Funding Longevity

Evaluating Proposals to Improve Retirement Security

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LONGEVITY

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INTRODUCTION & ACKNOWLEDGMENTS

The risks and challenges facing Americans today with regards to financial security and retirement readiness are well documented and widely reported. Fortunately, there's also a wide array of improvements and solutions being discussed in multiple sectors by different stakeholders. This report analyzes and compares various proposed programs that could help improve the financial security of Americans, with a special focus on programs that aim to enhance retirement preparedness. Our intended audience for this analysis is decision-makers and influencers, including policy-makers for government, non-profit and for-profit sectors, as well as other research analysts.

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We also acknowledge and are grateful for the expertise and time of the experts we interviewed, as identified on the following page.

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Research Scholar	Research Scholar	Associate Director

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EXPERTS INTERVIEWED

- **Andrew Biggs, Ph.D**., Resident Scholar at the American Enterprise Institute
- **Charles Blahous, Ph.D.**, Senior Research Strategist at the Mercatus Center at George Mason University
- **Ric Edelman**, Founder, Edelman Financial Engines
- **Matt Fellowes, Ph.D.**, Head of United Income at Capital One
- **Gopi Shah Goda**, **Ph.D.**, Deputy Director of the Stanford Institute for Economic Policy Research
- **Steve Goss, FSA**, Chief Actuary, Social Security Administration
- **Mark Iwry**, Nonresident Scholar, Brookings Institution, and former Senior Advisor to the U.S. Secretary of the Treasury
- **Elizabeth Kelly**, Senior Vice President of Operations, United Income at Capital One
- **David Lamoureux, FSA**, Deputy System Actuary, The California State Teachers Retirement System
- **Ron Lee, Ph.D.**, Professor, Graduate School in Demography and Economics at University of California, Berkeley
- **Moshe Milevsky, Ph.D.**, Professor of Finance, Schulich School of Business at York University
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- **Alicia Munnell, Ph.D.**, Professor of Management Sciences, Boston College's Carroll School of Management, and Director, Center for Retirement Research at Boston College
- **Robert Pozen, Ph.D.**, Senior Lecturer, MIT Sloan School of Management, and Nonresident Senior Fellow, Brookings Institution
- **Anna Rappaport, FSA**, Consultant, and former President, Society of Actuaries
- **Michael Sherraden, Ph.D.**, founding Director, Center for Social Development at the Brown School at Washington University
- **John Shoven, Ph.D.**, retired Director, Stanford Institute for Economic Policy Research, and Professor of Economics, Stanford University
- **Jack VanDerhei, Ph.D.**, Research Director, Employee Benefit Research Institute
- **Debra Whitman, Ph.D.**, Chief Public Policy Officer, AARP

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EXECUTIVE SUMMARY

The "Funding Longevity" project aims to encourage discussion of viable programs to improve retirement security by:

- Proposing an "Evaluation Framework" to help policymakers assess and compare various proposals to improve financial security for Americans,
- Applying the prototype framework to promising proposals regarding retirement security, and
- Summarizing possible steps that can enable these and other proposals to be adopted.

The scope of this project primarily addressed the financial challenges people face in retirement. We acknowledge that there are also serious risks with respect to health care and frail care in the retirement period, as well as financial challenges to the pre-retirement period. If these additional challenges are not mitigated, they have the potential to negatively impact financial security in retirement. Although addressing these challenges is beyond the scope of this project, the proposed Evaluation Framework we developed could be used to evaluate these challenges as well.

In the course of our investigation, we found considerable agreement on the challenges we face, including the underfunding of such critical programs as Social Security and state and local government pension systems, a lack of reliable understanding about retirement security at the individual and household levels, and uneven access to retirement savings programs. We also found significant agreement on the basic structure of America's retirement system: Social Security to meet basic needs, supplemented by private or public sector programs, as appropriate.

Experts have different perspectives on whether the current system's challenges represent a "crisis" or instead present a series of planning challenges for individuals and their families. It's possible to find data that supports either perspective.

Our research shows that the current system can work well for certain segments of the population, typically workers with long careers at employers that sponsor robust retirement programs who can afford to make significant contributions to these plans. However, the more vulnerable pockets of the population are not well served, including people with sporadic work histories, workers with no access to work-based retirement plans, workers who develop debilitating disabilities, and some divorced/widowed women.

During our literature search and interviews with experts, we found several proposals and ideas with the potential to address the current system's shortfalls and challenges. Here's a brief summary of seven major policy proposals that this report reviews in more detail:

- "A Two-Tier Structure for Social Security" aims at increasing the transparency of Social Security and refocusing its priority on eliminating old-age poverty, while also mandating minimum contributions from employers and workers to private retirement savings plans.

- "Progressive Price Indexing" helps improve the sustainability of Social Security with a combination of price indexing and wage indexing in the benefits calculation. The goal is to curb the growth of benefits for future middle-income and affluent retirees, while maintaining the real purchasing power for future low-income retirees.

- "Supplemental Transition Accounts for Retirement (START)" increases retirement incomes for future retirees by facilitating the delay of claiming Social Security benefits. This would be accomplished by providing a bridge payment between the time a worker retires and the time they subsequently claim Social Security benefits.

- “Auto-IRA/State Retirement Systems” provides a solution to one of the biggest challenges in retirement security: the lack of access to work-place retirement plans. Under this proposal, workers are no longer restricted by their employment in their ability to save for retirement. The automatic savings features help overcome inertia.

- “The T.R.U.S.T Fund for America” proposes a new system to supplement Social Security benefits by establishing a flat amount of retirement savings for all people born after a future date. The system takes advantage of a long-term investing horizon, compounding investment earnings, and the ability of the federal government to borrow at low costs.

- “Guaranteed Retirement Accounts (GRA)” mandate employee/employer contributions during a worker’s career and annuitization at retirement, and provides an added layer of a government guarantee against long-term investment risks.

- “Transition State and Local Government Pension Systems to Risk-Sharing Pools” aims to increase the sustainability of state and local government pension systems by limiting the sponsoring employer’s liability to contributions actually remitted to the pension trust, while still guaranteeing lifetime payments through a risk-sharing mechanism, aka tontines.

We also reviewed 25 proposals that would refine and enhance existing retirement systems. We briefly summarized these proposals in Appendix A.

All the proposals that we reviewed have both advantages and potential disadvantages, costs, and potential unintended consequences. It’s our observation that there are no easy or perfect solutions. We hope to encourage further analysis and debate on this topic to help policymakers make decisions that skillfully balance the various tradeoffs and considerations discussed in this report.

SECTION 1: THE FUNDING LONGEVITY PROJECT

1.1 Our Process

Our project consisted of the following phases:

- We conducted a literature review of published proposals.
- We interviewed twenty experts and authors of published proposals.
- We hosted a roundtable on January 17, 2020, to present and discuss selected proposals.
- The roundtable attendees reviewed the draft report, the proposed Evaluation Framework, and the proposals we analyzed.
- Based on feedback from the roundtable attendees and other reviewers, we refined and finalized this report.

We acknowledge that there are qualified experts who we have not yet interviewed, as well as viable proposals that we did not analyze. We were limited by the available time and scope of our project.

1.2 Defining the Challenges to Retirement Security

a. Challenges

Our literature review and in-person interviews revealed the following key challenges to financial security in retirement:

Demographic realities

- Average life expectancies are increasing, but the average retirement age is not increasing nearly as much. Longer periods of retirement are straining all financial resources intended to support retirement.

- The ratio of workers to retirees has been decreasing for many years, due to increasing lifespans in the population coupled with decreases in fertility rates. This means there are fewer workers funding retirement programs, resulting in significant stress on pay-as-you-go systems such as Social Security.

- A few experts we interviewed expressed that longer working lives could help alleviate the above two trends. However, many of the rules in place today are not effectively encouraging people to work longer, and many employers are still resistant to employing older workers.

Funding challenges with Social Security and governmental pension systems

- Social Security is not financially sustainable from an actuarial, demographic, or political perspective.[1] Several experts we interviewed emphasized the necessity and urgency of reforming Social Security to make it financially sustainable.

- Social Security reforms that address the issue of seniors who still live in poverty during retirement are needed to fulfill the program's basic safety-net function. It's generally true that for low-earners, Social Security currently replaces a sizeable share of their pre-retirement earnings. However, due to the complexity of the Social Security benefits calculation, which considers such factors as marriage, divorce, disability, and work history, low-earners may find their ultimate benefit amounts to be unpredictable.

- Many defined benefit pension systems sponsored by state and local governments are underfunded, and they may not be able to deliver all their promised benefits if there is a significant downturn in the economy or the capital markets. According to one report, underfunding of the public pension systems of all 50 states totals more than $1 trillion,[2] a situation that could threaten the delivery of essential state and local services if paying out pensions takes precedence. An opposing view takes the position that many public pension systems can afford to maintain their current systems for at least a few decades, particularly if pension assets consistently earn a real annual rate of return of 3.5% or higher. The referenced report concludes that there's no need to take action now.[3]

- Short-sighted governance of large systems, such as Social Security and state and local government pension plans, can lead to significant underfunding of these systems over time. The value of benefits promised might be substantially more than the available financial resources needed to pay the promised benefits. The challenge arises when elected policy-makers who are responsible for making or modifying pension promises ignore the long-term financial consequences of the system, since reducing benefits is an unpopular option. In other words, to avoid negative reactions, they're motivated to "kick the can down the road." Also, a lack of consensus on direction and goals adds another barrier to adopting necessary changes to these systems.

Inadequate personal savings and financial resources

- Some experts consider existing levels of personal savings and investments to be inadequate for a significant portion of the population. For example, according to one report, one-third of Baby Boomers had no retirement savings in 2014; the median account for those with positive savings was $200,000.[4] According to another report, nearly half of all American families have no private retirement account savings at all, and the median account of families headed by someone age 56 to 61 is just $21,000.[5] The U.S. Government Accountability Office (GAO) recently reported that 48% of households whose head of household is age 55 and over have no retirement savings.[6]
    - Roughly half of the U.S. working population doesn't participate in savings plans at work.[7,8] Such plans have proved to be critical in helping many working Americans accumulate savings for retirement.

