EBRI Employee Benefit Research Institute®

ASEC American Savings Education Council

2121 K Street, NW | Suite 600 | Washington, DC 20009 | (202) 659-0670 | www.ebri.org | www.asec.org

July 5, 2005

Sharon Watson
Director, Office of Participant Assistance
Employee Benefits Security Administration
U.S. Department of Labor
Room N-5623
200 Constitution Avenue, NW
Washington, DC 20210

Attention: "2006 National Summit on Retirement Savings"

Dear Ms. Watson:

I am writing to provide comments for the 2006 National Summit on Retirement Savings (the Summit) on behalf of the Employee Benefit Research Institute (EBRI).[1] We appreciate the opportunity to provide information we hope is helpful in ensuring a successful Summit. We are commenting specifically on the following Department of Labor (the Department) provided issues.

Suggested topics for discussing the current state of retirement savings education in America and its effect on the national retirement savings rate

EBRI annually conducts research that helps to provide a snapshot of the state of retirement savings education in America. The Retirement Confidence Survey,[2] now going into its 16th year, provides information that can help the Department obtain a baseline to determine current retirement savings education discussion topics.

To understand retirement savings education, we feel it is important for delegates to understand current American retirement savings. Our study found that roughly seven in 10 workers report they and/or their spouse have saved money for retirement and cite it as a savings goal (69 percent). Approximately six in 10 workers say they are *currently* saving for retirement (62 percent). Yet these

[1] Founded in 1978, the Employee Benefit Research Institute (EBRI) conducts research on and promotes education about employee benefits and financial education to further its mission of contributing to, encouraging, and enhancing the development of sound employee benefit programs and public policy.
[2] Retirement Confidence Survey – Employee Benefit Research Institute, and Mathew Greenwald & Associates, Washington, DC, April, 2005.

proportions have remained constant since 2001, despite economic ups and downs and efforts at educating the American public about the importance of saving for retirement. Alarmingly though, delegates should know is that the majority of workers (58 percent) over age 55 report saving less than $100,000 for retirement.

We feel it is important for SAVER Summit delegates to compare how well Americans are actually saving for retirement with what they believe about their retirement security. This will help delegates assess Americans true understanding of their retirement savings needs. Our findings indicate the majority of workers (55 percent) believe they are behind schedule when it comes to planning and saving for retirement. However, currently more than that (65 percent) are somewhat or very confident they will have enough money to live comfortably in retirement, a figure that has remained relatively constant since 1998. Another potentially alarming finding is that almost four in 10 workers who have not saved for retirement are still confident they will have enough money to live comfortably throughout retirement. These non-savers cite reasons, including that "Social Security is enough" (31 percent), "getting money from an employer" (19 percent), "will always work" (19 percent), and "have faith" (8 percent).

We believe it is important for delegates to know our study indicates completing a retirement savings calculation can have a positive impact on the way a person saves and/or plans for retirement. Those who have attempted a retirement savings needs calculation are more apt than those who have not, to have saved. However, only about 40 percent of workers have taken this important step. The percentage of workers who have done the calculation appears to have dropped during the economic downturn of 2001–2002 but now appears to have increased and stabilized.

We believe it is important for delegates to know workers are more likely to save through the workplace than on their own. More than eight in 10 eligible workers say they participate in a workplace retirement savings plan (82 percent); nearly four in 10 workers have an individual retirement account (38 percent). Promoting plans that allow automatic withdrawals from individual bank accounts may not significantly increase non-workplace savings. In this case, ignorance is not the issue: Nearly seven in 10 of those who do not currently use automatic withdrawals for retirement savings are already aware that they have this option (68 percent). More than a quarter of those who *could* participate in a savings plan do not—but automatic enrollment in a savings plan with an opt-out provision could dramatically increase participation.

Less than 8 percent contribute as much as they could legally contribute, but an automatic contribution increase provision tied to the date of salary increases would be accepted by many workers and would increase savings. Many participants in plans do not diversify their investments, and more than three-quarters make no changes in their allocations and do not rebalance—but large numbers would welcome pre-diversified investment options.

