Improving Retirement Savings of Lower- and Moderate-Income Workers
A Retirement Reform Group Program
Presented November 8, 2025
in Charleston, SC and via Zoom

The Retirement Reform Group and Today's Program: The Retirement Reform Group is an informal discussion group of over 100 highly experienced employee benefits lawyers which has been exploring ways to address lagging lower- and moderate-income worker retirement savings. We have been meeting for the past year developing ideas for reform in five subgroups: Defined Contribution Plans; Defined Benefit Plans; Individual Retirement Accounts ("IRAs"); Education; and Equity Issues. This Program will discuss some of those ideas which are a work in progress.

Background of Members of the Retirement Reform Group: Retirement Reform Group members are active and retired Employee Retirement Income Security Act of 1974 ("ERISA") and employee benefits design, compliance, policy, and litigation attorneys. While the Retirement Reform Group is open exclusively to Fellows of the American College of Employee Benefits Counsel, it is not affiliated with the American College of Employee Benefits Counsel. Selection as a Fellow is limited to attorneys from across the country who have made significant contributions to the advancement of the employee benefits field.

Retirement Reform Group members have a depth of experience from the front lines of ERISA and state and local retirement systems. The members bring an understanding of the history of the law as well as the practical problems and concerns of employees, employers, and service providers. Many have invaluable experience in formulating employee benefit plan laws and government policies. Many have a deep appreciation and understanding of the Department of Labor, Department of the Treasury, Internal Revenue Service, and Pension Benefit Guaranty Corporation based on time served with these agencies governing retirement plans. Each participating attorney adds unique insights and ideas based on their distinguished careers including private practice, in-house representation, government service, academia, and policy development.

Disclaimer: This Program incorporates a variety of views of numerous individual members of the Retirement Reform Group, some of whom are listed below. The Program does not reflect a consensus viewpoint. Thus, the views in this Program are not generally attributable to the Retirement Reform Group itself or any particular member, or any other individuals or organizations.

Ground Rules: To allow for open and candid discussion, those attending can share with others "what" someone said, but not "who" said it. No recording is permitted. Please be sure to turn off any AI or recording devices.

Program Speakers: **Cynthia (Cindy) Van Bogaert** for introduction, **Mark Iwry** as moderator having separate discussions on retirement reform with each of **Norman Stein** (Defined Contribution Plans), **Richard Shea** (Defined Benefit Plans), (**To Be Announced)** (IRAs), **Fred Reish** (Equity), and **Israel (Izzy) Goldowitz** (Education).

Other Program Supporters/Contributors: Following are names of some of the members who have been involved in a subgroup or generally endorse the development of ideas to improve retirement savings of lower- and moderate-income workers:

IRAs: Phyllis Borzi, Mark Iwry, Victoria Judson, Richard Shea, Norman Stein, Cynthia Van Bogaert

DC Plans: Phyllis Borzi, David Certner, Mark Iwry, Victoria Judson, Pamela Perdue, Bruce Pingree, Richard Shea, Norman Stein, Cynthia Van Bogaert

DB Plans: Mark Iwry, Susan Niver, Bruce Pingree, Richard Shea, Stuart Sirkin, Norman Stein, Cynthia Van Bogaert

Education: Phyllis Borzi, Lisa Germano, Israel Goldowitz, Rhona Lyons, Maria O'Brien, Pamela Perdue, Richard Shea, Andrew Staab, Cynthia Van Bogaert, Matthew Whitehorn

Equity: Angela Bohmann, Israel Goldowitz, Mark Iwry, Victoria Judson, Bruce McNeil, Pamela Perdue, Fred Reish, Richard Shea, Diane Soubly, Norman Stein, Cynthia Van Bogaert

Other Members Not Named Above: Joni Andrioff, Russell Gaudreau, Jeffery Mandell, David Morse

Work in Progress

Defined Contribution Plans: A Long and Winding (and often Unpaved) Road to Retirement Security

Defined contribution plans are a key element of retirement savings in America. The Defined Contribution Plans Subgroup of the Retirement Reform Group has focused its discussions on the role of those plans in finding solutions to the lagging retirement savings for lower- and moderate-income workers in America. This first report of the subgroup has two parts. The first part reflects on the evolution of the defined contribution plan—primarily from their starting point in 1974, the year that the Employee Retirement Income Security Act of 1974 ("ERISA") was signed into law. The second part is a summary of the issues that our group considered, and various ideas and approaches for addressing challenges embedded in those issues. The group has not, at this point, formally endorsed any specific proposals, but here we report on the areas and reform ideas that we have discussed, some of which enjoyed strong support and others have resulted in strong debate.

I. Background

A. The Post-ERISA Defined Contribution Plan and Its Issues

The American retirement plan landscape in 1974, the year whose Labor Day witnessed President Gerald Ford sign ERISA into law, was very different than it is today. Defined benefit plans were the dominant employer-sponsored retirement vehicle (in terms of assets) with approximately 220 billion in assets, compared to only 51 billion held by defined contribution plans.[1] There were no individual retirement accounts ("IRAs") in 1974. Today, it is estimated that defined contribution plans hold 13 trillion in assets, while defined benefit plans hold only 9 trillion. And even those figures are somewhat misleading, since a number of defined benefit plans are both frozen and overfunded,[2] and thus are not currently purchasing potential retirement income for today's employees. And today assets in IRAs, which are themselves individual account plans, exceed both categories of employer plans in total assets, holding more than 18 billion dollars.[3]

The traditional role of defined contribution plans and defined benefit plans has also changed since the enactment of ERISA. Defined benefit plans were viewed as true pension plans, providing participants with a lifetime flow of income in retirement. And while some defined contribution plans—such as money-purchase pension plans could also provide a retirement annuity—defined contribution plans often served as supplemental plans, offered by employers

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[1] Board of Governors of the Federal Reserve System, Financial Accounts of the United States, Historical Annual Tables 1965-1974. (The actual figures from the report were 219.4 billion held in defined benefit plans and 51.4 billion in defined contribution plans. These figures include assets held in both private and governmental plans.)
[2] Of course, one can argue that the Pension Benefit Guaranty Corporation ("PBGC") single-employer trust fund, which holds approximately 150 billion in assets, could be added to the defined benefit total. And one can also argue that the amounts transferred on defined benefit plan terminations or derisking transfers should also be included in the tally.
[3] See Investment Company Institute, Quarterly Retirement Market Data, Second Quarter 2025, available at https://www.ici.org/statistical-report/ret_25_q2.

that also sponsored a defined benefit plan.[4] In today's world, most employees who have access to a retirement plan have access only to a defined contribution plan.

Defined contribution plans have not only replaced defined benefit plans as the primary retirement preparation vehicle for most participants; ERISA and the subsequent creation of 401(k) plans, unintentionally and unexpectedly altered the design and operational features of defined contribution plans in two important ways, initially making them even less effective retirement savings vehicles than they were prior to ERISA. (But as we will see, innovations and legislation during the last quarter century have effectively remedied some of the problems.)

The first way in which the design of defined contribution plans was altered was how plan assets are invested. Prior to ERISA, the great majority of defined contribution plan assets were held in a collective investment pool, managed by investment professionals. Each participant's account was a fractional interest in the collective investment pool. There were, however, a minority of plans—primarily plans of smaller employers—that permitted at least some participants to direct the investments made on the contributions to their accounts. The proposed fiduciary rules in early ERISA bills, which would impose a duty of prudence on plan fiduciaries, posed a perhaps existential threat to the existence of such plans, resolving around this question: would a plan fiduciary be responsible for imprudent investment decisions made by a participant directing investments in his own account?

The statutory solution was what became section 404(c) in ERISA. Section 404(c) provides, in part, that an ERISA fiduciary shall not be liable for plan losses which result from a participant's "exercise" of control over investments in the participant's account. This provision, designed to address a niche problem, led to most post-ERISA defined contribution plans embracing self-directed investments as a potential shield against fiduciary liability derived from a plan fiduciary making investment decisions[5]. Thus, ERISA inadvertently shifted defined contribution investment allocations from professional investment managers to individual—generally untrained—individual plan participants.

The second way in which defined contribution plans changed was the move to a cash-or-deferred format, which in effect created a sharp line between plan coverage and plan participation, with covered employees now having to affirmatively choose to participate in a plan. Prior to the Revenue Act of 1978, which added section 401(k) to the Internal Revenue Code, the great majority of defined contribution plans were non-contributory (and when they were contributory, they often involved after-tax contributions and a one-time election). Section 401(k), with its subsequent 1981 implementation regulations, resulted in new plan designs in which the employee had to affirmatively elect plan participation—sometimes with contributions matched in whole or in part by the employer.