- On the other hand, there is evidence that, between Social Security and private savings, the current generation of retirees and older workers have more financial assets compared to prior generations of retirees and older workers. For example, between 1979 and 2016, the average household income for retirees grew 104% above inflation. And between 1989 and 2016, the average retirement savings relative to salaries more than doubled.[9,10]

- Financial challenges, strategies, and products are becoming increasingly complex, particularly for the retirement phase of life. Financial education and literacy can help, but they've had limited success, often only assisting people who are already motivated and already have some degree of financial capability.

- A few experts we interviewed expressed concern about the threat of potentially ruinous long-term care expenses. However, there are few, if any, effective solutions that are financially feasible for the majority of the population.

- There's a significant percentage of the population who, left to their own devices, cannot or will not be able to accumulate significant financial resources for retirement. This group often doesn't have the means, financial sophistication, or discipline to successfully deploy financial resources in the retirement period. These people need some institution to "do it for them."

b. Key Observations for Context and Background

Here are a few key observations that provide context for developing solutions to the challenges described in Subsection 1.2a.

- Postponing retirement until the late 60s or age 70 can significantly increase a person's eventual retirement income and financial resources. For example, delaying retirement from age 62 to age 70 has the potential to increase total, ultimate retirement income by 75% or more, according to analyses prepared by two studies.[11,12] As a result, extending people's working lives can significantly reduce the strain on retirement systems as well as improve retirement security for workers who are able to extend their working lives.

- More than three-fourths of people in their 60s and 70s report that they're healthy enough to work.[13] Moreover, many people have a "biological age" that is years less than their chronological age, although for some people, it's the other way around.[14]

- For a number of reasons, people aren't taking full advantage of their ability to work longer. There's a lack of understanding that the action of retiring and the claiming of Social Security benefits can be separated and don't need to happen simultaneously. In addition, near-retirement workers aren't generally equipped with the information needed to make the best long-term decisions regarding when to retire.

- There is wide variability in life expectancies in the population, which is attributable to both socio-economic status and individual variability in lifespans. While many people can be expected to live into their late 80s and 90s, some will experience shorter lifespans, particularly those with lower socio-economic status. From an individual perspective, there is significant uncertainty in how long someone will live. For example, one paper estimates the standard deviation in life expectancies to be 15 years.[15] This uncertainty creates significant complexity when it comes to planning how long retirement savings must last, a task that's beyond the skill set of most retirees.

- There's increasing inequality in life expectancy due to differences in wealth, income, and educational attainment. For example, according to one report, between 2001 and 2014, life expectancy in the United States increased by 2.34 years for men and 2.91 years for women in the top 5% of the income distribution but by only 0.32 years for men and 0.04 years for women in the bottom 5%.[16] Another report states, "Life expectancy for the total population decreased in 2015 for the first time since 1993, with larger decreases for some groups than others. Inequality in life expectancy has stopped falling, and along some dimensions—such as between low-income and high-income Americans—it is increasing."[17]

- The rules in the Social Security benefit formulas are so complex that many near-retirees, not to mention younger workers, can't accurately predict their future benefits. The lack of a clear understanding of one's future benefits inhibits efficient financial planning and decision-making over a person's lifespan.

- Many people have more wealth in their home equity than in their retirement savings. As a result, they may be looking for ways to deploy their home equity in retirement. According to one report, for the first four quintiles of wealth for households whose head of household is ages 65 to 69, median home equity wealth equals or exceeds financial assets. Only the top fifth quintile of households with heads of household in this age range had financial assets that exceeded the value of their home equity.[18]

- Many retirees are able to adjust their lifestyles to fit their financial resources and skillfully manage their finances until they experience a health care or other unexpected shock.[19,20]

- The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law on December 20, 2019, and addresses some of the challenges mentioned in Subsection 1.2(a). It aims to increase the number of Americans eligible to participate in employer-based savings plans by enabling open Multiple Employer Plans (MEPs). Open MEPs have the potential to reduce the number of workers who don't have retirement savings plans at work. It will allow small employers to pool resources and offer efficient retirement savings plans.

  The SECURE Act can also help retirees build lifetime retirement income by providing regulatory guidance and legal protection to encourage retirement plan sponsors to offer annuities in employer-sponsored retirement savings plans.

  The SECURE Act will also require retirement plan sponsors to deliver retirement income statements to their participants. The goal of such statements is to increase participants' understanding of the amount of retirement income that can be generated from savings, which hopefully will lead to increased retirement savings.

  It is too soon to assess if the SECURE Act will significantly improve retirement security, although it represents steps in the right direction.

c. Is There a Retirement Crisis?

Some people call the challenges described previously as a "crisis," whereas others perceive these issues to represent significant retirement planning challenges for individuals and their families.

A handful of respected research institutions, including Aon Hewitt, the Boston College Center for Retirement Research, and the Employee Benefit Research Institute, have prepared assessments of retirement adequacy in the United States. Their analyses estimate the percentage of the U.S. population that has sufficient retirement income for an "adequate" retirement, as defined by the researchers (see below for more details).

The Society of Actuaries (SOA) published a report in 2018 that examined this body of research, titled *Retirement Adequacy in the United States: Should We Be Concerned?*[21] With permission from the Society of Actuaries, here are a few key quotes from the executive summary of this report:

- "Although the major studies reviewed in this report have significant differences in empirical approaches, data, and measures of adequacy, they relatively consistently conclude that from 25% to 35% of the population is at risk of being unable to maintain their pre-retirement standard of living throughout the retirement period (See Tables 3, 4 and 5). However, these results should be tempered by SOA research based on surveys, focus groups, and in-depth interviews, which generally indicate that many retirees are quite content with living at lower standards of living in retirement than they maintained during their working years. When we use less generous measures of retiree needs (such as consumption-based measures or minimum needs measures), the percentage who are at risk is naturally lower."
- "The current system of voluntary employment-based retirement plans has been largely successful from the perspective of companies sponsoring plans for individuals with long-term employment covered by such plans."
- "Similarly, the mandatory Social Security system has done much to reduce poverty in old age."
- "For households without access to employer retirement plans, Social Security will still provide a base level of lifetime inflation-adjusted income, but this alone will not allow them to maintain their pre-retirement standard of living. Considering the generally low levels of household wealth, these households will usually need some combination of delayed retirement and Social Security claiming, continued paid work at older ages, increased saving, downsizing of their spending, and reliance on family to meet their retirement needs."

- "Although a lot of research has focused on median or typical households, there is a need for future research that delves into the retirement challenges of particularly vulnerable populations, such as those who are widowed, divorced, long-term disabled, or long-term unemployed. For the U.S. retirement system to be deemed 'adequate,' modifications to the social safety net and/or employer programs will be necessary."

Any estimate of retirement adequacy must make a series of critical assumptions that will significantly influence the measure of retirement adequacy. Here are a few more key observations on the importance of assumptions from the SOA report:

- "Most studies do not adequately account for major unexpected expenses or shocks, such as poor investment performance, long-term care, death of a spouse, and unexpected out-of-pocket medical expenses. If these risks are not included in the models, the results will tend to overstate the degree of adequacy in the system."
- "Most studies assume that the adequacy objective is to maintain pre-retirement living standards. If retirees are satisfied and reasonably happy with a lower level of spending, this assumption may understate the degree of adequacy in the system."
- "Most studies assume that people retire at a 'normal' retirement age. Important issues omitted from many of the studies include the impact of changes in retirement ages, phased retirement, and work during retirement."
- "Studies differ significantly in their treatment of housing wealth. If housing wealth is accessible to meet retirement needs, overall adequacy is higher."

Another article titled *Is There a Retirement Crisis?* takes issue with common measurements of retirement adequacy, noting some of the points from the SOA report. It also documents statistics and arguments that financial security in retirement has generally been improving over the past several decades. It provides evidence that the current retirement savings system is working well for many workers and retirees who have access to work-based retirement savings plans and can afford to contribute to these plans.[22]

While the evidence is compelling that the financial security of Americans has improved over the decades for many of the population, it's also apparent that societal standards regarding retirement adequacy can also shift over time. It's possible that as a society, we are chasing a moving target when we hope to achieve broad-based "retirement adequacy."

1.3. The Policy-Maker Toolkit

The Organisation for Economic Cooperation and Development (OECD) suggests that countries adopt a three-tiered approach to delivering retirement security, as follows:[23,24]

- Tier 1: a universal or targeted pension that's primarily a safety net designed for those unable to provide for themselves
- Tier 2: a mandatory savings system, provided by either the public or private sector. This system helps enable a "smoothing of consumption" from one's working years to their retirement years.
- Tier 3: a voluntary savings system in the private sector that enables households to save more than required under the mandatory Tier 2 system

We assessed the U.S. retirement system using this approach and made the following observations:

- Social Security represents a work-based pension system that's almost universal, but it has gaps for certain vulnerable segments of the population. Examples of potential gaps include certain widows and divorcees, the long-term disabled, and people who don't have significant periods of employment that are covered by Social Security.

- Some employers (fewer than half) sponsor retirement plans similar to those described in Tier 2. Examples include defined benefit pension plans sponsored by a few large corporations and most pension systems of state and local governments. In addition, some defined contribution plans deliver employer contributions to all eligible employees, regardless of whether they contribute their own money to the plan.

- About half of the workforce is eligible to contribute to a work-based savings plan, representing a Tier 3 system. All workers who don't participate in employer-sponsored plans are eligible to voluntarily contribute to an IRA. However, usage among these workers is quite low (around 8% of eligible workers).[25] This result can be interpreted to mean that voluntary savings programs might not be effective for most workers who aren't eligible for employer-sponsored retirement savings plans.

Following is the range of available tools that policy-makers at government and private institutions can use to implement programs in the various tiers and to address the financial security challenges described in Subsection 1.2:

- Participation is mandated in a government program, representing Tier 1.
    - Examples: Social Security, state disability programs, or unemployment insurance programs

- Participation is mandated in a private program, representing Tier 2.
    - Examples: employer-sponsored retirement plans that mandate participation or offer employer-paid benefits or contributions to all eligible employees

- Public or private sector incentives, representing Tier 3
    - Examples: tax incentives with IRAs, tax credits, 401(k) plans and other work-based savings plans, and matching contributions in employer-sponsored savings plans

- Behavioral interventions/nudges/automatic features
    - Examples: the payroll deduction feature of 401(k) plans and other work-based plans, auto-enrollment, and default investments in 401(k) plans

- Education/financial literacy programs
    - Examples: financial education in high school and communication campaigns in 401(k) plans

- Disincentives
    - Examples: laws/government agencies that prohibit practices that are deemed unacceptable to society, such as discrimination in favor of certain groups, manipulation of investments, misrepresentation, and fraud

- Laissez-faire (let the market take care of it)
    - Examples: products and services offered by for-profit financial institutions, such as banks, mutual fund companies, investment firms, and insurance companies

1.4 Proposals That We Analyzed

As a result of our literature review and expert interviews, we evaluated many different proposals and ideas that could improve financial security in the retirement years. We organized these ideas into two categories:

1. Major shifts in public policy that would impact large segments of the population and would involve significant analysis and processing by policymakers. New laws, regulations, financial products, and/or governance systems would be necessary to implement these proposals.

