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FAST Facts

How Much Would Auto-Portability Help Retirement Reform Proposals to Reduce Retirement Deficits?

The Employee Benefit Research Institute (EBRI) Retirement Security Projection Model® (RSPM®) estimates that the aggregate national retirement deficit or Retirement Savings Shortfall (RSS)[1] is $4.13 trillion for U.S. households headed by those between the ages of 35 and 64. Recently, an expansion of the existing defined contribution (DC) system was proposed under the Automatic Retirement Plan Act of 2017 (ARPA). A previous *EBRI Fast Facts* (#305, June 19, 2018) explored how much this proposal would reduce retirement deficits compared to a federal auto-IRA proposal as well as a universal defined contribution system that assumes all employers not currently offering defined benefit and/or defined contribution plans start sponsoring a defined contribution plan immediately.

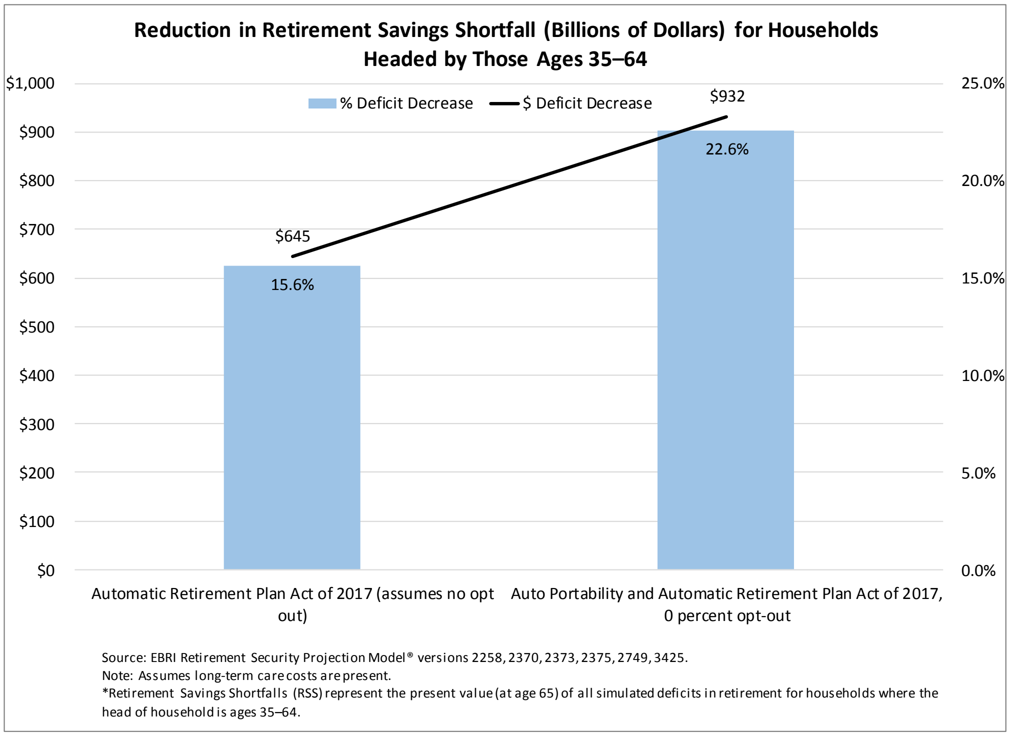
Under ARPA, all employees who have attained age 21 (except those working for the smallest employers) would be required to be covered by a DC plan, including new, part-time workers. The plans would be required to incorporate the following provisions, provided that certain existing plans would be grandfathered:

- Automatic enrollment at 6 percent.
- Automatic enrollment triennially at 6 percent.
- Automatic escalation at 1 percent per year up to 10 percent, i.e., 6 percent to 7 percent to 8 percent to 9 percent to 10 percent.

In this *Fast Facts*, EBRI Research Director Jack VanDerhei analyzes the impact of adding auto-portability to ARPA. With auto-portability, a participant's account from a former employer's retirement plan would be automatically combined with their active account in a new employer's plan.[2] The objective of this program is to help keep the DC assets in the retirement system and reduce leakage from cashouts upon employment termination.[3] This is important because studies have found that cashouts are the most significant form of leakage from DC plans, especially among workers with low plan balances (see *EBRI Fast Facts* #307, July 16, 2018).

As reported previously, under the assumption that there are no opt-outs under ARPA,[4] the RSS would be reduced by $645 billion or 15.6 percent of the current $4.13 trillion retirement deficit. If auto-portability[5] were added to the system simultaneously with ARPA, the RSS would be reduced by an additional $287 billion for a total reduction of $932 billion or 22.6 percent of the current deficit.

In other words, EBRI's analysis shows that while policy to expand retirement plan coverage can significantly impact aggregate savings shortfalls, initiatives to reduce plan leakage can materially augment such efforts.



The EBRI report, "EBRI Retirement Security Projection Model®(RSPM) – Analyzing Policy and Design Proposals," is published as the June 5, 2018, *EBRI Issue Brief*, and is available online here.

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[1] The Retirement Savings Shortfalls are present values at age 65 and represent the additional amount that individuals will have to save by age 65 to eliminate their expected deficits in retirement (which, depending on the simulated life-path, could be a relatively short period or could last decades). For more information see Jack VanDerhei, "Retirement Savings Shortfalls: Evidence from EBRI's Retirement Security Projection Model®," *EBRI Issue Brief* no. 410 (Employee Benefit Research Institute, February 2015).

[2] The impact of adding auto-portability to the current defined contribution system was explored in *EBRI Fast Facts* #309 (July 30, 2018).

[3] A case study of one of the nation's large healthcare providers from 2007-2012 concluded that this type of program reduced cashouts by 51 percent vs. the pre-case study. See Warren J. Cormier, "Eliminating Friction and Leaks in America's Defined Contribution System: Fixing the Systemic Breakdowns That Impact Every Sponsor, Participant and Provider," Boston Research Group, April 2013. Moreover, the efficacy of creating default paths is well-proven with automatic enrollment and qualified default investment alternatives (QDIAs).

[4] For alternative opt-out assumptions see Figure 5 in VanDerhei, "EBRI Retirement Security Projection Model®(RSPM) – Analyzing Policy and Design Proposals," published as the May 31, 2018, *EBRI Issue Brief*.

[5] The analysis assumes no leakage from the auto-portability system.