The result of these two changes, together with most defined contribution plans not providing benefits in the form of a post-retirement guaranteed lifetime income and defined contribution

[4] The most common type of defined contribution plan was not, at the time of its origin and for most of its pre-ERISA life, was a type of savings plans that allowed the employer to share a portion of its profits with its employees on a deferred basis—its ability to replace income in retirement was not its sole purpose and to a considerable extent, that is why the tax regime for profit-sharing plans was in many ways different than for money-purchase pension plans, whose single purpose was to provide retirement income. Remnants of the different regulatory regimes for defined-contribution pension plans and for profit-sharing plans can still be found, although most have now been eliminated.
[5] *See Symposium: ERISA at 40: What Were They Thinking, Panel 4, ERISA and the Fiduciary*, 6 DREXEL L .REV. 368-369 (2014).

plans placing investment risk on participants rather than the plan sponsor, created a plan in which the employee had the following responsibilities:

1. Deciding whether to contribute to the plan at all;

2. Deciding how much to contribute;

3. Constructing an investment portfolio;

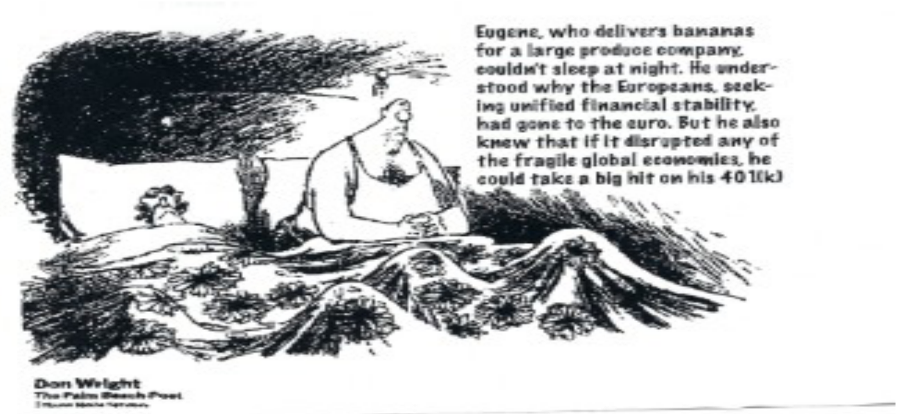
4. Monitoring and adjusting investments over time; and

5. Creating a draw-down strategy for the accumulated savings in retirement.

In addition, even before ERISA, defined contribution plans imposed two significant risks on plan participants—the risk of suboptimal investment performance and the risk of outliving your retirement benefits. In defined benefit plans, those risks were borne (at least nominally) by the plan sponsor, not the plan participant. And it should also be noted that the risk of poor investment performance has increased since enactment of ERISA, since self-directed accounts have largely replaced professionally managed pooled investments. Most participants did not have sufficient investment education and experience to efficiently manage, monitor and rebalance their plan investments.

Still a further complication is the issue of fees. Investment-related fees, which are not always transparent (despite the Department of Labor's work in this area), are often not understood by plan participants. And a variety of fees, effectively paid by the plan sponsor in defined benefit plans, can be passed through to participants in defined contribution plans. Thus, the fees that the employer negotiates with various vendors are not paid by the plan sponsor, at least somewhat weakening incentives for the sponsor to minimize fees.

And it is also plausible that there are indirect costs to employees bearing the various risks and responsibilities of today's modern 401(k) plan, such as lost sleep (although we say this with our tongue planted firmly in our cheeks), as illustrated below:



Finally, the shift to defined contribution plans—particularly plans with self-directed investments and no promise of lifetime benefits—has in some fundamental way changed our view of employer-sponsored retirement plans from a pension model to a savings vehicle, albeit with an emphasis on saving for retirement. This has imposed an arguable societal cost: we have substituted ensuring lifetime income, with longevity risk shifting among participants, to individual savings. This is an inefficient use of resources if the goal is to maximize retirement income rather than merely increasing personal saving. And moving in this direction has resulted in some participants viewing retirement assets as more akin to savings assets.

There are certainly counterbalancing points to the above narrative. First, traditional defined benefit plans are inherently backloaded—because of the time value of money, the value of an annual benefit accrual increases exponentially as participants get older. This backloading is further accentuated by final pay formulas, where each increase in pay effectively increases all prior accruals. What this means is that younger employees and shorter-tenured employees do not derive much value from a traditional defined benefit plan. And given the backloading, defined benefit plans work best for people who stay with a single firm for most of their career. In today's increasingly mobile workforce, there are fewer such employees.

Second, if one of the problems with defined contribution plans is the lack of annuitized benefits, defined benefit plans over the last half century have increasingly permitted participants to take their benefit in the form of a single lump sum payment. In such plans, an employee may choose to lose one of the key benefits of the defined benefit form: a source of regular, lifetime income.

Third, changes in governmental regulations, especially regulations designed to ensure that defined benefit plans are sufficiently funded to meet their benefit obligations, imposition of premium payments to the PBGC, and changes in accounting standards, have contributed to decreased employer interest in sponsoring defined benefit plans.

B. The Habilitation of the Defined Contribution Plan

In the first section of this introduction, we identified some of the problems presented by the post-ERISA defined contribution plan, which is typically a 401(k) plan with participant-directed investments. To recap, some of the major problems were (i) that participants had to affirmatively elect to participate in the plan and determine the percentage of their pay that would be contributed to the plan; (ii) that participants were required to manage their own investments; and (iii) that employees are not promised an annuitized benefit at retirement.

The private sector, academics, and government regulators have advanced reforms, often grounded in behavioral economic theory, to address each of these issues. Thus, almost fifty percent of plans today have replaced requiring an employee to affirmatively elect to participate in a 401(k) plan to automatic enrollment regimes in which an employee can opt out. And these regimes often also include automatic contribution escalation during the first several years of employment. The second issue—the concern about employees not being the past management stewards of their investment accounts—has been addressed in part by the creation of target-date funds and making them qualified-default investments. Today, a significant number of 401(k) participants have invested most of their accounts in such funds. And there is continuing interest in developing new strategies to encourage defined contribution plans to offer, and participants in such plans to select, annuity options (either to invest part of their account in deferred annuities during their working careers or to select annuity payouts at retirement). (Some employees choose lump sum distribution options notwithstanding the availability of these features in their plan.)

C. Plan Elements Are More Important Than Plan Categories

Much of current discussion of pension policy laments the decline of the defined benefit plan and the rise of the self-directed 401(k) plan. Some of that discussion has been focused on making defined benefit formats more attractive to plan sponsors by minimizing the employer's employee longevity and investment risk exposures through new plan designs, or by reducing PBGC premiums. And some of that discussion has been focused on the elements of a good retirement plan rather than on whether a plan formally fits the legal description of defined contribution or defined benefit plan. Indeed, many of what we believe are the most challenging retirement security issues, such as increasing plan participation, improving portability, improving the overall equity of the system, have little to nothing to do with plan typology. With these viewpoints, we have come to see that there is considerable overlap among defined contribution plans, defined benefit plans, and even IRAs.

II. Discussion Topics and Some Suggested Proposals

A. Lifetime Income Issues

Members of the group were generally of the view that the failure of most defined contribution plans to offer lifetime-income options was a major issue for such plans. Members noted, however, that many participants in the many defined benefit plans that permit lump sum benefit payouts also face the risk of outliving their assets—this is not simply a defined contribution plan issue.

The group also noted that that providing participants with the option of a benefit annuitization is different than the traditional defined benefit model (and the model in some money purchase pension plans) of requiring participants to take an annuitized benefit. In the latter instance, the participants are pooling longevity risk. There was discussion of whether shorter-lived individuals should be subsidizing longer-lived individuals, particularly given that greater income tends to lead to longer life expectancies. There was also agreement that mandating annuitization would face serious political obstacles and recognition that some individuals have bequest motives interlocked with their retirement planning. But it was generally agreed that forced annuitization maximizes the nation's collective retirement income. This does not, however, mean that the group as a whole believes that mandatory annuitization is a goal worth pursuing.

But there was a strong consensus that offering participants options of annuitization was desirable—and also agreement that partial annuitization, which would create a rainy-day emergency cushion and help facilitate bequest objectives, should also be an option for participants. The group did express concern that any regulation designed to encourage annuitization from a commercial provider should not extend to difficult-to-understand and high-fee insurance products, such as variable annuities and fixed-index annuities.

Among the proposals that the group discussed were the following:

a. providing participants with an opportunity to use retirement assets to purchase from the Social Security administration enhanced Social Security benefits, perhaps limiting the option for higher-income participants (there was also discussion of whether the PBGC might play some role by offering annuity products to participants in defined contribution plans);

b. creating safe harbors for plans to offer commercial annuitization options, but with the caveat that the safe harbors be limited to straight life (and joint-life) annuities, perhaps with inflation protection;

c. providing tax incentives for selecting annuity options at retirement, perhaps focused on lower and moderate-income individuals;

d. exploring and perhaps encouraging non-traditional longevity pooling, including plan-designed tontine structures.[6]

B. Spousal Protections

ERISA has relatively robust spousal protections for participants in pension plans, including money purchase pension plans. But the protections for spouses of defined contribution plans are quite limited: they require only that a spouse be the death beneficiary of the participant, a protection that the spouse can waive through a written, notarized instrument. The participant, however, can withdraw account balances in accordance with plan documents (including 401(k) restrictions) and can take loans without spousal consent. The group generally believes that pre-retirement withdrawals and disproportionate retirement withdrawals, and loans, should require spousal consent.

C. Increasing Coverage and Participation Rates

Among the topics discussed were the effects of mandates for employer to provide plans; the Retirement Savings for Americans Act, a bipartisan bill that would create a nationwide plan modeled after the Federal Thrift Savings Plan, for employees of employers that do not sponsor retirement plans and for gig workers.

The group also discussed whether employers should be required to make contributions—either matching or direct contributions to plans. There was recognition that as an economic matter, employees rather than plan sponsors [generally] pay for retirement savings plans through reduced compensation—at least in the long-run and at least by the employees as a group. But matching contributions can stimulate employee contributions.