2. Ideas and proposals that refine existing systems and would represent improvement potentially ranging from incremental to significant. In some instances, implementing these proposals might involve less analysis and processing compared to the first category of proposals.

We applied our proposed Evaluation Framework, described in Subsection 1.5, to this first group of ideas. Section 2 of this report contains the results of these analyses.

We acknowledge that in some cases, we exercised a degree of subjectivity when placing the proposals into one of these two categories.

Proposals Representing Major Policy Shifts

Here are seven proposals from the first category of ideas that we analyzed further in Section 2 of this report:

1. **A two-tier structure for Social Security**. Gradually transition Social Security to a system consisting of a flat universal benefit and a savings account, representing both Tier 1 and Tier 2 systems. This new vision of Social Security would significantly reduce the complexity of the current rules, refocus the program's goals as a social safety net, and restore the program's solvency and sustainability over the long term.

2. **Progressive indexing for Social Security benefits.** Slow the growth of Social Security benefits for future, higher-income retirees while maintaining or enhancing benefits for future lower-income retirees through progressive price-indexing of benefits for future retirees. This would be considered a Tier 1 proposal. Note that over time, this proposal could achieve the same result as the first proposal.

3. **Supplemental Transition Accounts for Retirement (START).** Increase retirement security and encourage longer working lives by establishing a dedicated savings account for every worker that is invested until retirement. This account would then be used to fund a Social Security bridge payment that enables workers to delay the start of Social Security benefits, thereby significantly increasing their eventual Social Security benefits. This would represent a Tier 2 proposal.

4. **Auto-IRA/state-based retirement systems.** For workers who currently don't have access to retirement savings at work, enable small employers to efficiently sponsor such plans through an auto-IRA or state-sponsored retirement savings plans. This would be considered a Tier 3 proposal and would supplement Social Security benefits.

5. **The T.R.U.S.T. Fund for America.** Set up a fund that provides regular cash flow during retirement to supplement Social Security benefits without requiring additional taxes or additional savings by either individuals or their employers. Under this program, the U.S. government would issue low-interest rate bonds to fund a trust account for each person born in America after a set date. The trust funds would be significantly invested in the equity market over the long term, until being tapped at age 70 for cash flow in retirement. This would be considered a Tier 2 proposal since it would be delivered to all Americans.

6. **Guaranteed Retirement Accounts (GRAs)**. Boost retirement savings with GRAs that mandate a minimum level of contributions. Deliver lifetime retirement income with mandatory annuitization at retirement. This would be considered a Tier 2 proposal that would supplement Social Security benefits. It would reduce or eliminate tax advantages for 401(k) and IRA programs to pay for savings tax credits that top out at $600 per year.

7. **Transition state and local government pension systems to risk-sharing pools**. Contain and manage unfunded liabilities under pension systems of state and local governments by replacing them with shared risk pools. In addition, address changes to the governance of such systems to help insure their long-term viability. This would be considered a Tier 1 or Tier 2 proposal, depending on whether the government agency participates in Social Security. Note that some state or local governments also participate in Social Security, and some do not.

Ideas That Refine Existing Systems

For the second category of ideas that refine existing systems, we organized the proposals into four sub-categories:

1. Proposals that reform Social Security to be sustainable and/or better meet program objectives
2. Proposals that encourage people to work longer
3. Private sector proposals that help build and manage financial resources for retirement
4. Proposals that could be adopted by a state or local government

Appendix A briefly summarizes 25 such ideas and proposals. We did not analyze these ideas further. We acknowledge that some people might believe that some of these ideas represent major policy shifts and could be placed in the first category of proposals.

1.5 Evaluation Framework

To help policymakers analyze and compare various proposals for programs that will help improve retirement security, we developed an Evaluation Framework that can be used to evaluate and compare policy proposals. Section 2 of this report contains summaries of the analyses we generated after applying a portion of this framework to the seven major proposed programs described in Subsection 1.4.

The Evaluation Framework has three components:

a. Systematic Description of each proposed program
b. Structural Feasibility Analysis
c. Goals Analysis

Below we elaborate on each of these components.

a. Systematic Description

Following is a summary of the Systematic Description that we applied to each proposed program in Section 2.

Program goals

What are the goals of the program? Possibilities include:

- Encourage paths to financial security among children and young adults.
- Increase savings while working.
- Help with income (i.e. cash flow) generation in retirement.

Targeted beneficiaries

Who are the targeted beneficiaries of the proposed program? Possibilities include:

- Current retirees
- Near retirees
- Young and middle-aged adults
- Children
- Identified vulnerable groups (such as low-income, disadvantaged groups)

Program mechanism

How will the program work? Possibilities include:

- Redistribute wealth to vulnerable populations
- Encourage more savings while working
- Enable more efficient deployment of savings during retirement
- Improve decision-making pre- and/or post-retirement
- Encourage older workers to continue working longer

Program costs

Who will pay for the program costs? Possibilities include:

- Federal government
- State governments
- Local governments
- Employers
- Individuals

What is the mechanism for paying for the program costs? Possibilities include:

- Taxes
- Fees
- Mandated contributions by individuals and/or employers
- Voluntary contributions by individuals and/or employers

Benefit design governance

Who is responsible for maintaining the benefit promise and for making adjustments to respond to emerging experience?

Possibilities include:

- Government
- Financial services companies
- Financial advisers
- Employers
- Individuals

Financial governance

Who controls and manages the investing, funding, and administration of benefits? Possibilities include:

- Government
- Financial services companies
- Financial advisers
- Employers
- Individuals

b. Structural Feasibility Analysis

Following is a summary of the Structural Feasibility Analysis that we applied to each proposed program in Section 2.

What are the necessary steps to implement the proposed program?

Possibilities include:

- Are new laws needed?
- Are new regulations needed?
- Do new public institutions need to be created?
- Do new private financial institutions need to be created?
- Do new financial products need to be developed?
- Do beneficiaries need to be educated about the decisions they'll be required to make under the new program?
- Do existing programs need to be discontinued or modified? How much disruption would result from changing these programs? Would a significant portion of the population be disadvantaged by these changes?
- What costs are associated with transition and implementation?

What are the uncertainties and risks?

Possibilities include:

- Political risks
- Cultural barriers
- If equity investments are involved, who will vote their shares?
- If the program involves invested assets, are benefits reduced when investment returns are less than expected, or are costs increased? If the latter, who pays?
- Are individual decisions needed that could impact the delivery and amount of benefits received (introducing another element of uncertainty)?

What are possible unintended consequences?

Possibilities include:

- Could the program disincentivize desirable behaviors, such as saving money or working longer?
- Could benefits or assets be diverted for purposes other than the intended goal?

c. Goals Analysis

We propose using the following fundamental principles to help assess how well each proposed program meets basic goals and guiding principles.* Some of these principles involve subjectivity and judgment.

- **Adequacy**
    - Do benefits meet basic financial needs for income and risk protection, when considered in combination with other benefits, such as Social Security?
    - Are the needs of vulnerable groups addressed?

- **Feasibility**
    - Are significant structural steps needed to implement the program (see Structural Feasibility Analysis)?
    - Are the program costs affordable for all parties concerned?
    - Are administrative costs reasonable?
    - Does the program address and mitigate potential unintended consequences?

- **Equity**
    - Is there a connection between the amount of taxes paid and the benefits delivered?
    - After paying required contributions or taxes, do sufficient financial resources remain to meet retirees' day-to-day financial needs? Do the required contributions or taxes inhibit individuals from saving additional funds?
    - What degree of income redistribution is acceptable to those whose income is being used to pay for the benefits of others?
    - Does the proposed program address perceived unfair advantages that certain groups of the population might realize?

- **Complexity**
    - Can most people understand how much they're paying into the system and how much in benefits they'll realize?
    - Does the system require financial sophistication to navigate the system?
    - Are there "traps for the unwary" where poor decisions can lead to reduced benefits?

- **Integrity and governance**
    - Can governance be structured in such a way as to build long-term sustainability of the system?
    - Do the policymakers have incentives to make current benefit promises at the expense of the long-term financial viability?
    - Can safeguards be included to prevent diversion of resources for other purposes?

**Note: We did not prepare analyses of the proposed programs with respect to these goals. Such an analysis could be completed as a future project.*

- Sustainability
  - What happens if economic and demographic assumptions are not realized?
    - Benefits are reduced (if it's a defined contribution system)
    - Contributions are increased (if it's a defined benefit system)
  - Does an unallocated trust fund accumulate assets (if it's a defined benefit system)
  - Does the program add to government debt?
  - Does the program add to individual debt?

1.6 Observations and Discussion Questions

We found general agreement among the experts we interviewed about the viability of the overall structure of the U.S. retirement system:

- Social Security represents a nearly universal pension system that helps keep seniors out of poverty. It's a Tier 1 system, as described in Section 1.3.
- Private sector retirement plans supplement Social Security benefits. This could be either a Tier 2 mandatory system or a Tier 3 voluntary plan, as described in Section 1.3.

None of the experts we interviewed believe that benefits from Social Security should be significantly expanded, other than to close gaps in coverage for certain vulnerable groups. We acknowledge that there are experts whom we didn't interview that do advocate broad expansion of the Social Security program.

Some of the experts we interviewed note that Social Security could be reformed to better serve its purpose as an anti-poverty program and close current coverage gaps. As of this writing, roughly 9% to 14% of seniors are still in poverty, depending on the measure used.

It's also important to note that Social Security has evolved from its original purpose as an anti-poverty program to the primary pension plan for many workers and retirees. Is this result desirable? There are different perspectives on this question from the experts we interviewed and other experts.

