLE plan for small employers would encourage greater plan creation and coverage in smaller workplaces. The new plan would be modeled on existing SIMPLE plans, but would not require employer contributions.²⁰ Such a plan would accommodate any employee who wants to save for retirement, while preserving the incentives for the employer to step up to a SIMPLE IRA or 401(k) plan.

Open MEPs for Small Employers. ICI supports easing restrictions on “open” multiple employer plans (MEPs), but targeting the provision to employers with no more than 100 employees—the employer segment most in need of solutions to encourage retirement plan sponsorship.²¹ Allowing small employers to participate in a MEP—regardless of the employer's industry or any other preexisting relationship with other participating employers or the plan sponsor—will reduce administrative and compliance costs and burdens, and ultimately improve the availability of retirement plans to employees of small employers. Smaller employers also may be challenged by the fiduciary responsibility and liability of selecting and monitoring service providers and plan investment options. By providing a level of liability relief for selecting investment options, small employers

¹⁸ The Institute's testimony before the Committee on Education and the Workforce, Subcommittee on Health, Employment, Labor, and Pensions is available at www.ici.org/pdf/18_house_cew_mep.pdf.

¹⁹ See National Compensation Survey (NCS) “Table 2. Retirement benefits: Access, participation, and take-up rates, private industry workers, March 2018;” available at www.bls.gov/ncs/ebs/benefits/2018/ownership/private/table02a.pdf.

²⁰ It would have contribution limits above traditional and Roth IRA limits, but below existing SIMPLE plan limits. We note that a conceptually similar provision, referred to as the “starter k” plan, has been proposed by then Ranking Member Orrin Hatch (R-UT) in S. 1270, the “Secure Annuities for Employee (SAFE) Retirement Act of 2013.”

²¹ For a discussion of how pension coverage varies by employer size, see Brady and Bogdan, note 14, supra. The Bureau of Labor Statistics NCS also finds that retirement plan coverage varies with plan size. See NCS data, note 19, supra.

would be encouraged to participate in a MEP, while ensuring that plan participants are protected. Our proposal also includes important safeguards for open MEP arrangements to ensure the legitimacy of the sponsoring entity and that fiduciary standards are met.

Enhance Automatic Enrollment Safe Harbors. Studies show that automatic enrollment raises the participation rates of lower-income and younger workers because these groups are typically less likely to participate in a DC plan where affirmative elections are required.²² Employers should be encouraged to use automatic enrollment if appropriate for their employee base. Employers may want to enroll their workers at higher levels of savings and escalate the savings more substantially than is perceived appropriate under current law. For plan sponsors that rely on the nondiscrimination testing safe harbor established under the Pension Protection Act of 2006—known as the qualified automatic contribution arrangement or “QACA”—the 10 percent ceiling is a barrier to escalating automatic contributions to levels that in some cases may be more appropriate for ensuring retirement adequacy. (In fact, even plan sponsors that do not rely on the QACA safe harbor often perceive the rule’s 10 percent limit as a ceiling outside the safe harbor.) Accordingly, there is broad agreement across the retirement plan community for removing the 10 percent cap on automatic escalation deferral rates for plan participants.

In addition, while the QACA safe harbor has been applauded for encouraging the use of automatic enrollment, many plan sponsors believe that the safe harbor default contribution levels are too low and that higher contribution levels are necessary to ensure a secure retirement for plan participants. Creating a new automatic enrollment safe harbor would give employers another option alongside the QACA safe harbor, with higher minimum default contribution rates and a “stretched” matching contribution formula to encourage participants to contribute at least 10 percent of pay.

Index IRA Catch-up Contributions. Another change to improve savings rates would be to index IRA catch-up contribution limits for inflation. Since their creation in 1974, IRAs have played a vital role in building retirement security for workers without access to a retirement plan at work, for small business owners, and for non-working spouses. Like contribution limits for workplace plans, the general contribution limit for IRAs is indexed so that its value is not eroded over time. The catch-up contribution limit for 401(k), 403(b) and 457(b) plans also are all inflation indexed, but the catch-up contribution limit for IRAs—which was last adjusted to \$1,000 per year in 2006—is not. We believe the catch-up contribution limit for IRAs should be indexed for inflation for the same reason—so that workers’ ability to save for their future is not eroded by increases in the cost of living.