The group also discussed Pooled Employer Plans ("PEPs") and thought future study of whether the availability of PEP platforms would increase plan coverage or merely cause some employer to shift retirement vehicles. There was also some discussion of whether PEPs would reduce investment and other fees.[7]

D. Equity Issues

The group discussed the upside-down tax incentives, where the bulk of the nation's retirement tax expenditure accrues to those with the highest marginal tax rate and expressed some skepticism about whether the tax expenditure creates enough additional retirement

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[6] The original form of a tontine was a group of people who pooled money, with the last survivor receiving the pool. Modern tontines make periodic payments to surviving members of the tontine, with early payments reflecting the expected decline in the pool. *See generally,* Jonathan B. Forman & Michael J. Sabin, *Tontine Pensions,* 163 Univ. Penn. L. 755 (2015).

[7] See Natalya Shnitser, Are Two Employers Better Than One? An Empirical Assessment of Multiple-Employer Retirement Plans, 45 J. Corp. Law 743 (2020)(suggesting that pooled employer plans do not result in lower costs).

savings for lower and moderate-income workers to justify its cost.[8] Several provisions in current tax law seem to create additional benefits only for the most highly compensated workers and perhaps should be repealed, with the savings used to expand the new saver's match or to create other benefits for lower and moderate-income participant (for example, a back-end tax incentive to select annuities). In particular, the group mentioned eliminating or limiting catch-up contributions, reducing the Internal Revenue Code section 415 limits, imposing limits on defined contribution (and IRA) accumulations of some sort (mandatory distributions or current taxation of excessive accumulations), and perhaps quantifying the long-term revenue impact of Roth vehicles. The group, however, has not forged any consensus on whether such changes are desirable or politically achievable.

The group also discussed the 10% additional tax on plan distributions before the participant has reached age 59.5.[9] This tax probably does not discourage lower-income workers from accessing plan assets to address pressing financial needs; the only alternative for such participants may be high-interest loans that will do more harm their retirement security than withdrawing plan assets. In addition, lower-income participants generally obtain modest if any tax benefits from the plan, so the idea of recovering tax benefits intended for retirement would often not apply to them. The exceptions to the tax, except for a limited hardship withdrawal exception added to the Internal Revenue Code in 2003, are often complex, require proof, and do not address the range of financial issues faced by lower-income taxpayers. The group discussed whether the tax should be repealed, or at the least the hardship exception expanded. A possible companion provision to prevent leakage[10] might be a rule preventing participants from receiving early distributions of employer or government matching contributions.

E. Target Date Fund issues.

The group has discussed whether there is a need for more standardization of such funds (particularly on appropriate glide paths) or whether this might stifle useful innovation. The group also discussed whether there should be an examination of the range of fees and performance of different target date funds.

F. Fees.

Fees of various sorts are generally passed through to participants in defined contribution plans, while they are paid (at least indirectly) by the plan sponsor in defined benefit plans. The group has discussed whether the defined benefit plan rule, or a variation of it, should also apply to defined contribution plans.

G. Plan Investments

The group plans to discuss various investment issues, including plan offerings of crypto currency and private equity. While ERISA's fiduciary duties do not bar these types of assets from being available on a plan investment menu (either directly or through a target-date or similar fund including some such assets in its investment array), fiduciaries are reluctant to

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[88] *See generally,* Michael Doran, *The Great American Retirement Fraud,* 30 THE ELDER L. J. 266 (2025).

[9] Internal Revenue Code section 72(t).

[10] Leakage refers to payments from retirement plans that precede retirement *See* Norman P. Stein & Patricia E. Dilley, *Leverage, Linkage, and Leakage: Problems with the Private Pension System and How They Should Inform the Social Security Reform Debate,* 58 WASH. & LEE L. REV. 1369, 1402-1407 (2001) (article suggests leakage covers not only pre-retirement consumption but disproportionate early retirement consumption).

include them because of liquidity, valuation, and volatility concerns. Should fiduciaries be given some assurance that these are appropriate investments or should their inclination to avoid such investments be left untouched because of the risks posed for such investments? Is there a desirable middle ground, which would address the concerns?

Similarly, the group plans to consider brokerage windows—whether they are appropriate avenues to plan investments and if so, under what circumstances? And as earlier mentioned, some members of the group were concerned about whether plans should be able to offer complex insurance products, such as fixed-index annuities, to participants.

There is also the issue of ESG investing.[11] Some believe that ESG funds reflect a legitimate, return-focused investment strategy or that they are generally less volatile than non-ESG funds, while others believe that such funds will generally result in reduced return. In addition, some scholars have suggested that plan participation might be increased if such funds were offered and that increase might justify a small difference in expected risk-adjusted investment performance. This also is a topic the group plans to discuss further.

The group did hear a presentation on a problem with rollovers, where an individual rolls over an account balance to an IRA and does not specify investment alternatives. In most cases, the assets will be invested in money, which for most participants will not be an optimal investment strategy. This raises the question of whether there should be a QDIA[12] for IRA rollovers or whether the IRA should be provided with information sufficient for it to mimic the 401(k) investment allocations?

H. Defaults on Job Changes

Many 401(k) plans today have automatic escalation of deferral levels over a period of years. One someone changes jobs, should the initial default deferral level be what the default level had been in the prior job? This raises a number of administrative and disclosure issues, but the proposal would increase contributions over an employee's career.

I. Portability and Leakage Issues

See the discussion in Part D on the Internal Revenue Code section 72(t) tax and whether it should be repealed or limited.

Other portability and leakage issues: education on value of leaving retirement plan savings in a qualified plan; a prohibition about pre-retirement access to government matching and employer contributions to a plan.

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[11] ESG investing in an investment approach that considers, along with traditional metrics, a company's commitment toward environmental, social and governance criteria. This might be done as part of a philosophy that firms with such commitments are likely to outperform firms without such commitments, for ethical reasons, or for a combination of the two. There has been disagreement about the circumstances under which ESG investing is consistent with ERISA'S fiduciary obligations, particularly with respect to the duty of prudence. *See generally,* Harvard Advanced Leadership Initiation, *The Politicalization of ESG Investing, https://www.sir.advancedleadership.harvard.edu/articles/politicization-of-esg-investing.*

[12] Qualified Default Investment Alternative

J. Third Party Recordkeepers

In many cases, the participants and the plan sponsor regard a third-party recordkeeper as the effective administrator of the plan. Members of the group have discussed generally but not in depth on whether there should be fiduciary-like requirements for such recordkeepers.

Work in Progress

Is There a Future Role for Defined Benefit Plans?

When looking for solutions to improve and increase retirement income coverage for lower- and moderate-income Americans, the role that defined benefit ("DB") plans can play inevitably enters the conversation. Similar to the old-age and survivor benefits portions of Social Security, DB plans automatically provide lifetime income to retirees and their surviving spouses. And they do so without asking recipients to assume responsibility for making the difficult savings, investment, and distribution decisions they typically shoulder in modern defined contribution ("DC") plans.

The reality, however, is that DB plans have been in sharp decline for at least two decades due to problematic features in the design of conventional DB plans. As a result, any widespread role for DB plans in our future retirement system hinges on revitalizing less conventional existing DB designs and developing new ones that each take full advantage of the desirable features DB plans offer while eschewing the problematic features embedded in current conventional DB designs. Ultimately, expanding retirement income coverage to those who work for smaller employers and to workers of lower and moderate income *simply will not happen* without the introduction of well thought-out plan designs that hew closely to delivering retirement income efficiently at the lowest cost consistent with that goal.

Problematic Features of Defined Benefit Plans

While the reasons for the decline of DB plans are varied, one feature is central to plan sponsors' decisions to scale back, freeze, or terminate them. That feature is the sheer scale of the swings in the plans' funding obligations, which are driven by interest rate fluctuations, periodic market downturns, and long-term mortality improvements. Chief financial officers have developed a strong distaste for the plans precisely because they have little or no control over those factors and therefore no way to prevent the disruptions they cause. Even well-funded plans of financially sound employers experience disruptive spikes in funding obligations.[1]

Virtually all the other features frequently cited as disadvantages of DB plans stem from the same source that produces swings in funding obligations—namely, a plan design that defines benefits without reference to the value of the actual assets needed to fund them. Those features include the need for an insurer to rescue underfunded plans in employer bankruptcies (the PBGC[2]), the high cost of PBGC premiums, the expense and frequency of plan valuations, the adverse effects on sponsors' financial statements, and so on. Given these problematic features of DB plans, it is not hard to see why plan sponsors have switched their retirement programs to a defined contribution model, under which the benefit is defined simply as the value of the actual assets in the participant's individual account.

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[1] While liability-driven investing can ameliorate these swings, the strategy is expensive to implement and, therefore, as a practical matter, available at scale only to the most well-heeled plan sponsors and the most well-funded plans. Briefly, liability-driven investing involves buying a portfolio of bonds, a portion of which matures in each future year in an amount equal to the benefit payments projected to be due in that year. Because the bonds are held to maturity, intervening swings in interest rates do not affect the value of the bonds for the purpose to which the plan intends to put them.

[2] The federal Pension Benefit Guaranty Corporation.