Finally, due to the importance of Social Security in keeping seniors out of poverty, many experts we interviewed agree that it's critical to make the program financially sustainable as soon as possible, although there are different perspectives on the specific solution that should be implemented. Regardless of the specific reform strategy—raising taxes, reducing benefits, or both—it's crucial for the federal government to make its intention public, so that workers and retirees can plan accordingly.

All the experts we interviewed believe it's appropriate to encourage private or public sector programs to supplement Social Security benefits. As expected, there are different perspectives among these experts on how this goal can be accomplished.

The current system of private sector savings through employer-sponsored retirement plans and IRAs has enabled substantial saving amounts for many workers who've participated in such plans for most of their working years. For these workers, however, one potential concern is the low prevalence of efficient methods for converting their savings into streams of reliable lifetime income.

Employers and financial institutions have learned much in the past few decades about offering efficient and effective retirement savings plans. They've developed many innovations and improvements to 401(k) plans and similar employer-sponsored plans, such as auto-enrollment, auto-escalation, default investments, and low-cost index funds. Experts and organizations have conducted much research on viable methods to convert the money in retirement savings accounts into streams of retirement income, and a few plan sponsors are exploring implementation of these methods.

Future challenges include extending these innovations to more workers and retirees, and extending these plans to the segment of the workforce that doesn't have access to an employer-sponsored plan.

One unintended consequence of encouraging low-earners to save more in their private retirement savings accounts is that such funds may be considered to be assets, which might disqualify low-income earners from qualifying for welfare programs. Similarly, some experts have warned against overly emphasizing retirement savings balances, which is just one aspect of individual financial security. Instead, experts agree that we need to take a holistic approach to personal finances, including both savings and debt.

Some experts we interviewed believe that the only plans needed to supplement Social Security are Tier 3 plans—voluntary, private sector plans. Other experts recommend both Tier 2 (mandatory) and Tier 3 plans (voluntary), and believe that state-sponsored plans could fulfill either tier.

Of the major policy proposals that we examined, three proposals aim to supplement Social Security benefits, and another proposal combines reforming Social Security with mandating retirement savings. These four proposals represent three distinct approaches:

- Guaranteed Retirement Accounts and the Two-Tier Social Security system both rely on mandated contributions from individuals and their employers.
- Auto-IRAs and state retirement programs rely on voluntary contributions from individuals and their employers, with tax incentives to participate, and minimize administrative and behavioral barriers with automatic features.
- The T.R.U.S.T. Fund for America is an innovative proposal that doesn't rely on contributions from individuals or their employers. Instead, it relies on the U.S. government's borrowing capability, as well as a strong equity market, to enable long-term investing.

We note that mandated programs have recently met with substantial political resistance in the U.S. and that voluntary programs often fall short of their goals due to human nature. The T.R.U.S.T. Fund for America proposal addresses both of these challenges, although it would add relatively small amounts to the federal debt in the next few decades.

None of the proposals we analyzed directly addresses a particular concern expressed by some of the experts we interviewed: the role of financial and health shocks late in retirement. Despite this lack of specific proposals, it's important to point out that providing retirees with additional financial resources will improve their ability to better manage these shocks.

Here are a few potential discussion questions that can help policymakers decide on a course of action:

- What are acceptable targets for retirement adequacy? Such targets would define minimum or recommended living standards in retirement as well as appropriate retirement ages, given current trends regarding healthy life expectancy. For example, one study documents that an income less than twice that of the Federal Poverty Level can result in increased health and longevity risks; this observation can provide insights into possible retirement adequacy targets.[26]

Possible retirement adequacy targets could include:

    - Minimum targets to prevent poverty which are funded entirely from governmental programs
    - Recommended targets to supplement minimum benefits, funded primarily from nongovernmental programs and also possibly partially funded by governmental programs

- Under what circumstances is it appropriate to mandate participation in retirement security programs through taxes or required contributions?
- Under what circumstances is it appropriate to encourage participation in retirement security programs that employers can voluntarily offer and/or that individuals can voluntarily join?

The proposals we analyzed can serve as starting points for both analysis and discussion. It's likely that certain features would evolve through the analysis process as described in Section 1.7.

1.7 The Way Forward

In Subsection 1.4, we identified seven proposed programs that represent a major shift in public policy regarding retirement savings. For such proposals to progress from idea to implementation, authorized analysts would need to prepare substantial analysis to justify the political capital that will be spent to approve any of these programs.

A detailed feasibility analysis is one essential next step of the process. Such a detailed feasibility analysis could include:

- Estimates of the magnitude of the problem the proposed program will address
- Estimates of the potential effectiveness of the proposed program in terms of improvement in the measured magnitude of the problem
- Estimates of the proposed program's costs
    - Implementation costs
    - Ongoing program costs
        - Sensitivity analysis, including potential variability in costs and impact of alternative assumptions
    - Ongoing administrative costs
- Impact analysis
    - Which groups of people might gain advantages because of the proposal?
    - Who might experience disadvantages?

Potential next steps that could help move these proposals forward include:

- Refining the Evaluation Framework proposed in this report.
- Expanding the list of proposed programs that we analyze.
- Preparing a detailed feasibility analysis on selected proposals.
- Convening a robust meeting of stakeholders and experts to vet and discuss the various proposals and ideas in detail.
- Initiating a process to develop consensus on a series of goals and principles, as discussed in Subsection 1.5(c). This process could be similar to the President's Commission on Pension Policy that was established in 1979. Achieving a consensus on goals and direction can help those involved evaluate and prioritize specific proposals, facilitating agreement that leads to adoption.

Subsection 1.4 also identified proposals and ideas that could help refine existing systems. These are summarized in Appendix A. We acknowledge that to implement many of these proposed programs and ideas, the detailed analysis and process described above may not be necessary.

In closing

As noted in Section 1.2, we face significant challenges to our retirement security. As a society, we are in uncharted waters, with a large part of the population anticipating long periods in retirement.

We know that no single program can address these challenges—it will take several programs and solutions to make progress. We also understand that none of the steps described in this report will be easy. However, we believe the work that must be undertaken to implement any potential solutions to fulfill these expectations is an appropriate price to pay for the longer lives that many people expect today.

SECTION 2: DETAILED SUMMARIES OF PROPOSED PROGRAMS

The following pages apply a portion of our Evaluation Framework to the seven major proposed programs identified in Subsection 1.4:

- 2.1: A Two-Tier Structure for Social Security
- 2.2: Progressive Price Indexing for Social Security benefits
- 2.3: Supplemental Transition Accounts for Retirement (START)
- 2.4: Auto-IRA/State Retirement Systems
- 2.5: The T.R.U.S.T. Fund for America
- 2.6. Guaranteed Retirement Accounts
- 2.7. Transition State and Local Government Pension Plans to Risk-Sharing Pools

Disclaimer:

The summaries that follow are based on our reading of material written by the authors of the proposals and, in some cases, our correspondence with them through phone interviews and email. The proposals described in this report reflect the views of the author(s) of each proposal, and do not necessarily reflect the views or policies of their employers or the institution that published their reports.

We've described the salient features of their proposals for discussion and comparison purposes only. We acknowledge that a two- to four-page summary might not be adequate to fully describe each proposal and its rationale. It is also possible that there could be some inaccuracies or that their ideas have evolved since the publication of this report.

Section 2.1: A Two-Tier Structure for Social Security

Program goals

- Instead of thinking how to incrementally change the current program, decide what Social Security should look like decades from now. Then design a plan to transition from the current program to the ultimate program.
- Better meet Social Security's goal to reduce poverty in old age and reduce unnecessary complexity with a simple two-part system.
- Ensure a more financially sustainable system, while facilitating higher savings by middle-income and higher-income households.
- Significantly reduce the complexity of the current system, so that ordinary Americans can understand the benefits they will receive in the future and make savings plans accordingly.

Targeted beneficiaries

All people entering the work force after a set date.

Program mechanism

The suggested program consists of two parts: a flat universal benefit and a universal retirement savings account.

The first component, a flat universal benefit, would provide an income floor for all retirees, regardless of their pre-retirement work history. All retirees would receive the same benefit amount per month, which would be set at the poverty threshold for older Americans. This approach would reduce the percentage of Americans aged 65 and older who are at poverty level from the current rate of 9% to approximately zero.

This flat universal benefit would eliminate the current complexity of the existing Social Security program, including differential treatments of one-earner couples versus two-earner couples, of people with long versus short careers, etc.

The second component, universal retirement savings accounts, would establish 401(k)-like accounts for employees who aren't offered a retirement plan at work. All workers would be automatically enrolled and mandated to contribute at least 1.5% of their pre-tax pay, which would be matched by their employer. These contributions, combined with the flat traditional benefit, would approximately match the generosity and progressivity of the current Social Security benefit formula. To reduce cost and complexity, all plans would offer life-cycle funds built upon low-cost index funds. Distribution from these accounts would be tax-free (up to a limit) if converted to an annuity.

Today, not all employees have access to work-place retirement plan coverage. The savings accounts under the new system would provide more people with access to retirement plans.

Other refinements of the two-tiered benefit system include the following:

- Gradually increase the early retirement age from 62 to 65. Maintain Social Security disability benefits and Supplemental Security Income (SSI) aged benefits for workers who cannot work until age 65.

- To encourage longer working lives, eliminate the payroll tax for all workers age 62 and older. In addition, eliminate the Retirement Earnings Test, which currently reduces Social Security benefits received between age 62 and Full Retirement Age if the worker starts claiming Social Security benefits and continues to work.

- For current retirees receiving benefits below the approximately $1,000 per month poverty threshold, increase annual Cost of Living Adjustments (COLAs) by basing them on the Consumer Price Index for the Elderly (CPI-E). To fund this increase, retirees with monthly benefits above $1,350 would receive COLAs based upon the lower chain-weighted CPI.

Program costs

The following people and organizations would pay for the program costs:

- All workers
- All employers
- Federal government

Mechanism for paying the program costs

The flat universal Social Security benefit would be a pay-as-you-go system, funded either by payroll taxes or general revenues. The long-run cost, assuming a two-to-one worker-to-beneficiary ratio, would be about 12% of taxable payroll.

Both workers and their employers would contribute to the savings account. That part would be self-sufficient, since the federal government would not fund these accounts.