²² The EBRI/ICI 401(k) Accumulation Projection Model demonstrates the increases in retirement income that can result from automatic enrollment. Replacement rates, modeled after adding automatic enrollment and investing contributions in a target date fund, increase significantly. See Holden and VanDerhei, “The Influence of Automatic-Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement,” *Investment Company Institute Perspective* 11, no. 2, and *EBRI Issue Brief*, no. 283 (July 2005), available at www.ici.org/pdf/per11-02.pdf and www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_07-20054.pdf. Furthermore, studies find that adopting an automatic enrollment feature has a particularly strong impact on improving participation rates among lower-income and younger workers. See, e.g., Utkus and Young, *How America Saves, 2018: Vanguard 2017 defined contribution plan data*, Vanguard Center for Retirement Research (2018), available at <https://institutional.vanguard.com/iam/pdf/HAS18.pdf>.

B. Help Participants Make Informed Decisions

Policymakers, plan sponsors, and service providers strive to improve the ability of American workers to make sound decisions about retirement savings and investing. Congress was instrumental in encouraging rules that improved disclosure of 401(k) plan fees and associated investment information. Our proposals recommend that Congress go further by promoting electronic delivery of plan information and a more effective disclosure framework to help American workers understand their savings options.

Modernize E-delivery Rules. Allowing plans to make e-delivery the default method for communicating with participants (but allowing participants to opt for paper) will enhance the effectiveness of ERISA communications and produce cost savings for the economy and plans that decide to opt for e-delivery.²³ Under our proposal,²⁴ any document that is required by ERISA or the Internal Revenue Code to be furnished to a participant, beneficiary or other individual (a “recipient”) may be furnished electronically under a number of alternative methods: (1) direct delivery of the document to the recipient’s email address; (2) posting on a continuously available website, if the recipient is notified that the document is available; or (3) any other electronic means reasonably calculated to ensure actual receipt.

The proposal includes robust safeguards for participants who prefer to receive documents in paper form. Recipients must be informed of the right to request delivery in paper format. Any electronically furnished document must be presented in a manner that is consistent with the style, format, and content requirements applicable to the particular document, taking into account the electronic form of the document, and the system must incorporate measures reasonably designed to protect personal information.

Consolidate Notices. Over the years, the number of notices that must be provided to participants and beneficiaries has exploded. When ERISA was enacted in 1974, Congress intended that one document—the summary plan description—would inform participants of their rights and obligations. There are now more than 30 notices that could apply for retirement plans. Many of these notices must be provided upon enrollment and annually thereafter, although the specific timing requirements vary according to applicable regulations. In implementing these rules, DOL and the Treasury have explicitly or implicitly discouraged combining notices, even though together the notices provide interrelated information about a 401(k) plan’s features. This discourages an integrated communication approach, complicates plan administration, and inundates participants with information. Particularly with technical materials, more is often less, and the proliferation of notices, sent at different times, may serve to confuse many participants and cause many notices to be overlooked. We propose permitting plans to use a single

²³ An important study on electronic delivery published in 2011 and updated in 2018, *Delivering ERISA Disclosure for Defined Contribution Plans: Why the Time Has Come to Prefer Electronic Delivery*, led by Professor Peter Swire, concluded that shifting the default method of delivering DC plan participant disclosures to electronic delivery, rather than relying on outmoded paper delivery systems, would produce significant improvements in the efficiency and effectiveness of disclosure. For the 2018 update, see Peter Swire and DeBrae Kennedy-Mayo, *2018 Update to Delivering ERISA Disclosure for Defined Contribution Plans: Why the Time Has Come to Prefer Electronic Delivery*, available at <http://peterswire.net/wp-content/uploads/2018-Update-to-Delivering-ERISA-Disclosure-for-DC-Plans-002.pdf>.

²⁴ A similar proposal for modernizing the rules for electronic delivery appears in H.R. 4610, the Receiving Electronic Statements to Improve Retiree Earnings Act, introduced in the 115th Congress by Reps. Jared Polis (D-CO), Phil Roe (R-TN), Ron Kind (D-WI) and Mike Kelly (R-PA).

notice (which could be referred to as the “Quick Start” notice) that would combine the information currently required under various separate rules.²⁵

Target Date Fund Benchmarks. We also support a proposal to change current DOL rules for comparing performance information for target date funds to a benchmark, in order to simplify and make these benchmark comparisons more understandable to participants.