One factor that might be reflected in our findings is that some workers we have surveyed may not know they need to include the vested value of defined benefit plans in their calculations. If this is the case, while their actual retirement savings would be greater, it would indicate a serious lack of retirement savings education and understanding.

Therefore, after reviewing these findings, we believe delegates should discuss the following issues:

1. Integrating personal finance curriculum into all stages of elementary, secondary, and higher education.

2. Increasing the retirement savings education conducted through the workplace.

3. Increasing workplace retirement savings opportunities through vehicles such as defined contribution plans, defined benefit plans, and other savings innovations.

4. Utilizing affinity groups in retirement savings education to target specific sub-groups within the American population.

5. Increasing outreach and better formulating specific messages to profile groups such as new parents, new workers, various generational segments, near retirees, lower-income and unemployed adults, new immigrants, and women.

6. Leveraging current annual mailings that go to large numbers of U.S. citizens such as tax mailings, Social Security statements, mailings/newsletters from members of Congress, and Selective Service notices, to promote the importance of saving and to encourage individual retirement planning.

7. Educating the public on the potentially harmful effects of carrying too much debt and how it can be a barrier to a person's ability to save, build wealth, and secure a desirable retirement.

8. Creating uniform testing and evaluation methods for the effectiveness of various financial education initiatives and approaches.

Ideas about programs and activities that would effectively reach the general public and, more specifically, low-income workers, women, small business owners, minorities, youth, and older workers

To educate Americans about the needs for, concepts in, and management of retirement savings, we suggest delegates consider the following existing and potential programs and activities:

1. Financial education as a mandatory part of school curriculum at every educational level. It is essential for financial literacy efforts to begin at the earliest stages in life. As every American child is required to and generally does attend school, elementary and secondary schools are one of the surest venues to provide all Americans with financial education. Basic age-appropriate and segmented financial education curricula could include matters such as budget creation, compound interest, savings goal formulation, the concept of cash versus credit, and long-term planning. Any education program designed for schoolchildren could have a companion "Parents' Guide" designed to either inform the parents about what their child is learning in school or offer suggestions to parents on how they can integrate these lessons into managing their own household finances.

2. Full implementation of the national financial literacy strategy developed by the Financial Literacy and Education Commission. This strategy was developed with the input of Financial Literacy and Education Commission members and over 127 organizations and 31 individuals. For Americans to recognize the importance of financial education, this strategy must receive the same attention and support as have other national campaigns such as seat belt use, smoking cessation, forest fire prevention, and crime reduction.

3. Greater use of the workplace to provide financial education. As the vast majority of Americans work at some point in their lifetime, employers, including small businesses and those typically hiring lower-incomer workers, should be encouraged and supported in making basic financial education resources available to their employees. This could include employer-provided time off to attend workplace seminars, reimbursement of outside financial education, and more comprehensive retirement planning education within retirement savings plan education.

4. Ensure all workers have access to retirement savings plans. This could be provided through increasing the number of employers that sponsor plans or new sources such as affinity groups, private savings, or government-sponsored plans.

5. Encourage employers to adopt automatic savings decisions. This process would enroll employees in various retirement savings programs with opt-out provisions as the only way to avoid participation. This includes enrollment in workplace retirement savings plans, escalation of contributions, age-appropriate investment allocations, and consistent and lifelong income distributions.