Control and management of the investing, funding, and delivery of benefits

The benefits would come from two parts: The first comes from the federal government, and the second comes from the savings accounts. Since the first part of the program—the flat universal benefit—would be a pay-as-you-go system, minimal investing and funding would be needed, except for cash-flow management. The federal government would administer the delivery of benefits, similar to the current system.

For the second part, contributions from employees and employers would be invested in retirement plans offered by financial companies in the marketplace, similar to current 401(k) plans. Upon retirement, retirees could decide how to draw down their account balances, either through withdrawals from invested assets or by purchasing a life annuity. If an annuity is purchased, distributions would be tax-free. The financial entity would control the investment and delivery of benefits.

Structural feasibility of the proposal

- New federal laws and regulations would be needed to enable the program.
- The first part of the program—the flat universal benefit—could be administered in a manner similar to the current administration of Social Security.
- The second part of the new program—the savings accounts—could be managed by financial companies in the same fashion as 401(k) or 403(b) plans are currently managed. No new financial institutions or financial products would need to be developed.

Possible unintended consequences

- It's possible that a universal benefit could undermine political support for Social Security, which has traditionally been seen as an "earned benefit."
- Employers that currently do not contribute to their employees' savings accounts would experience an increase in their labor costs. This could cause stress on these employers or be offset by reducing employees' wages.
- Individuals and employers could interpret the mandated contribution levels as a recommended contribution amount, and decide not to contribute additional amounts.
- Workers would need to select investment strategies while working and a decumulation strategy in retirement. This would require some level of financial education, and there is evidence that workers and retirees struggle with these type of decisions.

For more details

Andrew Biggs. "A New Vision for Social Security." *National Affairs*. Number 42. 2013. https://www.nationalaffairs.com/publications/detail/a-new-vision-for-social-security

Andrew Biggs. "A Social Security Reform Plan That Can Pass." *National Review Online*. 2015 https://www.nationalreview.com/2015/11/save-social-security-no-magic-no-miracles/

Andrew Biggs. "Social Security Reform: A Conservative Plan." *National Review Online*. 2015. https://www.nationalreview.com/2015/11/conservative-social-security-reform/

Section 2.2: Progressive Price Indexing for Social Security Benefits

Program goals

- Reduce Social Security's budget deficit by slowing the growth of benefits for future generations of retirees who were middle- and high-wage earners before retirement.
- Continue to protect the benefits of future generations of retirees who were low-wage earners

Targeted beneficiaries

All people retiring after a set date.

Program mechanism

Before discussing the proposal for progressive price indexing of Social Security benefits, here's a review of the mechanisms of wage indexing and price indexing:

1. Wage Indexing. Under the current law, Social Security benefits are indexed to wage growth. The calculation of monthly payable benefits takes the following steps:

a. A person's past earnings are converted, using the National Average Wage Index, to reflect wage growth until the year the worker turns age 60.[1]
b. For each person, the highest 35 years of earnings from step (a) are averaged and then divided by 12 to yield the Average Indexed Monthly Earnings (AIME).
c. A progressive benefit formula is applied to the AIME to produce the initial award of monthly benefits, called the Primary Insurance Amount (PIA).[2] The progressive benefit formula contains a set of bend points and PIA factors. Bend points are adjusted each year using the National Average Wage index, and PIA factors are currently set at 90%, 32%, and 15% (see below for details on how these bend points and factors are applied).
d. After the initial month of benefits is computed, subsequent monthly benefits are adjusted for price inflation.

[1] The goal is to convert past earnings to the wage levels the person earned in the two years before they first become eligible for Social Security (age 62). The last two years of earnings (at age 60 and 61) are taken at face value.

[2] In this step, benefits are also adjusted for early/late retirement.

An important implication of wage indexing is that the replacement rate remains stable across different generations of retirees. The replacement rate is the percentage of wages that are replaced by Social Security benefits. This can be illustrated roughly as follows:

$$\textit{Replacement rate} = \frac{90\% \times \text{bendpoint } 1 + 32\% \times (\text{bendpoint } 2 - \text{bendpoint}1) + 15\% \times (\text{AIME} - \text{bendpoint}2)}{\text{AIME}}$$

In the above formula, the AIME is assumed to be a larger amount than the second bend point.

Both the bend points and the AIME grow at the same rate as the average wage level. Therefore, the numerator and denominator grow at the same rate, and the replacement rate remains stable over time.

2. Price Indexing. Wage indexing, as described above, keeps the replacement rate of wages stable across different generations of retirees. Since the nominal wage growth generally exceeds inflation, using wage indexing gives future generations of retirees more purchasing power than current retirees. Some people advocate that Social Security should adjust the indexing so that future generations of retirees have the same purchasing power as current retirees, especially when doing so could help reduce benefit growth and restore the solvency of Social Security.

There are different ways to calculate price indexing. See Biggs, Brown and Springstead (2005) in the "For more details" section for a detailed description and comparison of four price indexing methods:

a. AIME indexing: Instead of converting past earnings to present earnings using the national average wage index, past earnings would be converted using the price index. Under this method, a person's earnings would be measured by the real purchasing power.
b. Bend points indexing: Bend points would be raised each year by price growth, instead of by wage growth.
c. A combination of both (a) and (b)
d. PIA factor indexing

In the following illustration, we show the PIA factor indexing, which was proposed most recently:

Benefits under wage indexing=
90%× bendpoint 1 + .32% x (bendpoint 2-bendpoint1)+ 15%×(AIME-bendpoint2) [Eq.1]

Recall that both the bend points and the AIME are adjusted with the gross nominal wage growth, which rises faster than inflation. To ensure the benefits received by different generations of retirees would be increasing at the rate of inflation, multiply the right-hand side of [Eq.1] by (Gross price growth/Gross nominal wage growth). An equivalent way to describe that is to multiple the PIA factors—the 90%, 32%, and 15%—by (Gross price growth/Gross nominal wage growth).

3. Progressive Price Indexing. Progressive price indexing calls for applying wage indexing and price indexing to different income groups. For instance, for people at the lower end of the income spectrum, their Social Security benefits would continue to be calculated by wage indexing. For people at the upper end of the income spectrum, however, their benefits would be calculated by price indexing. And for people in between, a hybrid of both indexing methods would be applied.

Let's look at two examples to understand the implications of progressive price indexing. Imagine there are two low-earners making the same lifetime real average wage. One retires in 2020, and the other retires in 2030. Since they would both be subjected to wage indexing, the benefit of the 2030 retiree would have a higher purchasing power than that of the 2020 retiree. In other words, the difference between their benefits would reflect how the nominal wage has grown over the ten years that have passed since the first person retired in 2020.

Now imagine that there are two high-earners making the same lifetime real average wage. One retires in 2020, and the other retires in 2030. Since they would be both subjected to price indexing, their benefits would have the same purchasing power despite the fact that they retired 10 years apart.

In such a manner, the Social Security award would not only be "progressive" across income groups (as reflected by the 90%, 32%, and 15% factors in the benefit formula) but also "progressive" across generations of retirees. The replacement rates of low wage earners would remain stable over time, whereas the replacement rates of more affluent workers would decline over time.

In sum, progressive price indexing can achieve two goals: It could contain the growth of future benefits and also protecting low wage-earners. According to pricing by Social Security's Office of the Chief Actuary, progressive price indexing could reduce Social Security's long-range actuarial deficit by 29% to 102%, depending on the size of the group whose benefits still receive wage indexing, and the manner of indexing benefits.

Program costs

The following people and organizations would pay for the program costs:

- All workers
- All employers
- Federal government

Mechanism for paying the program costs

The mechanism would be conceptually the same as the present pay-as-you-go system, where current workers pay payroll taxes and employers pay the matching payroll taxes. The tax revenues are then used to pay for Social Security benefits.

Control and management of the investing, funding, and delivery of benefits

The U.S. Social Security Administration (SSA)—an agency of the Federal Government—would be responsible.

Structural feasibility of the proposal

- New federal laws and regulations would be needed to enable the program to switch from the current wage indexing system to one that uses progressive price indexing.
- No new financial products or institutions would be needed—the program would still be administered by the SSA in the current manner.

Possible unintended consequences

- Using progressive price indexing would reduce the purchasing power of an increasing number of retirees relative to the working population. The gap would enlarge over time, since future generations of workers would most likely experience rising purchasing power. However, future generations of retirees under progressive price indexing would have approximately the same purchasing power as the base year (the year when the new scheme is adopted).
- Future increases in Medicare premiums that exceed cost-of-living increases could cause decreases in future purchasing power in spite of program features that are intended to help maintain purchasing power.
- The reform might encounter skepticism or political resistance since a large share of future retirees, including the middle-class, would experience a nominal benefit reduction. Since there's generally no consensus as to what "adequacy" means, there could be endless disagreements regarding the income thresholds that determine the applicable indexing methods.
- A progressive price index system would add much complexity to a benefit calculation formula that's already quite complex. This could fuel misunderstandings about the benefits paid by the system and potentially lead to suboptimal claiming decisions.

- Progressive price indexing doesn't address other shortcomings of the system, such as potentially inadequate benefits for workers with sporadic work histories, workers with serious disabilities, and widows.
- Progressive price indexing ensures the same purchasing power as the base year; however, it uses the Consumer Price Index, which is an imperfect measure of the overall price level. It has flaws in capturing new products and technologies, as well as capturing regional price differences. In theory, future generations of retirees would be able to have the same purchasing power as those in the base year, but in practice, they may have more or less, depending on whether the CPI overshoots or undershoots the actual price level.

For more details

AARP. October 2015. "Updating Social Security for the 21st Century: 12 Proposals You Should Know About." https://www.aarp.org/work/social-security/info-05-2012/future-of-social-security-proposals.html

Andrew Biggs, Jeffery Brown, and Glenn Springstead. "Alternative methods of price indexing Social Security: implications for benefits and system financing." NBER working paper no. 11406. 2005.

Alicia Munnell and Mauricio Soto. "What is progressive price indexing?" Boston College Center for Retirement Research. Just the Fact #17. 2005. https://crr.bc.edu/briefs/what-is-progressive-price-indexing/

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Robert Pozen. "A Social Security plan for all." Brookings working paper. 2005. https://www.brookings.edu/wp-content/uploads/2012/04/20050113_pozen.pdf

Social Security Administration. "Benefit calculation examples for workers retiring in 2020." https://www.ssa.gov/oact/ProgData/retirebenefit1.html

Section 2.3: Supplemental Transition Accounts for Retirement (START)

Program goals

- Facilitate a two- to three-year delay in claiming Social Security retirement benefits without limiting access to essential income. As a result of this delay in claiming benefits, Social Security retirement benefits would increase from 14% to 25%, thereby reducing poverty among retirees and increasing their retirement security.
- Encourage longer working lives.
- Ensure there is no negative effect on Social Security solvency.