Desirable Features of Defined Benefit Plans

The fact that DB plans have serious disadvantages does not mean that they have no advantages at all. Quite the opposite. As vehicles for delivering adequate lifetime income, they are unparalleled. Among the advantages they enjoy are the following:

- Plan participation generally is automatic, nonelective, and nonwaivable.
- Benefits are defined by default as a stream of lifetime income payments.
- The default form of lifetime income is a joint and survivor annuity for the participant and the participant's surviving spouse.
- The default form of pre-retirement death benefit is a life annuity for the participant's surviving spouse.
- The plan may even offer pre- and post-retirement annuity benefits to participants who become disabled.
- Plan assets are under professional investment management, enjoy the full range of prudent plan investments (as opposed to a limited menu), and are not subject to participant direction.
- Participants can derive the full benefit available from the plan regardless of their level of financial literacy and without the need to make difficult decisions about when and how much to save, how to invest the assets underpinning their benefits, and how to withdraw their benefits to ensure they last a lifetime.[3]

While defined contribution plans are attempting to incorporate some of these advantages (or at least surrogates for them), a simpler path, were it to be developed, might be to offer them where they have traditionally resided —*i.e.,* in defined benefit plans.

What Would Defined Benefit Plans, Without Their Problematic Features, But With Their Desirable Features, Look Like?

The Employee Retirement Income Security Act of 1974 ("ERISA") and the Internal Revenue Code ("Code") define a DC plan as one under which the participant's accrued benefit consists of the balance in the participant's individual account derived solely from the contributions and forfeitures allocated to the account and from the income, expenses, gains, and losses attributable thereto. By contrast, ERISA and the Code define a DB plan as simply any other plan. These definitions constrain the design and type of benefit a DC plan can provide, while leaving considerable freedom to craft the design and type of benefits a DB plan can offer.

The path to making DB plans relevant again lies in developing designs (1) that employers are willing to sponsor, (2) that preserve the desirable features of DB plans, and (3) that do so by defining promised benefits by tying them directly to the value of actual plan assets that will be used to make benefit payments. Examples of existing nonconventional DB plan designs that meet these criteria include *variable annuity plans* whose existence pre-dates ERISA by several decades and *market-based cash balance plans* that came into existence in the 1990s. Both types of plan were formally blessed in the Pension Protection Act of 2006. By tying promised benefits to the funds available to pay them, these designs eliminate the disjuncture between plan benefits and plan funding which has proved the downfall of conventional DB plans. New and better versions of these and similar designs can and are being developed. With further design refinements, innovations, and technological developments, these plans can be an important part of the future of our retirement system that allows for the efficient delivery of lifetime retirement income to all workers at all types of employers, but especially to those workers of lower and moderate income and those who work for smaller employers.

[3] The plan features described above generally apply to ERISA-governed DB plans and the vast majority of non-ERISA DB plans covering public sector employees.

Work in Progress

IRAs Are Not Doing the Job for American Savers

Individual Retirement Accounts ("IRAs") have overtaken Defined Contribution Plans to become Americans' leading retirement savings vehicle. [The growth has been fueled by rollover IRAs that move funds from Employer Plans ("EPs") to IRAs upon termination of employment and earnings growth on all IRAs.] IRAs held $2.6 trillion in assets in 2000 which grew to $18 trillion in 2025. By comparison, Defined Contribution Plans held more assets than IRAs, $3 trillion, in 2000, but fewer, $13 trillion, in 2025.[1]

The public may consider IRAs to be equivalent to EPs, but rights and risks are worse for IRA owners than EP participants and beneficiaries.

Among the problems:

- The IRA owner takes on significant complex tax and investment roles without the fiduciary protections of the Employee Retirement Income Security Act of 1974 ("ERISA") which do not apply to IRAs.
- Some of these responsibilities, like managing required minimum distributions, may not be evident or considered until the IRA owner is much older.
- [IRA owners may be unaware that the IRA custodian is not required to operate in their best interest as the EP fiduciaries are.]
- Some concerns, like [conflicts of interest and] higher fees, might slowly erode savings and not ever be recognized.
- IRA owners are tasked with identifying and avoiding schemes and solicitations that are prohibited transactions subject to excise tax under complex rules.[2]
- In the absence of ERISA preemption of state laws, IRA owners (or their beneficiaries) may find it difficult to resolve administrative questions such as mistakes in completing beneficiary designations.
- Spouses of IRA owners may not realize until too late that they have no control over the IRA owner's beneficiary designations on what may be the largest marital asset.
- IRA owners looking to find agency guidance to help navigate the increased responsibilities may be surprised to find that IRA guidance is minimal compared to guidance for EPs.

The following chart shows some of the ways IRAs are failing to do the job for American savers. With the growth of IRAs ever increasing as aging IRA owners move into their vulnerable retirement years, it is time to find ways to protect IRA owners and their beneficiaries.

Omnibus disclaimer: The IRA/EP rules are complicated and there are exceptions and special rules not included in this handout.

[1] https://www.ici.org/statistical-report/ret_25_q2

[2] IRS Publication 3125, The IRS Does Not Approve IRA Investments, https://www.irs.gov/pub/irs-pdf/p3125.pdf

	Treatment of ERISA-covered Employer Plans	Treatment of IRAs
Overview		
Some Basics: Who's involved?	Plan is run by **Employer** who may hire and oversee third party administrator and/or investment manager	IRA is run by **IRA owner**. Can set up an IRA with a: • bank or other financial institution • life insurance company • mutual fund • stockbroker • non-bank custodian [that meets IRS asset and continuity requirements]
How we got here: ERISA Protections Excluded in IRA Loophole	**ERISA participant rights.** Participant and spousal right under ERISA were needed to fix the participant pension losses in DB plans (like catastrophic loss of pensions in cases like Studebaker). The focus for Congress was employer plans. ERISA was a landmark law. Employers were given responsibility to act in the best interest of participants. Participants benefit from ERISA oversight, Department of Labor enforcement, and fiduciary accountability. The assumption was that the powerful ERISA rights would be there to hold employers accountable and protect participants throughout their working lives and retirement. ERISA sec. 4 covers EPs.	**IRA loophole.** IRAs were created in ERISA [as an afterthought as a vehicle that would provide modest supplemental savings. IRAs added portability to avoid losses when a participant left before retirement age. There was no expectation that IRAs would become so significant. (It was anticipated that employer plans would continue to be the main source for most participants following them into and through their retirement.)] The participant ERISA protections were not extended to the IRA owners leaving IRAs unprotected. IRC sec. 408 created IRAs; ERISA sec. 4 excluded them
The IRA "Afterthought" Takes Over and Changes the Nature of Worker Retirement Security	DC plans and rollover IRAs became common instead of DB plans serving participants through retirement with lifetime payments. Trillions of assets once protected within Employer Plans have lost the ERISA participant protections through rollovers to IRAs.	The IRA loophole has meant that most retirees are left without ERISA protections in their most vulnerable years. Traditional non-rollover IRAs also grew. There the ERISA protections never applied.

	Treatment of ERISA-covered Employer Plans	Treatment of IRAs
How to Fix the IRA loophole	[Until changes are made, provide mandatory counseling or use other tools to educate participants and beneficiaries regarding benefits of maintaining accounts in EPs.]	[Give workers options for preserving the same retirement savings protections after employment as are available under employer plans.] Determine a way to add protections for vulnerable IRA owners and their beneficiaries.
Examples of Disparities		
Who's in Charge? Responsibility for Complicated Tax Compliance Shifted to IRA Owners	The employer is responsible for complying with very complicated tax rules governing employer plans… the individual plan participant is not responsible for understanding or complying with them. For example, plan sponsors will apply the complicated required minimum distribution rules for participants. That task is handled by the plan sponsor and the plan administrator, both of which have the resources and economies of scale to hire professionals to assist them.	The rules governing IRAs include many of the complications of the rules governing employer plans, but the individual taxpayer is solely responsible for understanding and complying with them. For example, owners are responsible for applying the complicated required minimum distribution rules and do not understand how they work. This is a task that very few individuals are adequately prepared to handle.
Guidance, Public Outreach [and Correction] More Limited for IRA Owners	IRS issues comprehensive guidance, answers questions, [and administers multiple robust self-correction programs that allow employer plans to avoid or pay reduced penalties when they make mistakes.]	In contrast to employer plans, the IRS provides far less help to IRA owners, including guidance that IRA owners can actually understand and apply.
ERISA Preemption of State Laws for EP but not IRA	[ERISA sec. 514. Under development]	[Under development]

	Treatment of ERISA-covered Employer Plans	Treatment of IRAs
Spousal Protections and Rights Not Extended to IRAs	Spousesof qualified plan participants enjoy strong federal rights (beneficiary consent, survivor annuities, and divorce protections). Spousal consent required for non-spouse beneficiaries. In some EPs, spouses must be provided Qualified Joint and Survivor Annuity ("QJSA")/ Qualified Preretirement Survivor Annuity ("QPSA") benefits. ERISA sec. 205.	No spousal consent required. No QJSA/QPSA. Governed by state law.
Spousal Divorce Protections	Qualified Domestic Relations Orders ("QDROs") permitted. ERISA sec. 206(d)(3) and IRC sec. 414(p). [Spouse[3] can maintain account in EP as beneficiary and may not realize that the EP provides more protection than a rollover to an IRA. Also note survivor benefits. IRC sec. 414(p)(5).]	No QDROs (divorce transfers allowed under IRC sec. 408(d)(6)). [Spouse's rollover rights (Under development)]
IRAs subject to Capture by State Unclaimed Property Rules	EPs protected by ERISA preemption of state escheatment laws. [Under development.]	May be subject to state escheatment (unclaimed property) rules. IRA owners may lose assets to the state if account is "inactive." [Some states permit escheatment due to inactivity of three or five years even though in the accumulation stage there would be no reason for an IRA owner to make deposits or withdrawals. Many individuals will be unaware of escheatment. Some, incuding, but not limited to sick and elderly individuals, will find it too burdensome or difficult to recover accounts. Escheated accounts may lose value for owner even if retrieved due to cash out at time of escheatment and reimbursement without earnings.]

