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**STATEMENT OF KAREN FRIEDMAN, EXECUTIVE DIRECTOR
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FOR THE

**SENATE HEALTH, EDUCATION, LABOR AND PENSIONS COMMITTEE
HEARING TITLED**

"TAKING A SERIOUS LOOK AT THE RETIREMENT CRISIS IN AMERICA: WHAT CAN WE DO IT EXPAND DEFINED BENEFIT PLANS FOR WORKERS"

**FEBRUARY 28, 2024
430 SENATE DIRKSEN OFFICE BUILDING
10:00 AM**

On behalf of the Pension Rights Center (PRC), I am pleased to submit this statement for the record for the Senate Committee on Health, Education, Health and Pensions hearing titled: "The Retirement Income Crisis facing American workers and retirees: What we can do to Expand Defined Benefit Plans to Workers and Retirees?" The Pension Rights Center is a nonpartisan, consumer organization that works to protect and promote the retirement rights of workers, retirees, and their families.

Since its founding in 1976, PRC has been instrumental in advocating for policies that have expanded pension and retirement rights to widows, divorce spouses, older workers, and retirees. We also have convened numerous stakeholder working groups to explore and develop both short- and long-term proposals to provide adequate and secure retirement income for the millions of people who do not have the benefit of an employer sponsored pension or retirement savings plan. This statement will highlight the promising results of these working groups, in particular, how we might revitalize defined benefit plans, both traditional and hybrid plans. We will also identify other approaches to providing and expanding pension coverage, particularly for low- and moderate-wage earners. Last, we include broad principles—developed and supported by the Pension Rights Center, labor unions, retiree organizations and economists—that should be used to evaluate the effectiveness of new legislative pension coverage proposals, both those making incremental changes and those proposing more fundamental design changes in our system.

The timing of this hearing is fortuitous for several reasons. First, this year marks the 50th anniversary of the landmark federal private pension law, the Employee Retirement Income Security Act (ERISA). Republican Senator Jacob Javits, one of the law's principal sponsors, correctly called ERISA the "most important piece of social legislation since Social Security."

We should view this anniversary as an occasion to examine what ERISA did right, what it got wrong, and where we go from here to achieve broad-based retirement income security. Second, the national conversation about defined benefit pension plans is changing. Even a few short years ago, many experts would have dismissed the possibility of expanding defined benefit plan coverage as fanciful thinking, asserting that a defined retirement benefit was largely going the way of the Dodo bird. But now, as was underscored by recent articles in the *Wall Street Journal*[1] *and the New York Times*[2], a demand for a guaranteed pension benefit is reverberating across the country. It is noteworthy that, in the recent UAW strike against Detroit's big-three automakers, restoring the retirement security provided by their pre-2007 defined benefit pensions plan was among the union's top demands.

It is also noteworthy that the successful campaign to prevent earned benefits from being cut in certain financially challenged multiemployer plans galvanized tens of thousands of workers and

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[1] Demos, Teli,"Bring Back Corporate Pension Plans. Seriously." *Wall Street Journal*. 3 November 2023, *available at* www.wsj.com/finance/investing/pension-plan-jobs-2023-a2917839

[2] White, Martha C. "The Pension: That Rare Retirement Benefit Gets a Fresh Look." *New York Times*. 24 November 2023, *available at* www.nytimes.com/2023/11/24/business/pension-retirement.html

retirees and captured public attention. The Pension Rights Center joined labor unions, employers and an army of retired truck drivers, musicians, ironworkers, warehouse workers and others, along with spouses and widows, to pass the Butch Lewis Emergency Pension Plan Relief Act—among the most significant pro-worker pieces of pension legislation enacted in decades. Since the beginning of the program, the Pension Benefit Guaranty Corporation (PBGC) has provided Special Financial Assistance to 70 pension plans, securing the hard-earned retirement benefits of some 775,000 workers, retirees and their spouses and widows; another 211 plans, covering some 2 million workers, retirees and beneficiaries, are in line for assistance. The Butch Lewis funds have not only strengthened pension plans, protecting the earned benefits of everyday workers and retirees, but have also bolstered the economy of local communities throughout the country.

As we pause on the occasion of ERISA's 50th anniversary, it is instructive to recall the context in which the law was drafted. ERISA was a response to significant weaknesses in the pension system dramatized by the implosion of the Studebaker pension plan after the company abandoned its auto-manufacturing business. ERISA's biggest achievement was to end these kinds of broken promises to workers by, among other things, creating the PBGC, the federal insurance backstop that pays earned benefits in the event of plan insolvency.

There is no question that because of ERISA millions of people are receiving pension benefits they not otherwise be getting. The law should be celebrated.

But, despite ERISA's successes, too may Americans will be facing an inadequately funded retirement with all the hardships that entails.

Why?

There have been a lot of changes in the retirement income landscape that were unimaginable when Congress passed ERISA.

For instance, the 93rd Congress could not have known that, five decades later, about half of private sector workers would have no pensions or retirement savings to supplement Social Security (now averaging just $22,000 a year for a retired worker). It would have been reasonable for policymakers then to assume that, with a newly reformed system, pension plans would grow exponentially and contribute to an increasing middle-class.