Targeted beneficiaries

All workers who participate in Social Security and will eventually claim Social Security retirement benefits.

Program mechanism

START would be funded by mandated worker and employer contributions equal to 1% of Social Security-covered payroll. In addition, the federal government would fund up to an additional 1% of pay for qualified low-income participants. These contributions would be credited to an individual account that would be maintained for each worker; these accounts would be invested in private, professionally-managed, pooled accounts.

START assets would be used to fund a Social Security "bridge payment" equal to the Social Security monthly retirement income that the worker would be qualified to receive on the date he or she begins to access START funds. START assets would need to be distributed and exhausted before actual Social Security retirement benefits could be started.

In general, START benefits could be paid as early as age 62, but there would be no requirement to do so. There would also be no restrictions on START assets once the worker reaches Full Retirement Age; at that age, workers could choose to receive START assets in one lump sum.

START payments would not be subject to Social Security's earnings test, which temporarily reduces Social Security benefits for employment income earned above a certain threshold and received prior to the Full Retirement Age.

In general, workers who qualify for and receive Social Security disability benefits would be subject to the same rules as workers and retirees—they would need to exhaust their START assets before being eligible to receive Social Security disability benefits. Their eventual Social Security disability benefits would increase by an actuarially fair amount to reflect the time that the disabled beneficiary received START assets instead of Social Security disability benefits.

Any START assets still available at the time of the worker's death would go to designated beneficiaries. These assets could be transferred to the beneficiaries' START or be paid directly as a lump-sum distribution.

Program costs

The following people and organizations would pay for the program costs:

- All workers who participate in Social Security and have not yet reached their Full Retirement Age (currently age 66, increasing to age 67 for workers born in 1960 and after)
- All employers who participate in Social Security

In addition to worker and employer contributions, the federal government would fund up to an additional 1% of pay for qualified low-income participants. Income taxes would be assessed on START distributions and would be credited to the Social Security Trust Funds. These income taxes would be sufficient to pay for the government match for low-income workers and could even help reduce Social Security's financing gap.

Mechanism for paying for the program costs

The current Social Security payroll tax mechanism would be used to collect the contributions from both workers and their employers.

Control and management of the investing, funding, and delivery of benefits

The START contributions would be invested by private, professionally managed, low-cost, pooled accounts. An independent board would serve as the fiduciary. The board would select the private investment firm(s) that would be responsible for managing START assets and set the investment guidelines for the pooled assets. Individuals would not be allowed to select investments. It is expected that START investments would be structured similar to a target date fund.

The Social Security Administration (SSA) would enroll participants and administer the program, including the payment of START benefits to retirees and their beneficiaries.

Structural feasibility of the proposal

- New federal laws and regulations would be needed to enable the program.
- The SSA would need to establish new procedures and processes for enrolling workers and maintaining their START accounts.
- Communication with workers and retirees would be needed to educate them on how START accounts work and how they interact with Social Security benefits. Additional funding for the SSA might be needed, which could be funded by a small administrative fee on START assets.

Possible unintended consequences

- It's possible that contributions to fund START benefits, which might be perceived as an increase in payroll taxes, could preempt payroll tax increases that might be needed to improve Social Security solvency.
- Workers might decrease contributions to their 401(k) plans or IRAs to offset their contributions to the START program. Similarly, employers might decrease the matching contribution they make to 401(k) plans to offset the cost of the START contribution. However, even under the extreme assumption that workers and their employers would reduce 401(k) contributions by the amount of the START contributions, modeling by the Urban Institute found that this proposal would result in higher income and reduced poverty at older ages.

For more details

William Gale, Jason Fichtner, and Gary Koenig. "Supplemental Transition Accounts for Retirement: A Proposal to Increase Retirement Income Security and Reform Social Security." Public Policy & Aging Report, Volume 28, Pages S22–S34. August 2018.

Section 2.4: Auto-IRA/State Retirement Systems

Program goals

- Address the retirement coverage gap by aiming for universal coverage through the extension of automatic enrollment and contribution escalation to workers lacking access to an employer-sponsored plan.
- Use private-sector payroll deduction IRAs that stop short of imposing a mandate on employers to sponsor or contribute to retirement plans, or to establish a new government program.
- Impose an action deadline on employers that have not yet sponsored a retirement plan. The employer might as well implement an actual retirement savings plan, such as a 401(k) plan, as an alternative to simply forwarding employee contributions to an automatic IRA arrangement.

Targeted beneficiaries

All workers with no access to an employer-sponsored retirement plan (with limited exceptions), which would include most of the 55 million currently uncovered U.S. workers

Program mechanism

The following is the template for Auto-IRAs, which has been proposed on a nationwide basis and is also being piloted and implemented by various states. If this program were implemented nationwide, it could work as follows:

Set up

- Employers above a certain size that have been in business for two years or more and are not currently offering workplace retirement plans for their employees would let employees use the business's payroll system to channel their own money to an IRA. These employers would receive a small, temporary tax credit to defray the possible administrative costs of establishing the program. Employers that are not subject to the requirement but participate voluntarily would also receive the tax credit. State Auto-IRA programs would use different size thresholds to determine which employers are covered.
- Each covered employer would choose a single IRA provider to receive the contributions or would send the contributions to whichever IRAs their employees designate (such as direct deposit of paychecks); they could use the U.S. Treasury retirement bond IRA as a fallback destination. Employers would not choose investment options, would have no fiduciary duties, and would not be required to comply with ERISA or qualified plan rules (neither being applicable).
- The process dovetails with employers' existing payroll withholding and deduction responsibilities (federal and state income tax withholding, employee share of FICA withholding, etc.). It would be standardized so that communications to employees, FAQs, etc. would not be prepared by employers. The employer's limited role should involve little employer effort or costs. Employers would not be plan sponsors but would merely function as a conduit, making the payroll system available to channel employees' contributions to employees' IRAs. Employers would not match their employees' contributions to Auto-IRAs or make any other contributions.
- Auto-IRAs could be established on a nationwide basis by federal legislation, but meanwhile state legislation has been providing proof of concept. To date, six states have implemented or legislated an Auto-IRA program (California, Connecticut, Illinois, Maryland, New Jersey, and Oregon), along with the city of Seattle, Washington. Various other states are working on or actively considering such legislation.

Employee participation

- Employees would be automatically enrolled unless they explicitly opt out and sign a waiver.
- Employees' contributions would be made through automatic payroll deduction from their paychecks.

IRA provider selections

- Employers would make the initial choice of provider. They would be able to choose one private-sector IRA provider for all their employees, or alternatively, they could permit employees to choose their own private-sector IRA providers.
- If the employer or employee doesn't designate an IRA provider, contributions would be remitted to a fallback retirement bond at the U.S. Treasury Department (the "myRA"), which would also be an option employers or employees could explicitly choose. To avoid a new permanent government program and avoid any competition with private-sector IRAs, myRA balances exceeding a specified dollar limit generally would later be rolled over into private-sector IRAs or qualified plans.
- In the nationwide version of the Auto-IRA program, numerous private-sector IRA providers would participate. The U.S. Treasury and Labor Departments would certify the private-sector IRA providers and their investment funds for compliance with the program specifications to ensure that they are low-cost and otherwise sufficiently consumer-protective.
- In the current state-facilitated versions, states have preferred to select—through the competitive bidding procurement process—a single private-sector provider of each fund option within the IRAs (the default target date fund, the principal protection option, and one or two other options). The states have also selected a private-sector recordkeeper/administrator of the entire statewide program. In a nationwide rollout, employers and employees would also not have to choose providers, but employees would be free at any time to roll over to other private-sector IRAs of their choosing.

- The state Auto-IRA programs that have begun implementation originally requested use of the myRA to serve as the principal preservation option and as the initial, temporary investment for the first $1,000 or 90 days of contributions. However, the current Administration determined that the myRA would be withheld from states and then later canceled the myRA program altogether. Because of this, states are instead using private-sector money market or other principal protection funds.

Investment

- Workers' contributions would automatically be directed to a target date fund, unless the employee chooses a different investment option from a limited lineup of three options, including a principal preservation option (like a myRA).
- A "security corridor" would be provided, specifying the myRA or another principal protection fund as an initial default investment (up to the first $1,000—or up to a specified number of months—of contributions).
- The default type of IRA would be a Roth, but a traditional IRA is an alternative that employees can also choose.

Program costs

The following people would pay for the program costs:

- Enrolled participants would fund their own accounts.

Employers would not make any contributions to the accounts. No new taxes should be needed to fund the program.

Mechanism for paying the program costs

Participant contributions to the accounts would be funded through payroll deduction.

Currently, the states make loans and, in some cases, appropriate small amounts of funding for administrative costs. Initial administrative costs are borne with the help of long-term contracts with private-sector program administrators and asset managers.

Control and management of the investing, funding, and delivery of benefits

As with all other IRAs, Auto-IRAs are managed by the private financial institutions (trustees or custodians) that provide them. State-facilitated Auto-IRA programs are currently administered by private sector recordkeeper and program administrator companies with oversight done by the state (typically a board prescribed by legislation).

Structural feasibility of the proposal

- New state laws and regulations would be needed (and have been adopted in many of the states mentioned earlier) to establish the program at the state level. To establish the Auto-IRA program on a uniform nationwide basis, federal legislation would be required. Such legislation has long been sponsored by the current House Ways and Means Committee chairman, who is determined to pursue the legislation in the wake of the SECURE Act.
- State-facilitated programs would need to obtain sources of funding for the administrative costs. Possibilities include loans or appropriations from the state, and/or long-term contracts with private-sector program administrators and asset managers. The program would need to achieve financial self-sufficiency within a set number of years to maintain support.
- It's anticipated that the administrative cost challenges will be addressed by consolidation of state-facilitated programs through multi-state partnerships, compacts, alliances, and potentially a nationwide program that would incorporate existing state-facilitated programs.