[3] [QDROs can be provided to a spouse, former spouse, child or other dependent. IRC sec. 414(d)(8).]

	Treatment of ERISA-covered Employer Plans	Treatment of IRAs
Missing Participant Rules	Employers have duty to find missing participants.[4]	[Under development]
Creditor Protection	[Protected from creditors by ERISA sec. 206(d).]	[Protection in bankruptcy depends on type of IRA. See 11 USC sec 522(n). Outside of bankruptcy, protections vary by state.]
Anti-Alienation Protection	[Strict anti-alienation applies. ERISA sec. 206(d); benefits cannot be assigned or alienated with exceptions for QDROs, certain court orders.]	[No federal anti-alienation; assets may be at risk. Subject to state law.]
Nonforfeitable interest and Vesting	[Vesting schedules are permitted for EP Employer contributions. IRC sec. 411 and ERISA sec. 203.]	[The interest of an individual in the balance of his account is nonforfeitable. IRC sec. 408(a)(4)]
Fiduciary Duties	[An EP fiduciary discharges their duties solely in the interest of the participants/beneficiaries. ERISA sec. 404(a)(1).]	[Under development]
Investment Risk	[ERISA sec. 404(a)(1)/404(c)]	[Under development]
Fees	[EPs, especially larger plans, may have lower fees due to economies of scale.]	[Non-employer accounts, such as individual retirement accounts (IRAs), often charge higher fees than employer-sponsored accounts.[5]]
Exclusive Benefit Rule	[An EP is a trust created for the exclusive benefit of employees and beneficiaries. IRC sec. 401(a) An EP fiduciary acts for the exclusive purpose of providing benefits to participants/beneficiaries. ERISA sec. 404(a)(1)(A)]	[An IRA is a trust created for the exclusive benefit of an individual and beneficiaries. IRC sec. 408(a)]
Prohibited Transactions and Consequences	[IRC sec. 4975 15% excise tax and ERISA sec. 406. Under development]	[IRC sec. 4975 15% excise tax. Under development]
Conflicts of Interest	[ERISA sec. 406. Under development]	[Under development]
Reporting	[Under development]	[Under development]
Enforcement and Remedies	[Under development]	[Under development]

[4] If a participant or beneficiary is missing, ERISA requires plan fiduciaries to exercise prudent and loyal judgment with respect to handling retirement benefit payments. https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2025-01

[5] https://www.gao.gov/blog/growing-disparities-retirement-account-savings

Work in Progress

Ideas under Discussion/Development for Improving Equity in the Tax-Qualified Retirement Plan System

It is common knowledge that the savings-based 401(k)/403(b) and IRA system has important shortcomings.

For example, many employers do not provide their employees with a retirement plan or otherwise provide the opportunity to make payroll deductions for their retirement savings. Where employes are permitted to save through payroll withholding, the data shows that they are much more likely to save for retirement. In addition, some employers that offer payroll withholding saving do not make adequate (or any) employer contribution, leaving the financial burden entirely or largely on the employees.

Unfortunately, where employers do provide a payroll-based saving opportunity, some employees don't participate through lack of understanding of the long-term importance of saving from present income for future economic security in retirement or through procrastination for other reasons. The contrast between materially higher levels of participation in automatically enrolled plans as opposed to plans that require employees to affirmatively sign up to save highlights this employee reluctance.

Even if those problems were solved, some employees make so little money that they can barely pay for the immediate necessities of life, much less to save for decades in the future. Our prevalent retirement system is based primarily on the ability to defer—or save—through payroll withholding into 401(k) or 403(b) plans.

Moreover, the deduction- or exclusion-based design of the income tax preferences for retirement are skewed in favor of higher-bracket households. Lower- and moderate-income households generally fail to receive a proportionate or equitable share of the retirement tax benefits. And, in many cases, those with little or no outside savings tend to be far less able to preserve their retirement savings because of their need to withdraw early to meet immediate needs.

That is, by definition, a system that disadvantages the lower and moderate- earning workers.

Finally, some people aren't employees in the traditional sense, for example, self-employed and independent contractors, including gig workers. Others don't work in businesses or other entities, for example, household help and family caretakers. Looking at the underlying needs of groups of workers like these is a key to understanding how to improve the system and improve their retirement savings.

These issues are described in more detail below with ideas as to possible changes or directions for change to the current retirement benefits structure to fill in the missing pieces for retirement security for all Americans.

- Expanding the adoption of retirement plans by employers.
- Increasing coverage of employees in existing plans.

- Facilitating savings for lower- and moderate-income Americans.
- Covering independent contractor workers, such as gig workers.
- Programs for household workers and family caregivers.

Expanding the adoption of retirement plans by employers

Our group has been considering a number of ideas for expanding the adoption of retirement plans by employers and particularly small employers:

- Consider options to handle complexities of offering and operating plans, such as the creation of a new plan arrangement that transfers substantially all compliance roles—for fiduciary responsibilities and plan qualification requirements—to a third-party fiduciary. For example, this arrangement could be similar to a Pooled Employer Plan (“PEP”) with a Pooled Plan Provider (“PPP”), except that, for this new idea, the PPP had all of the legal responsibilities except reporting employee data and forwarding participant deferrals, which would necessarily remain with the employer. This idea would require that the PPP be a regulated financial institution or other similarly regulated entity with the financial reserves and capacity to stand behind those duties, as well as having the experience and knowledge necessary to prudently manage services and investments for retirement purposes. To eliminate the risk of conflicts of interest that could negatively impact retirement savers, this structure should be free of conflicts or have stringent requirements to eliminate the negative effects of any conflicts of interest. Most importantly, the PPP should act as a fiduciary with respect to plan administration and other protections for participants should be kept intact. Employers, particularly small employers with few resources, would need impartial help to manage their risks, to enter into and monitor these relationships, and to provide a plan design that works for its employees.

- Evaluate a national requirement that all employers that do not sponsor a deferral-based retirement plan establish an automatic enrollment payroll deduction IRA-based program similar to those required of employers by legislation in 17 states (including California, Illinois, and New York), ten of which are already being successfully implemented. The federal auto IRA program, like the state programs, would include participant-oriented protections similar to ERISA but would not be covered by ERISA. (If a state offers such a program, employers participating in the state program would be exempt from the federal requirement.) These state-based programs have proven to increase retirement savings for many American workers. In addition, there is evidence that employers have been accepting of, and in many cases even supportive of, these requirements. Interestingly, there is documented evidence that the state programs have increased the number of employers in those states who adopt 401(k) or other savings-based retirement plans, when required to choose between the state mandated IRA-based program and establishing a retirement plan of their own (e.g., either an individually sponsored plan or a PEP.

Increasing coverage of employees in existing plans

- Consider mandating automatic enrollment and automatic deferral increases for all 401(k) and private sector 403(b) retirement plans. In general, automatic enrollment increases the percentage of employees who save into plans by 20 or 30 percentage points. In the past, automatic enrollment was new and unproven. However, the importance, and benefit, of automatic enrollment and automatic deferral increases is now well-established. That is acknowledged by the requirement in the SECURE 2.0 Act that newly adopted 401(k) and private sector 403(b) plans be automatically enrolled with automatic deferral increases. While such a requirement may have been unproven and even controversial a decade ago, that is no longer the case. The policy decision in the SECURE 2.0 Act to require automatic enrollment (and automatic deferral increases) was a step in the direction of extending these requirements to all such plans.

- Consider mandating automatic re-enrollment for all 401(k) plans and private sector 403(b) plans at appropriate intervals (e.g., every three years). Employees may decide to decline participation even automatically enrolled plans. That could occur, for example, because of entry level low paid jobs. Or it could be due to not understanding the importance of saving for retirement or other reasons. However, over time those issues could be resolved, for example, through raises in compensation or through life experiences. However, once outside a plan, some employees may, due to procrastination or otherwise, fail to join the plan. Automatic re-enrollment would give them the opportunity to again decide if participation is the better choice at that time.

- Consider providing eligible employees who are not participating in the plan with annual statements that their account balance is zero and that their projected retirement income is, as a result, also zero. The purpose would be to remind them on a regular basis of the opportunity to save for retirement in a fiduciary governed retirement plan.

<u>Facilitating savings for lower- and moderate-income Americans.</u>

- Consider the options for requiring that employees who satisfy the long-term part-time (“LTPT”) definition be treated the same as full-time employees, that is, be entitled to employer contributions in the same manner as full-time employees who are participating in the plan. Employment arrangements are becoming more flexible and varied. Consider how the law could change to reflect this demographic and cultural change by enabling these long-term employees the same opportunity to save for a financially secure retirement. (Note that this could be combined with an employer tax credit for contributions for lower paid participants as described elsewhere in this working paper.)

