Policy Forecast: Gloom with a Chance of Doom

By Kerry Pechter *Wed, Dec 21, 2016*

At the Employee Benefit Research Institute's policy forum in D.C. last week, retirement policy experts were not cheerful about the coming inauguration, and some feared that retirement security will take a back seat to tax cuts in the new year.

Gloomy. That was the mood among retirement policy mavens at the Employee Benefits Research Institute's 79th Policy Forum in Washington, D.C. last week. They seemed equally glum about America's retirement savings shortfall and about the low priority of retirement savings on the Republican policy agenda.

"Although we [in this room] spend a lot of time talking about retirement," said Brian Graff, the CEO of the American Retirement Association, which represents retirement plan advisors, "the people who are in a position to do something about it are not talking about it."

As for the savings shortfall, EBRI research chief Jack Vanderhei's slide presentation showed that, at best, only the richest quarter of American Boomers and Gen-Xers are on track to retire safely at age 65. "As depressing as these numbers are, they are wildly optimistic," he said to a chorus of weak laughter.

It must be remembered that this audience consisted of D.C. public policy veterans who face a new government dominated by folks who don't believe that government should set public policy at all, except perhaps foreign policy, and who prefer to cut taxes than bolster the existing subsidies for retirement savings or Social Security.

To be sure, many in Washington are undoubtedly celebrating the prospect of lower taxes, deregulation, normalized interest rates, a burst of fiscal stimulus, the repeal of "Obamacare," and "entitlement reform." But only a handful of the 100 or so people at EBRI's half-day forum, which included a 90-minute roundtable discussion on federal retirement policy, would likely be among them.

A reluctant piggy bank

Fear exists in the retirement industry that tax deferral on retirement savings, the subsidy that underpins the retirement industry, could become a victim of tax reform during the next two years. Tax deferral deprives the government of an estimated $100 billion in tax revenue per year. (That figure ignores taxes on distribution and doesn't necessarily imply that revenue would rise by $100 billion if tax deferral were eliminated.)

"It is incomprehensible that Congress won't go after retirement plans in tax reform," said Randy Hardock, an ERISA attorney at Davis & Harmon LLC in Washington, who was part of the roundtable. He pointed to the 2014 tax reform proposal put forward by former Michigan congressman Dave Camp, which would switch to a Roth-based system where contributions, not distributions, would be taxed as income.

"That would raise $250 billion over 10 years," Hardock said. "We're a big piggy bank that they can use for tax reform. That's how we're being viewed. We're viewed as this big attractive piggy bank that they can use for their own priorities. But this has been going on for decades. When they want to pay for something, we're seen as a big pocket of revenue. Indifference to retirement is our big problem."

Graff agreed with that assessment. "You have chairman [Kevin] Brady [of the House Ways and Means Committee], who wants to make the tax code simple enough to fit on a postcard, talking about the importance of saving. But the conversation isn't about *retirement* savings. It's about increasing savings by reducing taxes on investments. They want to lower rates on short-term investments and they want to lower corporate rates. If that's going to be revenue neutral, the money has to come from someplace, and it will be from us."

Mandates are controversial

Lack of access to a formal retirement savings plan at work affects about half of U.S. workers at any given time. Expanding coverage to all workers, all the time, is widely seen as the best way to increase Americans' preparedness for retirement and minimize the number of people who might wind up indigent and state-dependent in old age.

Various strategies to expand coverage, such as introducing state-sponsored defined contribution plans, or special "marketplaces" for retirement plans, or an "auto-IRA" for workers at small companies, are being tried. Some ideas call for auto-enrollment, others for a "mandate" to make plans available at all firms.

"We need auto enrollment, escalation, and auto-distribution," said David John, a senior advisor at the AARP Public Policy Institute. "Look, Social Security doesn't provide enough for everyone to have comfortable retirement, especially in bottom quartile. So we need a mandate, though not necessarily through employer.

"It's time to move to employer-*facilitated* plan [from employer-sponsored plans]," he added. "We're starting to see seeds of that emerging through the state-sponsored plans. Employers would still have the option to create 401(ks) if they think it will attract better employees."

But mandates are anathema to the free-marketers who now control the U.S. government. "Do we mandate plans across America? Do we mandate certain types of plans? That will just make the situation worse by taking flexibility away from employers," said Will Hansen, senior vice president of Retirement Policy for The ERISA Industry Committee.

"We have a coverage gap because of overregulation. We're making it too complicated to provide plans. When employers provide a retirement plan, it's part of a larger compensation package. Employers need flexibility in shaping compensation packages."

"Because of the [enrollment mandates in the] Affordable Care Act, mandates have become so controversial. The fiduciary rule has also gone down that path," said Hardock, adding that retirement issues were not even mentioned during the presidential campaigns. "Somehow [we] have to find a way to get them back on the priority list. We've lost our way. We've gotten sucked into partisan debates over the appropriate role of government instead of working together on solutions," he said.

"Congress doesn't have capacity or volition to focus on coverage for small employers and part-time workers," said Alane Dent, vice president for Federal Relations at the American Council of Life Insurers.

Social Security reform?

Although Donald Trump the candidate promised to protect the Social Security system, the Republican chairman of the House Freedom Caucus, Mark Meadows, said his group would push for an overhaul of Social Security and Medicare in the next Congress. A recent proposal by Sam Johnson, chairman of the House Social Security subcommittee, includes cuts to Social Security benefits rather than new revenue.

But not everyone wants to get into that political minefield, according to Shai Akabas, director of fiscal policy at the Bipartisan Policy Center. "Social Security reform will be incredibly hard to get before 2034," he said. "Republicans want to cut benefits and Democrats want tax increases, but those are both terrible news headlines. It will be necessary to pair action on Social Security with action on the private pension side. There are positives to talk about on the private pension side, and that's where Congress will go."

Josh Gotbaum of the Brookings Retirement Security Project agreed. “Making decisions about private pensions—like, how do you set up an automatic saving system that doesn’t impinge much on employers—is an order of magnitude easier than changing Social Security. We shouldn’t hold private pensions hostage to Social Security reform. In any case, there’s not a sufficient crisis yet to force Congress to solve Social Security.”

But Social Security’s funding problems—by 2034, unless current laws change, it will only have enough revenue to fund about 75% of promised benefits—should be politicized but should be seen as a non-partisan demographic issue, said Eugene Steuerle, an economist at the Urban Institute.

“In the near future, we’re going to have a third of the adult population on Social Security for one-third of their lives,” Steurele said. “That won’t work. Retirees now have 12 more years of leisure in retirement than they did when Social Security was enacted. And since then, the birth rate has fallen to two children from three children per female.

“For a few decades, the arrival of women in the workforce provided the extra labor, but we won’t get any additional gains from women in the future, and the baby boomers are retiring,” he added. “You can’t solve these problems if you don’t have enough workers. You can’t build the retirement policy of the future on the demographics or the labor force of the past.”