Possible unintended consequences

- Due to administrative costs and/or capital market fluctuations, participants may end up receiving negative returns on their accounts over the short term, which could reduce support for the program.
- When low-income individuals are automatically enrolled in Auto-IRAs, some who should opt out may fail to do so. They may then reduce the priorities of completing other financial tasks, such as paying off student loans and credit card debt.
- In the case of state-facilitated Auto-IRAs, if the costs of running the program are too high, the contributions are too low, or the fees charged are too modest, it may take some years before the program breaks even. Unlike 401(k) plans, the Auto-IRA programs can't grow based on employer-matching contributions, and they can't cross-subsidize cost recovery using relatively higher-wage and higher-contributing participants. The reason is that Auto-IRAs target exclusively uncovered workers—a group whose median wages and contributions are just a fraction of the typical levels of 401(k) participants.

For more details

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"Automatic IRA Act of 2017, H.R. 3499." https://www.congress.gov/bill/115th-congress/house-bill/3499/text

"Automatic IRA Act of 2019," S. 2370. https://www.congress.gov/bill/116th-congress/senate-bill/2370?s=1&r=1

Section 2.5: The T.R.U.S.T. Fund for America

Program goals

Provide regular cash flow during retirement to supplement Social Security benefits, without requiring additional taxes or additional savings by either individuals or their employers.

Targeted beneficiaries

All people born in America after a set date.

Program mechanism

The federal government would establish an investment account and fund it with $7,500 for each baby born in the U.S. in future years. An independent agency of the federal government would manage the account in a manner similar to the Thrift Savings Plan currently being used for federal employees. The government would fund the annual cost by borrowing from the public through the issue of EE 30-year Savings Bonds (see details below).

Accounts would accumulate with significant investment in equities, with average annual returns estimated to equal 7% per year over the long-term. At age 70, retirement cashflow payments would start. The amounts of the periodic retirement disbursements would be determined by the independent federal agency.

The extremely long investing horizon, from birth to age 70, would capitalize on the power of compound interesting to deliver superior investment results than can be obtained by investing in far shorter lengths of time, such as those used by the current Social Security system. The source of retirement cashflow for an individual beneficiary would be the individual's accumulated account minus the redemption of the bonds used to fund the account (see details below).

In other words, an individual's benefits would be funded by the accumulated return on invested assets that exceed the rate of return paid on the EE Savings Bonds that are used to fund the program. Because all of a beneficiary's benefits would be funded by this excess return, the retirement cashflow payments would be adjusted for investment returns. Thus, the program would not be considered to be a defined benefit pension plan that delivers a guaranteed monthly income (where a sponsoring organization is responsible for making up any investment or actuarial losses). No annuities would be purchased.

Program costs

The federal government would be responsible to fund each account.

Based on an estimated 4 million births annually, program costs are estimated to be approximately $29 billion per year.

As mentioned above and described below, the federal government would issue 30-year EE Savings Bonds to fund the accounts that are established each year. Therefore, the program would need no new taxes to fund it. The program would rely on the federal government's ability to borrow and its credit rating, and on a strong equity market.

Individuals and employers would not contribute to the program.

Mechanism for paying the program costs

The federal government would fund the annual cost of the T.R.U.S.T Fund by borrowing money from the public through the issue of EE 30-year Savings Bonds. After 30 years, each birth cohort would redeem these bonds for their face value. Funds remaining in each individual's account would continue to grow in value until the individual attains age 70.

Control and management of the investing, funding, and delivery of benefits

An independent agency of the federal government, similar to the Federal Retirement Thrift Investment Board (FRTIB), would be responsible for the investing, funding, and delivery of benefits. The FRTIB is currently managed by five presidentially appointed board members and an executive director.

Structural feasibility of the proposal

- New federal laws and regulations would be needed to enable the program.
- As noted previously, a new federal agency would be needed to oversee the program's operation.
- New administrative structures would be needed to maintain individual accounts, disperse program benefits, and communicate with program beneficiaries. These services could be delivered by creating a new federal agency to administer the program, or by outsourcing the program administration to the private sector. The administrative costs of the program have not yet been estimated.
- Most likely, new financial products would not be needed, since the program's investments would be structured similarly to the current federal Thrift Savings Plan.
- Communication would be needed with program beneficiaries so that they understood the estimated amounts of cashflow in retirement they could expect; this would help them better plan for their finances in retirement. Program beneficiaries would not be expected to need to make investment and disbursement decisions.
- Existing programs, such as Social Security, IRAs, and employer-sponsored retirement plans, would not need to be discontinued.

Possible unintended consequences

- As the total amount of invested assets grows, politicians might want to apply pressure to influence the management of the corporations whose stocks would be owned by the program. Politicians might also be tempted to divert funds in the accounts in order to use them for non-investment purposes.
- Individuals (i.e. voters) might apply pressure in order to divert the funds in the accounts for purposes other than generating retirement cashflow, such as paying for a home or a college education.
- Individuals might decide (perhaps incorrectly) they don't need to save on their own for retirement.
- Benefits from other programs, such as Social Security and employer-sponsored retirement plans, might be reduced as cost-savings measures, justified by the existence of The T.R.U.S.T. Fund for America.
- Poor returns in equity markets would reduce the amount of benefits delivered to beneficiaries.

For more details

Ric Edelman. "The T.R.U.S.T. Fund for America: A Proposal to Provide Guaranteed Lifetime Income to Every Future Generation." 2019.

Section 2.6: Guaranteed Retirement Accounts (GRA)

Program goals

- Accumulate retirement savings while working through mandatory savings accounts. Upon retirement, accounts will be annuitized to generate regular cash flow to supplement Social Security benefits.
- The program is structured to be revenue-neutral for the federal government and designed to be cost-neutral for workers paid below the median salary.
- The program is designed to encourage long-term investing, thereby increasing retirement resources compared to investing in fixed income investments that are common in current retirement savings plans

Targeted beneficiaries

All workers, although the most benefit would accrue to current younger workers who would be able to accumulate significant savings under the program for several decades.

Program mechanism

A total annual contribution of 3% of pay would be mandated; the worker and the worker's employer would each contribute 1.5% of pay. The maximum annual salary that would be considered for mandatory contributions is $250,000. Contributions would accumulate in low-cost investment accounts.

Workers would be able to select among professional money managers who would be federally licensed and regulated as GRA fiduciaries; these money managers would charge low fees. At the outset, the default manager would be the Federal Thrift Savings Plan or the pension fund in the worker's state of residence.

To encourage long-term investments, the federal government would guarantee the principal amounts that have been contributed to a beneficiary's account. The accounts would at least equal their accumulated contributions, and they would not suffer a cumulative investment loss. Analysis of historical investment history shows a low likelihood that significant government outlays for this guarantee would be necessary. However, the government could charge a modest insurance premium for this guarantee.

Workers and their employers would be allowed to contribute more than the mandatory contribution amounts.

Withdrawals from the accounts for any purpose before age 62 would not be allowed.

Upon retirement, at least 75% of the mandated accounts would be annuitized. Workers could withdraw up to 25% of the mandated account. For voluntary contributions, workers would have the option to annuitize at retirement, or to invest and withdraw from their accounts. For workers with relatively low balances—because they started GRAs late in their career—the Social Security Administration (SSA) would use GRA balances as "bridge" withdrawals to a delayed higher Social Security benefit.

Annuities would be operated by the SSA, using the most current actuarial pricing. The U.S. government would assume the risk for any actuarial losses that could occur if actual experience is different from their actuarial assumptions.

Program costs

The GRA would be funded by mandated, equal contributions of 1.5% of pay from both the worker and the employer, submitted each payroll period.

A tax credit would be given to each worker, up to a maximum annual tax credit of $600, to offset the cost of the mandated contribution. For workers earning $40,000 per year or less, this tax credit would totally offset the cost of the mandated employee contribution, resulting in cost-neutrality for individuals (1.5% of $40,000 is $600).

The tax credit would also partially offset the cost of the mandated contribution for workers earning higher amounts.

To be cost-neutral to the federal government, and to pay for the cost of the tax credits, the tax-favored treatment of IRAs and 401(k) plans would be reduced or eliminated.

Mechanism for paying the program costs

Contributions would be made through payroll deductions from a worker's paycheck. The employer's matching contribution would be submitted at the same time.

Control and management of the investing, funding, and delivery of benefits

Before retirement, licensed, GRA pension managers would control and manage the investment of the accounts. Beneficiaries would have the right to select and change their pension manager.

Upon retirement, the SSA would manage the delivery of the annuities. Any accounts that are not annuitized would be managed by the selected GRA pension manager.

Structural feasibility of the proposal

- New federal laws and regulations would be needed to enable the program.
- Most likely, new financial products and capabilities would not be needed, since the program's investments would be structured similarly to the federal Thrift Savings Plan and common pooled investments that are currently offered in institutional retirement investing programs.
- The SSA would need to enhance their capabilities to administer the annuities offered by the program.
- A Board of Trustees would need to be created to oversee GRA pension managers.
- Communication would be needed with program beneficiaries to help them select a GRA pension manager and make decisions regarding disbursements in retirement. They would need to understand the estimated amounts of cash flow they could expect in retirement; this would help them better plan for their finances in retirement.
- Existing programs, such as Social Security, IRAs, and employer-sponsored retirement plans, would not need to be discontinued.

Possible unintended consequences

- Reducing or eliminating tax-favored treatment of 401(k) plans and IRAs might meet substantial resistance from individuals and institutions with stakes in these programs.
- Individuals (voters) might apply pressure to divert the funds in these accounts for purposes other than generating retirement cashflow, such as paying for a college education or in the event of unemployment.

- Individuals might decide (perhaps incorrectly) that they don't need to save additional amounts for their retirement. They might interpret the 3% contribution mandate as a recommended savings amount.
- Benefits from other programs, such as Social Security and employer-sponsored retirement plans, might be reduced as cost-savings measures, justified by the existence of the GRA.
- Employers might decide to eliminate their 401(k) plans, due to the discontinuance of tax-favored treatment of these plans.

For more details

Teresa Ghilarducci and Tony James. *Rescuing Retirement: A Plan to Guarantee Retirement Security for All Americans.* Columbia University Press. 2018.