- Consider converting the Saver’s Match (in section 103 of SECURE 2.0) to a nonmatching (or “nonelective”) contribution for lower-paid participants, e.g., a meaningful percent of pay for lower- and moderate-income employees, e.g., those making less than three times the poverty level. The concept of a Saver’s Match necessarily assumes that the worker has the financial ability to save. The lower- and moderate-paid American workers are struggling to pay for the necessities of life. In other words, while the Saver’s Match was a valuable and important provision, it will not help many workers who need it the most—those who earn so little that they cannot save so that, as a result, they cannot be “matched.”

- Evaluate creating a new safe harbor plan where a fully vested meaningful contribution is required for low-paid participants (for example, for those below three times the poverty level). This plan arrangement could be made attractive to plan sponsors by relieving the plan from discrimination testing and top-heavy contributions.

- Consider tax credits, such as a 100% tax credit for fully vested non-elective contributions of up to meaningful percent of compensation for lower-paid workers (e.g., up to three times the poverty level). This credit would be similar to the tax credits for contributions and administrative costs for newly adopted plans, except that it might continue indefinitely for these lowest paid employees.

Covering independent contractor workers, such as gig workers.

- Consider allowing employers who use individual independent contractors ("gig workers") to include those workers in their 401(k)/403(b) plans for their employees. This might be done through an approach similar to the existing statutory employee provisions in the Internal Revenue Code.

- Consider permitting gig workers not covered by employer plans to contribute amounts to IRAs that are subject to the 401(k) combined limits for employer contributions and employee deferrals. This concept includes consideration of alternatives that would limit the extent to which IRA owners, gig workers and other individual workers otherwise would have to deal with the complexities of qualified retirement plans in order to save the larger amounts permitted for plan-based savings.

- Consider requiring that employers who use large numbers of gig workers (e.g., more than 25) automatically enroll them in an arrangement similar to a PEP, but specifically designed for gig workers. Further, because of the difficulty of determining earned income by small independent contractors, allow for a permitted minimum Roth deferral (e.g., of $400 per month) regardless of their earned income (i.e., even if, after the end of the year it turns out that their earned income was less than the amount contributed). This simplification is needed due to the inability of small independent contractors being able to know their yearend earned income after all appropriate deductions. In other words, a straightforward and manageable system would allow gig workers and other small independent contractors to confidently make monthly or more frequent contributions during the course of the year.

Programs for household workers and family caregivers.

- Some individuals have disabilities and some workers need to leave their jobs to be able to take care of parents, minor children, or children with disabilities. Our current system is largely based on workers being employees of a business, a tax exempt or a government. Consider and reevaluate current options for these workers, who may be independent contractors.

- Consider whether there should be adjustments to current IRA arrangements available for household workers, for example, a minimum deductible traditional or Roth IRA contribution for family members who are stay-at-home uncompensated workers taking care of family members in need. The minimum should be large enough to accumulate meaningful amounts at retirement (e.g., $5,000 per year).

- Evaluate the considerations for household workers, including those who may work for homeowners that serially or seasonally employ such workers, to make Roth deferrals up to the IRA limits, as well as the considerations for homeowners making similar contributions for those household workers.

- Consider expanding the SECURE 2.0 Act changes that included a provision that waived the excise taxes for nondeductible contributions to SEP IRA.

- Consider easing the earned income limitations, at least for lower-paid workers. For example, allowing all individuals to make a minimum contribution to a Roth or traditional IRA without an earned income cap. The amount should be large enough that, over time, the IRA could be invested to provide meaningful retirement benefits (e.g., $5,000 per year).

Concluding Thoughts

While the current deferral-based system of retirement saving is serving well for many workers, there are deficiencies that should be reevaluated and corrected. To correct the problems with the current system, it will require thinking that is outside the box of traditional retirement relationships and arrangements.

For the most part, these corrections require policy changes to help:

- The lower- and moderate- income workers;
- Small employers;
- Independent contractors/gig workers; and
- Workers who aren't employed or contracted by a business and persons who are not compensated.

More attention should be paid to these issues. The need is observable. Congress can fix these problems.

Work in Progress

Financial Literacy

Lower- and moderate-income workers are faced with navigating and understanding a complex retirement savings system. Basic financial literacy is a useful foundation, but it is difficult to know where to find information that is unconflicted. There is much high-quality information available from state and federal governments, nonprofits dedicated to financial literacy, colleges and universities, public libraries, professional organizations and from employers and employee benefit plans. But there is evidence that only a small percentage of individuals access these resources.

The following attached draft document, "Financial Literacy for All Life Stages," may assist employees (and their families) improve retirement outcomes by bringing good information that is already available into one resource.

Work in Progress

Financial Literacy for All Life Stages

2025

Prepared by: [under development]

Due to the shift towards 401(k) plans and IRAs in the last 50 years, workers are increasingly left to manage their own savings in their retirement plans, and employers are left to encourage and educate them on how to participate successfully to achieve sufficient retirement income.

Educating employees on the complexities of plan savings is a challenging task under the best conditions. However, the increased addiction of younger workers to their cellphones and social platforms, the potential cognitive decline of older workers unable to retire at age 65, and other outside considerations, such as the importance of health in retirement, inform the education need. These issues require awareness and education as part of the financial literacy effort addressed at all life stages. For many employees, it's helpful to have a checklist to know what might be missing.

This document is intended to offer an independent view with non-conflicted independent resources as an aid for employers to help workers identify financial literacy needs at all stages of their life.

The ultimate goal would be for every worker to retire with a monthly income without the need for comprehensive financial education. Until such time as that goal is achieved, this document may be helpful in every life stage for workers and employers - and may allow all workers to retire with dignity.

The information and ideas contained in this document should not be relied on by employers or workers as financial planning or tax/legal advice. The content has been gathered from various sources believed to be useful; however, the preparers have not verified its accuracy and assume no responsibility for any errors or omissions. Employers are encouraged to use the resources to help workers learn, but workers also are encouraged to retain someone who can personally advise them on their journey.

Why Should Employers Use this Financial Literacy Resource?

The quick answer to this question is "To help all workers better understand how to achieve retirement security." This document provides many different resources that may help workers (and their families) with different backgrounds in financial matters.

For individuals in the workforce, employment often provides access to important financial benefits such as retirement plans, health plans and other benefits wholly or partially funded by employers and/or vehicles to individually save for retirement on a tax-favored basis. But these benefits are as complex as they are valuable to a secure financial future. Many individuals do not access the benefits available. Benefits provided automatically may not be managed to the best result.

Workers face different financial literacy needs in different situations so there can be "no one size fits all" solutions.

- Employees who are offered benefits or benefit options by their employer, or jointly by their employer and union, may not understand those benefits and options well enough to make the best choices. Employers should entice employees with incentives to attend open enrollment meetings or benefit fairs where such benefits are discussed. Refreshments and raffles may serve this purpose.
- Employees changing jobs must navigate the transition of benefits. Choices made may preserve or reduce available resources in retirement.
- Employees may not understand the importance of retirement plan participation if participation and contribution is optional.
- Self-employed workers and those in the gig economy may not know about tax-favored vehicles for retirement and medical savings.
- Small employers may not be aware of or may not know how to properly manage benefits that could be offered to employees.
- Students in high school and college may not understand how to manage spending and savings, or how to make the best financial choices.

For all these populations an abundance of high-quality information is available from state and federal governments, nonprofits dedicated to financial literacy, colleges and universities, public libraries, professional organizations and from employers and employee benefit plans. But there is evidence that only a small percentage access these resources. Which sources are non-conflicted and can be trusted to provide independent information?

This document may help employers and employees improve retirement outcomes by bringing good information that is already available into one resource.

Consider these ideas:

- A worker is more likely to access information if it is provided in a readily accessible manner from a trusted source. In other words, individuals are less likely to go in search of financial literacy information if they can easily access information from a trusted source.

- Information about the importance of saving for retirement should, if possible, include projections to show the value of saving today vs tomorrow - focusing on the compounding of earnings over time.

- Information to support financial literacy should be included in plain English within notices and documents that individuals read or watch. Videos, podcasts and interactive materials can be most impactful.

- Posters providing savings tips can be placed around all work sites.

- The concept of “How to Save When You Can’t” should be part of every 401(k) plan educational meeting. Mandatory meetings may help.

Many more useful ideas are found in the materials below.

Financial Skills Across Life Stages

1. The Importance of Lifetime Financial Literacy:

Financial Skills at Different Life Stages – An Introduction

Financial literacy empowers an individual to navigate the financial complexities of life and to achieve financial stability and well-being.[i] Ideally, those skills start early. From the time a child first receives an allowance or earns money for chores until they must manage often limited resources in retirement, accumulation of knowledge can bring confidence in decision-making and improve outcomes.

Financial literacy is defined as possessing the knowledge, skills and tools necessary to manage personal finances and make informed financial decisions.

Financial literacy includes intertwined skills that individually become more or less important at different life stages, based on circumstances as they change. Core skills include budgeting, saving, investing, managing debt, and responsible borrowing.

2. Financial Skills Before Work Begins (Pre-Employment Stage)

Budgeting and Spending

Young people should learn several key financial skills to help them manage their money effectively, avoid financial pitfalls, set themselves up for future financial success, and allocate funds between needs, wants, and savings. These skills include the following pre-employment during high school/college/training:

Young people should learn to track income and expenses and to allocate funds between needs, wants, and savings. Practicing zero-based budgeting which can be simple "envelope budgeting" (putting cash in an envelope and using it until it is gone)[ii] helps visualize where money goes. Example of Zero-based budgeting: A student earning $200 a week from a part-time job allocates $100 to essentials, $50 to discretionary spending, and $50 to savings. Learning to delay gratification and compare prices before purchasing helps avoid impulse purchases. [1]

- **Budgeting --** Learn to keep track of income and expenses, and how to allocate funds for needs, wants, and savings. Money in – Money Out and what to do with a deficit or surplus
- **Spending responsibly --** Understand the difference between needs and wants, and how to avoid impulse purchases. Learn to think before buying, how to comparison shop, seek discounts and consider alternatives.
- **Using cash, debit, and credit cards wisely --** Know when and how to use each type of payment method safely and effectively. Learn to save for a desired item instead of using credit cards or other high-cost sources.

