Oral Remarks of Dan Doonan, Executive Director, The National Institute on Retirement Security

before the

U.S. Senate Committee on Health, Education, Labor, and Pensions

Hearing: "Taking a Serious Look at the Retirement Crisis in America: What Can We Do to Expand Defined Benefit Pension Plans for Workers?"

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Washington, D.C

Chairman Sanders, Ranking Member Cassidy, and members of the Senate Health, Education, Labor, and Pensions Committee, I appreciate the opportunity to testify on the state of retirement in the U.S, and the role of defined benefit pensions in delivering retirement security.

I am Dan Doonan, executive director of the National Institute on Retirement Security (NIRS), a non-partisan, non-profit think tank in Washington, D.C. We have a broad membership base: financial services companies, plan sponsors, labor unions, and nonprofits like AARP.

Congress has made progress to address America's retirement crisis. The SECURE Act and SECURE 2.0 were steps in the right direction. However, much work remains to ensure that Americans can be self-sufficient in retirement.

The points I would like to make today are that that:

1. **Americans face an alarming retirement savings shortfall**.

2. **The move away from pensions is a major culprit in the nation's retirement crisis**. While 401(k) plans are an important part of the retirement equation, they just were not designed to replace pensions.

3. **Today's pension designs and management can be beneficial for employers, workers, and the economy**. Pensions are the most economically efficient way to deliver retirement income, and they offer workforce advantages to employers. Pensions paid out more than $600 billion in benefits in 2020, supporting $1.3

trillion in economic activity. Pensions are user-friendly for workers and face little leakage.

In the past, the biggest challenge for employers has been unstable costs. But today, there are much more sophisticated tools and benefit designs that have addressed this challenge. I believe that, if companies give pensions a fresh look, they will discover that win-win solutions are possible.

Diving a little deeper into the gravity of the U.S. retirement problem, the data clearly shows most Americans will not have enough money for a financially secure retirement, and they are worried about it.

Our Generation X research found that the bottom half of GenX earners have only a few thousand dollars saved for retirement, and the median household has only $40,000 in retirement savings. Also, retirement savings for GenX are highly concentrated among the highest earners.

More broadly, the National Retirement Risk Index finds that half of U.S. households will not be able to maintain their standard of living when they retire.

Americans understand the scope of the retirement crisis. Seventy-nine percent of Americans agree there is a retirement crisis, and 55 percent are concerned they cannot achieve financial security in retirement.

Looking ahead, the burden of preparing for retirement is increasing as we live longer, face large risks without risk pooling, and deal with rising costs.

Research also shows that the nation's individual savings-based system is not well suited for workers.

It is important to note that 401(k)s were never intended to replace pensions – they were meant to be a supplemental vehicle.

Conventional wisdom suggests that 401(k)s cost less. What that really means is that we are putting less money into a less efficient system, as retirement costs rise, and hoping for the best.

Post-retirement years bring the biggest challenges and inefficiencies. Our new research asked how much retirement income a $100,000 nest egg would generate annually. The responses were jarring. Only eight percent of workers provided an accurate response. Most wildly overestimated the level of income they could count on.

Third, there is a growing range of pension plan benefit designs focused on risk management.

Many assume that all pension plans have similar benefit designs. Nothing could be further from reality.

Two public pension plans that deliver stable costs for employers while providing reliable benefits for members are the Wisconsin Retirement System (WRS) and the South Dakota Retirement System (SDRS). My written comments provide a chart showing the remarkable cost stability of these systems throughout volatile times.

Fourth, the ground is shifting with respect to employers offering pensions.

Last year, the UAW's negotiations with The Big Three Automakers called for a restoration of pension benefits. While only increases to 401(k)s were part of the final deal, the UAW has signaled it will continue to advocate for pensions. Also, IBM recently announced it would reopen its pension plan and end its 401(k) matching contributions, which produces substantial cash savings for IBM.

Finally, my written testimony details policy issues that could help facilitate a "pension renaissance."

These key issues are about enabling companies to employ fiscally cautious funding strategies that reduce cost volatility, without major disincentives to err on the safe side.

In conclusion, thank you for holding this important hearing and the opportunity to testify.

I am happy to respond to your questions.