Section 2.7: Transition State and Local Government Pension Plans to Risk-Sharing Pools

Program goals

- Reduce unfunded liabilities of state and local government pension plans by limiting aggregate benefits paid to beneficiaries to aggregate contributions made on their behalf to pension trusts sponsored by government employers. Such a program aligns an employer's promises to deliver future benefits with their ability to actually fund the plan.
- Provide retirement income for life to retirees and their beneficiaries through a risk-pooling mechanism in the plan. Longevity risk is shared by the aggregate group of plan participants, not by the pension plan sponsor. Investment gains and losses also accrue to plan participants, so the plan sponsor doesn't assume investment risk.

Targeted beneficiaries

All workers who currently participate in defined benefit pension plans that are sponsored by state and local government employers.

Benefits for service accrued before the transition date would be preserved under the current system for both current active workers and current retirees. Alternatively, the risk-sharing pension system could be offered to future hires, and existing workers and retirees would continue under the current system.

Program mechanism

Contributions would be made to accounts that would be maintained for each worker, similar to the system that currently exists for defined contribution plans, such as a 401(k). Accounts would accumulate investment earnings before retirement.

Upon retirement, accounts would be converted to a stream of monthly income using a formula specified in the plan; this is similar to how annuities currently work. However, annuities would not be purchased from insurance companies. A retiree could provide for income to be continued to a spouse or beneficiary after the death of the retiree, an option that's similar to a joint and survivor annuity.

Accounts for employees and retirees who die would be reallocated to the accounts of remaining active employees and retirees, using the risk-pooling formula specified in the plan. As a result, surviving active employees would receive adjustments in their accounts due to both investment earnings and survivorship credits. Retirees would also receive adjustments in their monthly benefits for the same reason. This risk-sharing formula is designed to fairly share the reallocated amounts among different age groups of plan participants. It could also be designed to smooth or mitigate the adjustments.

In all other aspects, the plans would operate and be administered like a defined benefit pension plan sponsored by a state and local government. The offices of the state pension systems would be responsible for administering and paying benefits to retirees and their beneficiaries.

Program costs

A risk-pooling program would be funded by contributions from the government employer. The employer would only be responsible for contributions made to the plan; the plan would not create any unfunded liabilities for the employer. Presumably, the government employer would build the contributions promised for each year into its budget.

Depending on the plan design selected by the government employer, employees could also contribute to the plan.

Mechanism for paying for program costs

There would be no change to the way employer contributions are currently remitted to the pension fund. If employees contribute to the plan, it would be through payroll deduction, which is consistent with current practice.

Control and management of the investing, funding, and delivery of benefits

The offices of the state and local government pension systems would be responsible for the investment, funding, and delivery of benefits, which is consistent with current practice.

Structural feasibility of the proposal

- New federal or state laws and regulations would be needed to enable the program.
- Most likely, new investment products and capabilities would not be needed, since the system's investments would be structured similar to current practices.
- The pension systems would need to design and implement the mechanism to adjust worker accounts and retiree benefits though the risk-sharing mechanism.
- Communication would be needed with workers and retirees, so that they could understand that their accounts and benefits would be adjusted in the future.
- Existing programs, such as supplemental savings plans, would not need to be discontinued.

Possible unintended consequences

- The idea might receive resistance from stakeholders in the current pension systems.
- Risk-sharing pools, aka tontines, can have an unfavorable reputation due to prior unsavory applications, which could give fuel to resisters.
- Investment losses could produce reductions in the accounts of active workers or retirement income payments for retirees, although the risk-sharing formula could be designed to smooth, mitigate, or prevent such reductions.

For more details

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APPENDIX A: PROPOSALS THAT REFINE EXISTING SYSTEMS

Here are four sub-categories of ideas that refine existing systems:

1. Proposals that reform Social Security to be sustainable and/or better meet program objectives.
2. Proposals that encourage people to work longer.
3. Private sector proposals to help build and manage financial resources for retirement.
4. Proposals that could be adopted by a state or local government.

1. Proposed Social Security Reforms

There are already several dozen ideas that exist to reform Social Security's financing and/or benefits delivered, as evidenced by the number of proposals that have been analyzed by the SSA's Office of the Actuary in response to requests from members of Congress.

In our view, the ideas summarized below preserve the basic nature of the current system, even though the impact on beneficiaries could be significant. Implementing any of these ideas would require new federal legislation. In addition, we acknowledge that analyzing and approving these ideas might take substantial political capital.

- Enhance Social Security's financial sustainability by increasing tax revenues, either by increasing the tax rate and/or by increasing the tax base for calculating taxes.
- Reduce the value of benefits for future retirees by raising the early and normal retirement ages. This might include indexing future increases in retirement ages with improvements in life expectancies.
- Refine the current benefit formula to be more progressive. This idea would increase the benefit formula percentages that are applied to the first level of a worker's average earnings, while decreasing the benefit formula percentages that are applied to higher levels of a worker's average earnings.
- Apply Social Security's benefit formula to each year of participation in the system instead of applying the formula to a worker's average career earnings. This would help reduce unintended windfalls for affluent households that can afford for one member to work for less than a full career.
- Invest a portion of the Social Security trust fund in equities to increase investment earnings.
- Improve the long-term financial viability of the system by separately funding the part of Social Security's deficit that's attributable to current retirees, and results from accumulated underfunding of benefits due to political inaction. Separately fund this deficit outside the current FICA tax system, for example, with general tax revenues. Devote FICA taxes to funding benefits for future retirees.

Note that the proposals that would encourage people to work longer, as described below, also involve changes to Social Security and Medicare.

2. Proposals to Encourage People to Work Longer

Here we've focused on specific policy proposals that could encourage Americans to extend their working lives and that also could encourage employers to hire and retain older workers. This subsection focuses on potential changes to Social Security and Medicare that address this goal. Implementing any of these ideas would require new federal legislation. We acknowledge that these proposals have cost implications that would need to be considered along with other proposals to reform Social Security.

- For active workers who are age 65 and older and are covered by a health insurance plan at work, make Medicare the primary payor of medical costs and the employer-based plan the secondary payor. This would help reduce the labor costs of older workers. This proposed treatment was actually in effect until 1980, when Congress adopted a cost-saving measure by designating Medicare to be the secondary payor for employers with more than 20 workers.
- Once a worker has paid FICA taxes for a specified period, say 35 or 40 years, consider them to be "paid-up." In this case, neither the worker nor the employer would need to pay any further FICA taxes. This proposal would reduce the employer's labor costs and increase the worker's after-tax pay.
- Provide retirees with the option to take the value of their delayed retirement credit as a lump sum payment upon commencing Social Security benefits as an alternative to the current provision, which applies the credit to increase the amount of monthly retirement income.
- Eliminate the earnings test, which reduces Social Security's retirement income benefits due to work-based compensation received prior to a worker's Full Retirement Age (FRA). The FRA is age 66 for current workers, but it's increasing to age 67 for workers born in 1960 or later. Currently, the earnings test doesn't apply after the FRA.

We acknowledge that there are many human resources strategies and policies that employers could adopt that would also encourage and enable older Americans to extend their working lives. We also acknowledge that there is a significant cultural bias against hiring and employing older workers at many businesses and organizations. It's beyond the scope of this project to address those challenges and potential strategies.

3. Private Sector Proposals to Help Build and Manage Financial Resources for Retirement

This section includes a number of viable ideas that could be adopted in private-sector systems. Some of these proposals would require no new laws, regulations, financial products, or governance systems, whereas other proposals would need enabling regulations or legislation.

The following six ideas do not require new legislation, regulation, financial products, or governance structures. However, some ideas might be encouraged or strengthened by regulatory guidance or protections.

- Employer-based savings plans or IRA providers could offer retirement income statements, which would supplement current account balance statements. Such a statement would show the estimated amount of retirement income that a worker's account might generate and might encourage workers to increase their retirement savings. The recently passed SECURE Act will require 401(k) plan sponsors to provide such statements to workers, although the details will be forthcoming in future regulations.
- Allow employer-based savings plans to increase the minimum contribution amounts under auto-enrollment programs.
- Reduce leakage in employer-based savings plans by restricting loans, hardship withdrawals, and pre-retirement distributions.
- Employer-based savings plans or IRA providers could offer a Social Security bridge payment, which would enable workers to use savings to delay starting Social Security benefits until the optimal age for those workers.
- Employer-based savings plans could offer their older workers a limited menu of options to convert their savings into a stream of retirement income from the plan. This could help retirees use their savings to generate cashflow throughout their retirement.
- Enhance financial literacy/financial wellness programs to focus on saving money for retirement and drawing down resources in retirement.

The following four ideas would need new financial institutions or governance structures, and might also need enabling legislation or regulation.

- Enable “defined ambition” plans that aim to deliver a target retirement income to retirees, but include mechanisms for adjusting the retirement income if the plan’s assets become insufficient to support the targeted level of income.
- Implement a pension dashboard that identifies the amount and location of various retirement accounts that workers may have accumulated over their lives. This would help reduce the number of unclaimed savings accounts and potentially increase the amount of retirement funds available to some workers.
- A related idea would be to create a retirement clearinghouse to consolidate various retirement accounts that a worker might have accumulated. This could help reduce cash-outs of small amounts that otherwise might have accumulated until retirement.
- Provide regulatory guidance and protection for employer-based plans to offer annuities to retiring employees. Note that the recently passed SECURE Act provides additional guidance. This would help retirees generate streams of guaranteed lifetime income that last the rest of their lives.

4. Proposals that could be adopted by a state or local government

The following proposals would need new laws or regulations at a state or local government level:

- State and local governments could allow deferral of property taxes for older citizens; these could accumulate and then be paid when the house is sold. This would help older citizens stay in their homes.
- State and local governments could be subject to the same federal funding requirements as pension plans sponsored by private sector employers under ERISA. These standards would require minimum funding amounts to irrevocable trusts, and they suspend benefit accruals when a plan’s funded status falls below minimum thresholds.
- In the event that a state or local government pension plan falls below a specified funded status, the plan could be designed to contain the growth of future benefits or even reduce earned benefits until the funded status is restored to acceptable levels.
- Allow state or government employers to suspend, freeze, or modify pension benefits for any benefits that will be earned by current employees for future service. Private sector employers currently have this ability as a tool to manage their pension liabilities, but most public sector employers do not have this ability. They can only change their pension plans prospectively for future hires.
- To improve the long-term governance of state and local pension systems, give independent, appointed boards of trustees the responsibility of managing the system. The board of trustees would have the ability to make benefit design changes in order to align with the system’s level of available funding and the funded status of the system.

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