Neither would Congress have anticipated that over the intervening decades a majority of companies would drop, cut back, freeze or "de-risk" their pension plans and replace them with a less secure plan that did not even exist in 1974– the 401(k) plan. In 1977, five out of every ten private sector workers participated in a traditional pension plan; now it's one in ten.[3]

The unfortunate reality is that 401(k) plans can work as supplemental retirement savings plans, but they are poor substitutes for guaranteed pension plans. Unlike traditional pensions, 401(k) plans put all the risks and responsibilities of whether and how to invest retirement assets onto individual employees. Each person must themselves decide whether to participate in the plan, how much to contribute, what to invest in, how to resist withdrawing the money before

[3] Id.

retirement, and, finally, how to make their money last a lifetime. That's a lot to ask, particularly of those who are struggling just to keep a decent job, pay for escalating health care prices, housing, and food—i.e. to keep their families above water.

The statistics tell our nation's grim retirement story. The nonpartisan Center for Retirement Research at Boston College has concluded that workers today face a "Retirement Income Deficit" of $10.2 trillion.[4] This number represents the gap between what households have saved and what they *should* have already saved to maintain their standard of living in retirement.[5] According to the Survey of Consumer Finances, half of all households that participate in 401(k)-type plans have an account of $87,000 or less.[6] Even those close to retirement have managed to amass only twice that amount[7]—hardly enough to carry someone through their retirement years.

A 2023 study shows that the situation is even more dire for Black and Hispanic workers; they are far less likely to have retirement savings overall. For those with some retirement savings, the median account balance is somewhere between half and a third of the median account balance for white workers. Women also lag behind men in, retirement income outcomes.[8] While the problem is clear, there is not one magic bullet that will solve the problem. We, thus, offer the following paths that we believe will be productive for the Committee to follow as it begins its work:

- **Examine ways of redeploying some of the billions of dollars in tax subsidies for retirement plans**. The subsidies currently disproportionately benefit high-income taxpayers and provide little benefit to low- and middle-income retirement savers.
- **Promote defined benefit plans and secure hybrid plans**: Consider proposals to preserve and stabilize existing defined benefit plans and for new plan designs that both reduce financial risk for plan sponsors and retain important features of traditional defined benefit plans, such as lifetime retirement income, professional investment management, and certain benefit guarantees, such as a floor benefit with upward adjustments for good investment performance.
- **Address pension plan "de-risking":** Create new protections for pension plan participants and retirees when a pension plan sponsor transfers benefit liabilities to an insurance company.

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4 Center for Retirement Research, National Retirement Risk Index, *available at* crr.bc.edu/project-page/national-retirement-risk-index/

5 To arrive at this number, the Center for Retirement Research used a conservative methodology based on the one it uses to calculate the National Retirement Risk Index.

6 Bhuta, Neil, Jesse Bricker, Andrew C. Chang, Lisa J. Dettling, Joanne W. Hsu, Kevin B.Moore, Sarah Reber, Alice Henriques Volz, and Richard A.Windle. "Changes in U.S. Family Finances from 2019 to 2022: Evidence from the Survey of Consumer Finances." Federal Reserve Bulletin, October 2023, Table 3, page 15, *available at* www.federalreserve.gov/publications/files/scf23.pdf

7 Id.

8 Women still earn only 82 cents for every dollar earned by a man. *See* Pew Research Center, March 1, 2023 ("Gender pay gap in US hasn't changed much in two decades."), *available at* www.pewresearch.org/short-reads/2023/03/01/gender-pay-gap-facts. Women also are more likely to be employed in the service sector where employer-sponsored plans are rare. *See* "Labor Force Statistics from Current Population Survey," *Bureau of Labor Statistics*, Table 11, Employed Persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity, *available at* www.bls.gov/cps/cpsaat11.htm

- **Re-evaluate necessary protections to safeguard plan participants and beneficiaries:** Consider measures that provide increased protections for the spouses of 401(k) plan participants, ensure workers and retirees are able to receive – and retain important disclosure information and get conflict free retirement investment advice that is in their best interest.
- **Explore New Structures to Expand Coverage for the Future.** Employer-sponsored plans provide retirement savings coverage for roughly half of the nation's workforce. Those whose employers do not provide coverage are limited to IRAs. And in states that have adopted them, there are special payroll deduction IRAs – which we have supported as innovative but modest steps forward to increase retirement assets. However, other more comprehensive approaches should be explored such as the **USA Retirement Funds proposal**, which provides for employee and employer contributions, pooled and professional investment and strong oversight. Also, a number of nations have created effective retirement savings vehicles for workers without employers sponsoring their own individual plans. We should explore such proposals and approaches to supplement our employer-based system, so that all Americans can enjoy a financially secure and adequate retirement.
- **Advocate for Increased Social Security Benefits and long-term Social Security solvency.**

Principles Against Which Retirement Income Legislation Should be Measured

Universal Coverage. *Every worker should be covered by a retirement plan.* A new retirement system that supplements Social Security should include all workers unless they are in plans that provide equally secure and adequate benefits.

Secure Retirement. *Retirement shouldn't be a gamble.* Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.

Adequate Income. *Everyone should be able to have an adequate retirement income after a lifetime of work.* The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

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Shared Responsibility. Retirement should be the shared responsibility of employers, employees and the government.

Required Contributions. Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower income workers.

Pooled Assets. Contributions to the system should be pooled and professionally managed to minimize costs and financial risks.

Pay-outs Only at Retirement. No withdrawals or loans should be permitted before retirement, except for permanent disability.

Lifetime Payouts. Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.