Earning and Managing Money

Understanding how income is earned through part-time jobs, internships, or small entrepreneurial gigs builds confidence. Example: A student tutors peers for $20/hour and opens a simple checking account to manage deposits and withdrawals. Learning how to read a pay stub and understanding that taxes reduce take-home pay prepares young people for employment realities. [2]

- **Earning income –** Learn about different ways to earn money, including part-time jobs, entrepreneurship, or side hustles.
- **Banking basics --** Understand how banks and credit unions work, and how to manage a checking and savings account.
- **Understand taxes --** Learn about basic tax concepts, and how to file taxes.

Saving and Investing

Recognizing the value of saving early allows young people to benefit from compound interest. Example: Barring a cataclysmic economic event (whether domestic or international event, saving $50 a month at age 18 [at a _% return can grow to over $__,000] by age 65. Setting short-term goals like saving $300 for a device and long-term goals like funding education teaches discipline. Learning basic investing vehicles such as Roth IRAs, mutual funds, and how risk affects return sets the foundation for future wealth building. [3]

- **Understand the importance of saving --** Recognize the benefits of saving early and regularly, including compound interest.
- **Learn to set savings goals –** Learn to set both long-term (e.g., education or house purchase) and short-term (e.g., desired purchase) savings goals and develop a plan to achieve these goals.

- **Learn basic investing principles** – Learn about different investment options such as employer-sponsored retirement plans, IRAs, bank account, mutual funds, stocks, bonds. Learn about risk and return; and learn the advantages and disadvantages of different investing options.

Using Credit and Debt

Young people should understand when debt is appropriate, such as low-interest student loans for education, and when it is dangerous, such as high-interest credit card debt. Example: Borrowing $5,000 on a credit card at 20% interest and only making minimum payments can result in paying more than [$_____] over time. Learning what affects a credit score and how scams operate protects financial identity. [4]

- **Learn to manage debt responsibly** – Learn when and for what incurring debt is appropriate. Learn about potential dangers of debt, particularly high interest debt, and learn how to borrow responsibly.

- **Understand Credit Scores** – Learn what factors affect a credit score, how a credit score affects borrowing and finances.

- **Learn to Avoid Financial Scams** – Learn to recognize common financial scams and learn how to protect personal and financial information.

Acquiring Career Skills

Exploring future careers and understanding education or training requirements helps young people make informed financial decisions. Example: A student interested in healthcare learns that a certification program costs $4,000 but offers apprenticeships that offset living expenses. Understanding scholarships, grants, and government resources reduces reliance on high-cost loans. [5]

1. Preparing for/paying for education/training – Explore future careers that align with interests and learn what skills/training is required for possible careers.

2. Acquiring skills and living while learning skills -- Learn how to obtain the skills/education required for possible careers and how to pay for skills/education (e.g., savings, paid internships, apprenticeships, loans and scholarships) and living expenses while acquiring skills/education.

3. Resources – Understand resources available from schools, employers and government.

Footnotes

1. U.S. Department of Education, Financial Literacy for High School Students, 2022.

2. Consumer Financial Protection Bureau Youth Financial Education Report, 2023.

3. National Endowment for Financial Education, Benefits of Early Saving Study, 2021.

4. Federal Reserve, Youth Credit Behavior and Outcomes, 2022.

5. Department of Labor Career Exploration and Apprenticeship Guide, 2023.

3. Financial Skills Mid-Life / Mid-Career

Budgeting & Spending
At mid-career, lifestyle inflation often becomes the silent wealth killer. It is common for individuals in their 40s and 50s to increase spending in line with salary growth, rather than directing the difference to long-term savings.

Example: A family earning $150,000 increases pay by 4% ($6,000). If $2,000 is redirected to savings and $4,000 goes to lifestyle, the savings rate increases without burden. [1]

Managing Money (Cash Flow & Liquidity)
Mid-career individuals often have assets but poor liquidity discipline, leading to the need to liquidate investments at bad times.

Example: Maintaining an emergency fund equal to 4–6 months of expenses reduces the likelihood of 401(k) withdrawals, which carry taxes and penalties. [2]

Saving and Investing
Time is still on a worker's side at mid-life, but not like it was at age 30. The cost of waiting increases exponentially.

Example: Starting to invest at age 45 with $10,000 annually yields approximately $__,000 by age 67 at __% return, versus $___,000 if started at age 35. [3]

Using Credit and Debt
Mid-life often brings multiple forms of debt—mortgage, auto and lingering student loans. Managing interest rates and payoff strategies becomes essential.

Example: Refinancing a $350,000 mortgage from 6.5% to 5% reduces monthly payments and frees over $4,000 yearly for retirement savings. [4]

Handling Career Development & Side Gigs (Income Leverage)

A person's income-producing ability is still their greatest financial asset in mid-life. Increasing income by $10,000 per year and directing that to retirement savings yields more long-term benefit than small cost-cutting measures.

Example: A 48-year-old earns an extra $12,000 annually through consulting and invests this "side income" into a Roth 401(k). At __ growth until age 65, that side income grows to over $___,000 tax-free. [5]

Footnotes

1. University of Delaware Lerner School of Business, '5 Skills Needed to Master Your Personal Finances'.

2. CNBC Personal Finance Survey on Mid-Career Savings Behavior, 2023.

3. Fidelity Mid-Career Emergency Fund Guidance, 2022.

4. College Board 'Funding Timeline and Cash Flow Analysis for Middle-Income Families', 2021.

5. EBRI (Employee Benefit Research Institute) Compounding Impact Study, 2023.

6. Vanguard 'Advisors Alpha' Report on Cost Drag, 2020.

7. Mortgage Bankers Association Refinance Impact Study, 2022.

8. Consumer Financial Protection Bureau Debt Outcome Study, 2023.

9. Fidelity Career Pivot and Side Income Retirement Projection Tool, 2022.

4. Financial Skills Approaching Retirement

Retirement Readiness Checklist

Have you created a detailed retirement budget?
Do you know your estimated Social Security benefit at different claiming ages?
Have you confirmed your Medicare enrollment timeline?

Do you have a plan to eliminate or reduce high-interest debt before retirement?
Are you aware of your Required Minimum Distribution (RMD) age and penalties?
Have you identified possible side income or hobby income sources?
Have you evaluated long-term care insurance or healthcare gap funding?
Is your estate planning (will, Power of Attorney (POA), beneficiary designations) up to date?

Legal Documents to Create and Maintain

Updated Will – No matter what few possessions you have, they are yours to give away. This is a simple document that lets the court know how you want your possessions to be distributed.
Durable Power of Attorney – Be sure you create a delegation to someone you trust that survives your disability.
Healthcare Power of Attorney / Advance Medical Directive – Choose a person who has the confidence to do as you wish, not as what others may want for you.
Living Will / Healthcare Proxy – Consider the worst consequences for an accident and envision how you would want your care to be handled. Delegate the decision-making if you cannot decide which medical treatments, if any, you would want when totally incapacitated.
Updated Beneficiary Designations on Retirement Accounts – Often forgotten, this designation requires the Plan Administrator or IRA custodian to pay your account to the person or individuals you name.
HIPAA Release Authorization – This will help your health proxy find the best care for you.
List of Digital Assets and Access Instructions – Since this is the storage of the future, be sure you provide someone you trust with information about how to access these items. Consider the attorney who drafted your Will.

5. Financial and Life Skills in Retirement

Budgeting

As individuals transition fully into retirement, budgeting shifts from managing earned income to drawing from fixed sources such as Social Security, pensions and retirement accounts. Example: A retiree with $60,000 annual income needs to allocate for housing, healthcare, leisure and unexpected expenses to prevent overspending early in retirement. Creating a withdrawal plan using the 4% or other rule of thumb as an estimate can help manage longevity risk. [1]

Staying Active
Retirees benefit financially and emotionally from maintaining purposeful activity through volunteering, part-time consulting, hobbies and community involvement. Example: A retired teacher earns $6,000 annually from tutoring, which is used to cover travel without dipping into retirement accounts. Staying active reduces healthcare costs and promotes mental well-being. [2]

Managing Health Considerations
Healthcare becomes a major expense in retirement. Example: A 67-year-old couple may spend over $300,000 on healthcare throughout retirement. Understanding Medicare supplemental plans, long-term care insurance and health savings account (HSA) usage is essential to avoid financial shocks. [3]

Housing Choices: Staying Home vs Retirement Community vs Assisted Living

Option	Estimated Monthly Cost	Care Level	Example Scenario
Aging in Place	$500 - $2,000 (maintenance + modifications)	Low	Home modifications costing $20,000 for accessibility
Retirement Community	$3,500 - $5,000	Moderate	Independent living with amenities and social activities
Assisted Living	$5,000 - $7,500+	High	Support with daily activities and medical assistance

Footnotes

1. https://www.aarp.org/money/retirement/retiring-these-retirement-rules/

2. Fidelity Health Care Cost Estimate for Retirees, 2022.

3. U.S. Department of Health and Human Services Long-Term Care Cost Report, 2023.

4. National Council on Aging Housing and Aging Study, 2022.

5. American Bar Association Elder Law Planning Checklist, 2023.

Financial Planners

At some point, an employee may decide that they need help.

