Bipartisan Commission Report Thoughtful But Fundamentally Flawed

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Proposal to cut Social Security undermines retirement security.

The recent Report of the Commission on Retirement Security and Personal Savings established by the Bipartisan Policy Center reflects a lot of work and thought by knowledgeable committee members and a superb staff headed by Bill Hoagland, a former high-level Senate staffer. But the Commission's failure to recognize the limitations of safe harbors and tax credits for 401(k)s and, most importantly, its recommendation to cut Social Security severely limits the usefulness of the document. Let me go quickly through the Commission's recommendations.

Improve access to workplace savings plans. The Commission rightly recognizes that half of private sector workers do not participate in a retirement plan and acknowledges the need for a federal – not a state-by-state – solution. The proposal is to mandate that employers with 50 or more employees automatically enroll their workers in: 1) a 401(k) or defined benefit plan; 2) an enhanced MyRA; or 3) a new "Retirement Security Plan" – essentially a multiple employer plan without the need for participating businesses to be closely related. Unfortunately, this proposal would likely pick up only roughly a third of the uncovered – missing those at firms with less than 50 employees, uncovered workers at firms where the employer provides a plan, and the 16 percent of the workforce who are self-employed or work as contractors.

For those who have a plan, the Commission misses the opportunity to make 401(k)s work better by *mandating* auto-enrollment and auto-escalation of default contribution rates, opting instead for another set of safe harbors. We have seen the limits of the 2006 Pension Protection Act safe harbors. It's time for a more direct approach.

Promote personal savings for short-term needs and preserve retirement saving. This group of proposals addresses the leakage issue. The Commission recommends changes that would allow employers to automatically enroll employees into two accounts – one for short-term needs and one for retirement. It also recommends facilitating rollovers so that employees do not cash out. These ideas are a step in the right direction.

Reduce risk of out-living savings. The commission recommends that plan sponsors integrate easy lifetime income features into their plans, even a default option. Seems like a good idea, as long as someone has an eye on fees.

Use home equity for retirement consumption. As I said last week, this is a wonderful recommendation. Most households have more home equity than financial assets and could greatly improve their retirement security by tapping that equity. The Commission addressed the advantages and disadvantages of both downsizing and a reverse mortgage. Treating the house as a retirement asset is a great step forward.

Improve financial capability of Americans. The Commission appropriately did not spend much time on this issue. The payoff to financial education is small. What we need is an easy and automatic retirement system.

"Strengthen" Social Security's finances. The Commission operated under a self-imposed restriction of a 50-50 balance between increased revenues and benefit cuts. Despite the Commission's attempt to improve Social Security protections for the most vulnerable, the benefit cuts would undermine this effort, **according to the one dissenting member**. My focus is broader than the most vulnerable, and the cuts to the top two income quintiles are substantial. Census data for 2014 indicate that the fourth quintile starts at $68,213 and the top quintile at $112,262. Many of these people are far from rich. They need Social Security as much as those in the lowest quintile because 401(k)s are not working. The Commission's non-Social-Security proposals are unlikely to solve much of the problem. So, cutting back on Social Security will just leave more at risk.

In my view, opponents of relying on Social Security benefit cuts should not have agreed to the 50-50 constraint and should not have signed the final document.