Flexible Rules for Lifetime Income Illustrations. The Retirement Enhancement and Savings Act (RESA) (H.R. 1007) includes a provision requiring DC plans to provide annuity-based lifetime income estimates to participants and beneficiaries at least annually. This provision has been introduced as a stand-alone measure in past Congresses as the Lifetime Income Disclosure Act (LIDA).²⁶ ICI has long supported the benefits of illustrating income streams for DC plan participants, but has deep concerns with mandating a single illustration method as LIDA would do. Information on how an account balance might translate into a regular stream of income in retirement is useful, helping workers determine if their retirement savings habits are on track and whether to adjust their savings rates or allocations. Although these illustrations are not currently required, many plan sponsors and their service providers already include lifetime income illustrations or otherwise offer access to retirement income calculators or similar tools. These voluntarily provided illustrations and tools typically are carefully designed and vetted through focus groups and similar research, and have been well received by participants.

As drafted, LIDA would mandate a lifetime income illustration using a single specified calculation method—an estimated monthly annuity payment based on the participant’s current account balance. Despite the existence of several other well-established ways to illustrate lifetime income, the bill would mandate and provide a federal safe harbor to only one method based on a specific financial product. While annuity-based illustrations may be a reasonable choice for some, there is no single best method of illustration for all plan participants. Other illustration calculation methods (such as illustrations based on systematic withdrawals) may be more consistent with actual participant distribution strategies and easier for participants to understand.²⁷ The bill’s one-sided inflexible mandate will most certainly stifle the use of these other illustration methods in use today and the development of more innovative methods in the future.

It is important to remember that there are numerous different strategies and products available for retirees to attain lifetime streams of income, each with their own attributes and trade-offs.²⁸ In this context,

²⁵ This summary would include the QDIA notice, participant fee disclosures, 401(k) safe harbor notice, automatic contribution arrangement notices, and investment advice notices. See ICI Letter to ERISA Advisory Council, dated August 18, 2017, available at <https://www.ici.org/pdf/30844a.pdf>. The proposal also would eliminate certain redundant or irrelevant notices, such as the summary annual report and deferred vested pension statement.

²⁶ See H.R. 2055 and S. 868 in the 115th Congress.

²⁷ In fact, there are distinct drawbacks to annuity-based estimates, as such illustrations can fluctuate greatly from year to year based solely on prevailing interest rates and have no relevance to actual annuity rates in effect when a participant is nearing retirement.

²⁸ All retirement income products and strategies involve tradeoffs and consideration of an individual’s personal circumstances, such as other assets or income (including from Social Security), health status and life expectancy, the need for emergency reserves, specific goals in retirement, and the need to provide for other family members. Significantly, the majority of near-retiree US households already are highly annuitized. See Statement of the Investment Company Institute to ERISA Advisory Council, August 15, 2018,

therefore, there is no justification for extending the government’s imprimatur to promote one specific product. ICI and many of our members have repeatedly offered reasonable alternative language to build flexibility into LIDA—allowing for other illustration methods and continued future innovation—while preserving the benefits of the proposal and the ability to use the exact annuity-based illustration method favored by bill proponents. Expanding LIDA to reflect market realities rather than promoting one financial product is good public policy.

C. Permit Greater Flexibility for Savers

Two of our reform proposals would provide individuals with more flexibility to manage their retirement savings according to their own individual needs. One would amend the Internal Revenue Code to increase the required beginning age for required minimum distributions (RMDs) from 70½ to at least 75, to reflect changing patterns of retirement savings and increases to life expectancy. Second, we support eliminating the maximum age for making traditional IRA contributions. Currently, individuals who reach age 70½ before the close of a taxable year may not make contributions to a traditional IRA for that year (or subsequent years). In view of the variability in how individuals save throughout their working lives, increases to life expectancy, and the corresponding potential for individuals to continue working past traditional retirement age, the law should not prevent workers aged 70½ and older from continuing to save for retirement.

D. Improve Plan Administration

We believe that the following changes would improve plan administration and therefore reduce the compliance costs associated with plan sponsorship. We support expanding the IRS compliance program to better address common errors that are relatively easy to fix, such as allowing plans to self-correct plan loan errors and missed RMD payments and expanding the compliance program to IRAs. In addition, our proposal would fix a problematic aspect of current 403(b) plan regulations that, in some situations, can prevent an employer from effectively terminating its 403(b) plan (even if, for example, the sponsoring employer goes out of business).

E. Preserve Social Security

The Institute also recognizes the significance of Social Security as the foundation of retirement security for almost all American workers. We urge Congress to preserve Social Security as a universal, employment-based, progressive pension for all Americans.

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ICI greatly appreciates the opportunity to offer this statement for the hearing record and looks forward to working with the Committee as it considers how to improve retirement security for American workers.

available at www.ici.org/pdf/18_erisa_qdia.pdf. As explained further in our 2018 statement to the ERISA Advisory Council, individuals entering retirement who need more annuity income should first consider delaying claiming Social Security before purchasing an annuity in the market.