Success stories and model programs that have used effective communication techniques to educate low-income workers, women, minority groups, youth, and older workers about the need to save and steps that should be taken to save for retirement

To educate Americans about the need for, concepts involved in, and management of retirement savings, we suggest delegates consider the following model programs:

1. **American Savings Education Council.** ASEC is a national coalition of public- and private-sector institutions committed to making saving and retirement planning a priority for all Americans. ASEC is a program of the Employee Benefit Research Institute Education and Research Fund (EBRI-ERF), a 501(c)(3) non-profit organization. Since its creation in 1995, ASEC has driven the financial security mission forward with the collective leadership and efforts of a coalition of major organizations. ASEC brings together public- and private-sector partners to share information on best practices and to collaborate on financial security initiatives such as:
   - development of the federal government's *Savings Matters* campaign
   - the Savings Are Vital to Everyone's Retirement (SAVER) Act of 1997
   - conducting the 1998 National Summit on Retirement Savings and in funding the 2002 National Summit on Retirement Savings

- helping the U.S. Securities & Exchange Commission develop the *Facts on Saving and Investing Campaign* in 1998 to encourage Americans to get the facts about how to achieve financial security
- partnering with the Social Security Administration on the *Save For Your Future®* national education campaign, launched in 2003, that promoted use of the Social Security Statement.
- acting as the lead resource organization for the 2005 White House Conference on Aging Mini-Conference on Financial Literacy throughout the Lifecycle
- maintaining the *Ballpark Estimate®* online retirement planning calculator which is used in partnership with the Internal Revenue Service, the Social Security Administration, and other organizations
- being a major force in directing Congressional, Federal, state government, and media attention to the need for financial education, savings, and retirement planning

2. ***Choose to Save®*.** The Emmy and Telly award-winning *Choose to Save* national public education and outreach program is dedicated to raising awareness about the need to plan and save for long-term personal financial security. As part of its mission, *Choose to Save* develops user-friendly, multimedia materials to help individuals plan and save for their financial future, including:
   - Public service announcements (PSAs) using humor, powerful images, and compelling information to encourage television viewers and radio listeners to take charge of their financial future.
   - ChoosetoSave.org, a Web site completely devoted to financial education. It includes free savings tools such as the *Ballpark E$timate®* retirement planning worksheet, over 100 online calculators, brochures, savings tips, links to related resources, and other tools to help individuals and their family manage their finances. Visitors can also view and listen to the PSAs from the Web site.
   - A variety of free savings tools and brochures focused on topics such as *Saving for Your Family's Future, Just Starting Out, The Magic of Compounding, Maximizing Your Company Savings Plan, Why Open an IRA, It's Never Too Late to Save*, and much more.

Developed by EBRI's ASEC program, *Choose to Save* utilizes the power of the media to promote the idea that saving today is vital to a secure financial future.

Measurement techniques used to assess the effectiveness of public outreach and media efforts regarding retirement savings

We believe delegates should be aware that measuring the effectiveness of financial education and literacy programs is a relatively limited activity. However, a few programs should be noted and include:

1. The U.S. Department of Treasury's "Eight Elements of Successful Financial Education Programs." This list provides organizations with guidelines on essential components necessary to achieve success in financial education and includes direction on content, delivery, impact, and sustainability.

2. The Institute for Socio-Financial Studies is currently updating its 2000 study entitled, “Personal Finance and the Rush to Competence: Financial Literacy Education in the U.S.,” funded by the Fannie Mae Foundation. An updated version of this study, sponsored by AARP, will be released July 19 during the 2005 US-UK Dialogue on Pensions.

Ideas for creating new partnerships among public and private sector organizations to enhance existing programs for encouraging retirement savings

1. The Financial Education and Literacy Commission should expand its efforts to include state and local government participation. While the federal government currently has made great strides in harmonizing its financial education efforts among agencies, it could make this endeavor more efficient and effective if it coordinated its work with state and local governments.

EBRI is pleased the Department is again undertaking the Summit. America is certainly a land of great opportunity. However, many of its citizens are passing on their often one-time chance to build wealth and to have financial security by spending beyond their means, not properly planning for life’s unexpected events, failing to invest in their own retirement savings, making bad decisions about debt, and not participating in their employers’ retirement plans. We feel the greatest shame is that these actions are often done out of simple ignorance. This important national event will be yet another step in a journey our nation must effectively take to bring Americans out of this ignorance.

If you should have any questions about this letter, EBRI, or its programs, please contact me at 202-659-0670.

Sincerely,

Dallas L. Salisbury
Chief Executive Officer and President