An employee might consider first seeking help with the employer's retirement plan investment advisor if there is one. That may be the ideal person to start with because that person has been hired with due diligence by the plan fiduciaries, but the employee must be aware of conflicts of interest. They should determine whether that person can offer them advice as a fiduciary and ask if a flat fee arrangement is available.

Investments in the retirement plan may be offered to employees at a lower cost, so moving funds after retirement may be more expensive. IRAs do not provide the same employee protections as an employer plan. Employees should also look for unconflicted advice for a flat dollar fee.

Outside of their retirement plan, workers may want to consult with a financial planning professional to assist with their needs. Choosing a financial planner may be one of the most important decisions they make for themselves and their loved ones. A planner can play a central role in helping meet life goals and achieve financial well-being. Cost is an important factor.

It is important to take the time to select a financial planner who is competent and trustworthy, and on whom a worker can depend for professional advice and services. The Certified Financial Planner Board of Standards, Inc. is a professional regulatory organization based in the United States of America that fosters professional standards in personal financial planning so that the public has access to and benefits from competent and ethical financial planning.

Success Stories

Meet Irma who earned a salary of $28,000 only at the end of her 25 years with her employer, but had saved $465,000 in her employer's retirement plan.

Meet Shelley, who retired with over $1,000,000 in her employer's retirement plan because her first mentor in life suggested to Shelley that to start saving in her first employer's retirement plan with her first job. She wants to spread that news because that is the only way she was able to retire on her own terms, earlier than is traditional.

Meet Collin, who used debt strategically while saving at a young age to create a $2.8 million net worth by age 67.

Financial Wellness in Johnson County, Kansas

Other Stories

[1] Do Financial Concerns Make Workers Less Productive? Supreet Kaur, Sendhil Mullainathan, Suanna Oh & Frank Schilbach

[1] Envelope Budgeting is when funds are put into different envelopes, jars, boxes or other safe place with each labeled for the purpose for the use of funds: groceries, car maintenance, fun. No expense can be more than in its envelope unless it is taken from another envelope.

NOTES AND RESOURCES:

Many states have laws requiring some form of financial literacy education for high school students. In some cases, it is a graduation requirement. In other cases, it is optional. In still other cases, financial literacy is integrated into the curriculum.

Which States Require Financial Literacy for High School Stud-Ramsey

Personal Finance Classes Are Now Mandatory In 28 States

The Existing K-12 Financial Education Requirements

Next Gen Personal Finance – Non-profit; offers curriculum materials.

Financial Literacy Fact Sheet - 061424

Achieving Your Financial Goals (PPT)--VSCPA

Your Life Your Money Fine tune your money smarts with this interactive website featuring games and information about careers in finance. PBS show.

The Hows and Whys of Taxes – Whether you're "on assignment" or just browsing the Web, this set of 38 Understanding Taxes student lessons has something for everyone. Divided into two content areas — the Hows of Taxes and the Whys of Taxes — The Hows of Taxes shows you how to apply tax principles, while the Whys of Taxes explains tax history and theory.

Understanding Taxes – The IRS provides students with creative simulations for learning how to file their tax returns.

Money Smart for Young Adults – A comprehensive financial education curriculum to teach people ages 12-20 the basics of handling their money and finances, including how to create positive relationships with financial institutions from the FDIC.

Certificates In Financial Literacy – Financial literacy certification used by some states.

UCLA Financial Wellness

Personal Tools

Financial Wellness has created and collected several tools that may help you on your journey towards economic balance. Please see the link to documents below and check back frequently for more uploads.

- Personal Assessment/Intake Form Example
- Budgeting Excel Sheet (used in all our 1:1 sessions)
- Financial Wellness Roadmap

Loan repayment

- Federal Loan Repayment Checklist
- Student Loan Repayment Calculator

Credit Health

- Credit Karma - Estimate Your Credit Health Here
- Credit Card Comparison tool
- Check Your Credit Report

Food

- 5 Food Budget Tips

Apartment Seeking

Post-Grad Life

- 2024 Graduation Guide
- Post graduation budgeting sheet

Engaging the TikTok Generation on Retirement

https://www.vscpa.com/article/financial-fitness-quiz -- useful quiz.

See Savings Matters on EBSA website. **Home - Retirement Savings Education Campaign - Saving Matters**

Includes information for employees at different life stages – new employee, mid-career, near retirement, in retirement. There is a retirement savings tool kit that includes publications and videos on many of the skills we have identified.

Savings Fitness: A Guide to Your Money and Your Financial Future

Top 10 Ways to Beat the Clock and Prepare for Retirement - The Department of Labor offers 10 suggestions of ways to begin your retirement planning process.

Taking the Mystery Out of Retirement Planning - The U.S. Department of Labor's Employee Benefits Security Administration (EBSA) has a publication to help calculate the financial resources that workers will need to ensure a secure retirement. This publication is designed to assist individuals who are within 10 years of retirement calculate their income, savings and likely expenses in retirement. To assist individuals to get a better idea of whether they are on track or how much they might need to save, the publication includes worksheets that allow the user to evaluate current assets and expenses, project future assets and expenses, and estimate additional savings for retirement.

Get Your Social Security Statement - You can view and save a copy of your Social Security statement online.

Social Security Benefit Calculators - The Social Security Administration provides calculators to help you explore your potential benefit amounts using different retirement dates and different levels of potential future earnings. The calculators will show your estimated retirement benefits, as well as an estimate of disability and survivor benefit amounts on your record if you should become disabled or die. It is important that every American understand what Social Security means to their and their family's financial future.

Ballpark Estimate - The American Savings Education Council (ASEC) developed this easy-to-use, one-page worksheet that helps you quickly identify approximately how much you need to save to fund a comfortable retirement. The Ballpark Estimate takes complicated issues like projected Social Security benefits and earnings assumptions on savings, and turns them into language and mathematics that are easy to understand. OPM.gov website; for federal employees.

Retirement/Insurance/Taxes/Mortgage - Careers - TCTC Learning Commons at Tri-County Technical College

Home - Retirement Planning - LibGuides at Campbell University

Welcome! - Planning Your Retirement - Research Guides at New York Public Library Research Centers

Financial Literacy Library | Human Resources | Washington University in St. Louis

General Resources:

myMoney - This is the Federal Government's website dedicated to helping Americans understand more about their money – how to save it, invest it, and manage it to meet their personal goals. The site organizes financial education help from over 20 different Federal websites in one place. **Includes checklists**

Recovering from a Disaster

**Virginia Jump$tart Coalition Clearinghouse--**Virginia Jump$tart Coalition is a nonprofit, volunteer-driven organization representing more than 100 individuals and organizations in business, government, association/nonprofit and education who have joined together to improve the financial literacy of Virginians.

The Jump$tart Coalition for Personal Financial Literacy, and its Virginia chapter, identifies high-quality personal finance materials, curriculums and resources for educational use and makes them available through an **online Clearinghouse**. The newly revised search functions make it easy for teachers, students, parents, youth leaders and others to select appropriate titles from a wealth of financial educational materials, including those available for free!

360 Degrees of Financial Literacy: It's never too early to learn smart financial habits. AICPA.

Feed the Pig Podcast– Series of podcasts on various financial literacy topics. AICPA.

Personal Finance - Financial Resources - Library at UHV Library – many links to financial literacy and financial wellness websites.

Educator Resources - CARE: Credit Abuse Resistance Education-- CARE stands for Credit Abuse Resistance Education. CARE is a national non-profit comprised of professionals in bankruptcy, financial services, and business. We volunteer our time to educate young adults and others about the benefits of personal financial management and the consequences of credit abuse. Borrowing from our professional experiences, we tell true stories about financial distress and the impact it can have on one's life.

Getting Started - Financial Literacy - LibGuides at Ithaca College—many good links to resources.

At this point, you've probably learned your parents may have been right: money doesn't grow on trees. But did you know money can grow? Learn about compound interest, reading a paycheck, buying a car and paying for college in this section designed just for you.

- **Avoiding scholarship scams**
- **Balancing your checkbook**
- **Buying your first car**
- **Establishing good credit**
- **Investing 101**
- **Managing student loans**
- **Planning for college**
- **Reading a paycheck**

Visit the **Virginia Department of Education (VDOE) Web site** for a wealth of information on economics and financial literacy education in the Commonwealth, including ways to implement in your school's curriculum. The site includes details about objectives adopted by the Virginia Board of Education in 2006 that require Virginia's public middle and high schools, as well as higher education public institutions, to provide instruction in economics education and financial literacy.

Choose to Save – This is a national public education and outreach program. The website contains information about credit, budgeting, and useful calculators.

How Much Can I Afford to Spend in Retirement?

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[i] Do Financial Concerns Make Workers Less Productive? Supreet Kaur, Sendhil Mullainathan, Suanna Oh & Frank Schilbach

[ii] Envelope Budgeting is when funds are put into different envelopes, jars, boxes or other safe place with each labeled for the purpose for the use of funds: groceries, car maintenance, fun. No expense can be more than in its envelope unless it is taken from another envelope.