

Enhancing Retirement Security in the United States

The Issue

Studies continue to show that U.S. households are not saving enough for retirement and that our nation is facing a significant retirement security challenge. With millions of Americans struggling to save for their needs, policymakers are increasingly concerned by the implications of insufficient retirement savings – for individuals, their families, and our nation. The reasons for this impending challenge are many, including low savings rates, the inability of individuals to be savers early in life, and the increasing longevity of American citizens.

LPL believes that insufficient access to retirement assistance is a primary cause for today's retirement savings challenge. Many Americans do not fully understand the retirement savings options currently available in the marketplace, nor do they appreciate the critical importance of saving early to leverage the benefits of compounding over time. Add to this the fact that many Americans face competing financial demands causing them to shift their resources away from retirement savings and toward other needs, and we are left with the growing savings gap that we are faced with today.

Against this backdrop, many studies show that access to a workplace retirement plan is a critical component to helping individuals save for retirement– and too many Americans today do not have access to such a plan. Indeed, a recent study by The Pew Charitable Trusts shows that over 40% of full-time private sector workers lack access to either a pension or an employer-based retirement savings plan¹. It is for this reason that many lawmakers in Washington have proposed legislation to address this growing concern.

Current Status

On September 21, 2016, Senate Finance Committee unanimously approved the Retirement Enhancement and Savings Act of 2016, which includes many provisions that will stimulate savings and help small businesses maintain a retirement plans. The Act was reintroduced on March 8, 2018 in the Senate and introduced in the House on March 14, 2018. The bill provisions include:

- **Enhanced tax credit incentives (up to \$5,000) for small businesses to adopt a retirement plan.** These incentives could result in far more plans being offered.
- **Removing obstacles to plans offering automatic enrollment.** Many businesses automatically enroll their employees in their 401(k) plans, so that inertia works on the side of increased savings. Automatic enrollment has greatly stimulated savings among low and middle-income workers, proving to be a great success. The Finance Committee bill would provide a tax credit incentive for small employers to adopt automatic enrollment arrangements, and would remove a restrictive limit on the amount of contributions that employees can make automatically.
- **Facilitation of multiple employer plans.** The bill would allow small employers to band together to enjoy economies of scale like large employers, either in one “multiple employer plan” or in separate similarly structured individual plans.
- **Allowing contributions to traditional IRAs after age 70 ½.**
- **Facilitating lifetime income from defined contribution plans.** The bill includes provisions that would make it easier for employers to offer annuity options under their defined contribution plans, and would help employees preserve annuities purchased in a plan.

On August 31, 2018 President Donald J. Trump signed an executive order to expand access to workplace retirement savings plans for American workers. In this order, the President directed the Departments of Labor and the Treasury to consider issuing regulations and guidance that would make it easier for businesses to offer retirement plans.

¹ *Who's In, Who's Out. A Look at Access to Employer Retirement Plan and Participation in the States*, pg. 1, The Pew Charitable Trusts, January 2016.

Government Relations

Specifically:

- The Departments are to consider changes to make it easier for businesses to join Multiple Employer Plans (“MEPs”). The Departmental changes can improve the law significantly, but due to statutory constraints on the Departments, passage of RESA’s MEP reforms remains very important.
- The executive order requires exploration of ways to improve the effectiveness of disclosures and to reduce their associated costs and burdens, including the potential for broader use of electronic delivery. Within 1 year of the date of the Executive Order, the Departments will need to complete their review.
- The Department of the Treasury is to review the rules on required minimum distributions from retirement plans to see if retirees could keep more money in 401(k)s and IRAs for longer. The current rules are based on out of date mortality tables, last updated in 2002.

On July 26, 2018, Senators Portman and Cardin introduced the Protecting Taxpayers Act, which generally allows all inadvertent retirement plan errors by businesses to be self-corrected without a submission to the IRS or a fee paid to the IRS.

LPL Position

LPL believes that all Americans should have access to objective assistance from a trusted advisor who can help them achieve their retirement goals. We also believe small business owners are the key to providing retirement options to a broader range of American investors, and we should identify ways to make it less complex and less expensive to do so.

Significant advances can be made to address this retirement savings challenge if the federal government, state governments, employers and the financial services industry work together to (i) educate the American public about the importance of saving, (ii) clarify and promote the many savings vehicles available to investors today, and (iii) expand tax incentives to encourage more employers to provide employer retirement plans to their employees.

LPL supports the small business concepts highlighted in the President’s executive order and is committed to working with policymakers on initiatives such as these to make it easier for small business owners to establish workplace retirement savings plans. In particular, we have long supported RESA, which enjoys bipartisan support in Congress. We are also very supportive of efforts to reduce complexity and over-regulation with respect to retirement plans, such as the Portman/Cardin proposal described above. We will continue to advocate for these initiatives while cautioning policymakers against provisions that may inadvertently limit access to useful retirement products and services.

Please see three recent white papers from LPL Government Relations highlighting our efforts to make it easier for small business to implement retirement plans for their employees:

- [The Small Business Retirement Savings Challenge](#)
- [Rothification: A Step Backward for Retirement Security](#)
- [Improving Retirement Plan Access by Reducing Complexity](#)

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