

Creating a Federal Auto IRA and Enhancing Social Security Longevity Data

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I. Overview: How workers prepare for retirement

A. Saving for retirement

In an ideal world, one would reach their preferred retirement date fully prepared for the next stage of life. During the preceding working decades, one would have saved an appropriate amount of their wages, invested it wisely, and left it untouched while working. One would also make a sensible decision about when to claim Social Security benefits. Reality, of course, often looks very different. Over half of Americans report feeling somewhat or very concerned that they won't be able to achieve a financially secure retirement (Oakley and Kenneally 2019). 40% of U.S. households with heads currently aged 35-64 may run out of money during retirement (VanDerhei 2019). Access to an employer-sponsored defined contribution (DC) retirement savings plan (like a 401[k]) can dramatically reduce one's projected shortfall during retirement: VanDerhei (2019) suggests that among individuals aged 35-39, the average retirement deficit is more than five times larger for individuals with zero years of DC access remaining than for those with 20+ years remaining. However, only about half of Americans have access to such a plan (VanDerhei 2019, Stanford 2018).

Access to an employer-sponsored retirement savings plan of any kind varies dramatically according to worker and employer characteristics such as wage, employer size, full- vs. part-time status, union representation, race, and age. According to Bureau of Labor Statistics (2018) data, only 33% of workers in the bottom wage decile have access, compared to 90% of workers in the top quartile. Only half of workers at employers with 1-49 workers have access, compared to 90% of workers at employers with 500+ workers. Only 40% of part-time workers have access, compared to 81% of full-time workers. Only 67% of nonunion workers have access, compared to 95% of union workers. According to the Pew Charitable Trusts (2016), Hispanics and Millennials are significantly less likely than their peers to have access. Only 45% of Hispanic workers have access, compared to 68% of white workers. Only 55% of Millennial workers have access, compared to 70% of Baby Boomer workers.

B. Health shocks, employment shocks, and mortality

As workers approach retirement, many expect to continue working into their mid-60s. Last year, for example, 65% of surveyed non-retirees expected to work until age 65 or older (Newport 2018). Indeed, the Social Security Administration encourages longer careers by incentivizing late claiming and disincentivizing early claiming. The system for claiming Social Security benefits is designed to discourage costly premature departures from the workforce. These departures can result in both increased obligations and decreased revenue for the Social Security Trust Funds, because they entitle retirees to more years of benefit payments and reduce workers' total lifetime earnings and lifetime Federal Insurance Contributions Act (FICA) and/or Self Employment Contributions Act (SECA) tax payments.

However, the decision of when to retire is often not wholly in a worker's own hands. For many reasons, individuals struggle to predict how long they will be able to continue working. Negative health or employment shocks can make or seriously affect an individual's retirement date. Health shocks such as injury or disease can make it difficult or impossible to continue working full-time in one's chosen field.

Employment shocks such as layoffs can leave older individuals out of work and struggling to find meaningful new work opportunities despite (or because of) decades of experience.

Even the fortunate workers who avoid such shocks must still make plans with their own mortality in mind, and the early-normal-late Social Security claiming system penalizes groups with high mortality driven by variables like income, race, ethnicity, and gender. For members of such groups (and their spouses), early claiming may be their most cumulatively generous option, but it also means surviving on reduced means for the entirety of their relatively short retirements.¹

C. Policy proposals

Late-life needs vary significantly among individuals, including for factors that are difficult to predict or even quantify. I propose two policy changes to help individuals save for retirement and better anticipate their late-life journeys:

1. Create a federal IRA with automatic enrollment (i.e., an “auto IRA”) to help workers without access to a 401(k) or similar plan save for retirement; and
2. Disseminate enhanced longevity data to the public and share this information more widely and more frequently.

II. Proposal #1: Federal automatic IRA

A. Core features

I recommend a nation-wide, federal auto IRA program for under-served workers and their households, to be administered by either the Federal Retirement Thrift Investment Board (FRTIB) or a new, similar agency. This concept builds on previous proposals (e.g. Iwry and John 2006, 2009, Pozen 2017).

The program should include the following core features:

- Workers without access to a 401(k) or similar should be automatically enrolled into the program, with contributions made from their earned income via payroll deduction. *(See Section II.B for further details.)*
- The account will follow an enrolled worker throughout their career. *(See Appendix for illustrative examples of this and other features.)*
- By default, the auto IRA should be a Roth IRA (which accepts post-tax contributions), although a traditional IRA (which accepts pre-tax contributions) should also be available. *(See Section II.C.)*
- All employers not offering a qualified retirement plan such as a 401(k) or similar should eventually be included, regardless of size, but small employers must be given the most time to implement the changes. *(See Section II.D.)*

¹ Among married couples where one but not both spouses have low expected longevity, planning for retirement is even more complex. These couples’ plans involve not just maximizing benefits for each spouse independently, but also ensuring that the spouse with higher expected longevity will not experience a steep drop in quality of life when they are widowed (Munnell et al. 2019 Henriques 2017).

- The default contribution rate should start at 2% and rise incrementally to 6% (for new and existing enrollees). An auto-escalation component could further increase the contribution rate from 6% to 10% over the first four years of a worker’s participation. (*See Section II.E.*)
- By default, contributions should be invested in a TSP L Fund or comparable target date fund. (*See Section II.F.*)

Further, I recommend a public comment period to solicit information from private-sector financial providers about their appetite for receiving automatic rollovers of accounts that have grown to a potentially profitable size (*see Section II.G.*) Administrative costs and other related ideas are discussed in Sections II.H-I, below.

The federal auto IRA would preempt state auto IRA programs, such as CalSavers, OregonSaves, and Illinois Secure Choice. Federal preemption would ease the burden on employers operating in multiple states. These multistate employers would need to comply with a single set of policies, rather than various unique policies. Although only a handful of states currently offer state-level auto IRAs, that number is growing. Every new state auto IRA program adds to the compliance burden for multistate employers.

B. Automatic enrollment

Many workers struggle to save for retirement. Among other issues, they may have a limited understanding of their potential late-life needs, be unsure how much to set aside from their paychecks, and feel too constrained to get by on a smaller share of their take-home pay. An extensive literature shows that automation of savings is a powerful tool for increasing savings plan participation and contributions (Madrian and Shea 2001, Choi et al. 2006, Beshears et al. 2008, Gale et al. 2009). Automatic enrollment into 401(k) and other employer-sponsored DC plans makes participation and saving the default; instead of opting into such a plan, a new hire must instead opt out if they prefer not to participate. Choi et al. (2006) show that at three years of tenure, 401(k) participation is 20-34 percentage points higher under automatic enrollment than traditional “opt-in” enrollment.

As noted in Section I.A above, automatic enrollment does not reach the roughly half of workers without access to an employer-sponsored savings plan. For more than a decade, experts have recommended the automation of savings into DC plans not sponsored by employers, specifically Individual Retirement Arrangements (IRAs) (Iwry and John 2006, 2009, Pozen 2010, 2017). IRAs allow individuals to save for retirement regardless of their employment situation; any individual can save into one, either as their primary retirement savings vehicle or as a supplement to a 401(k) or pension.² Savings into a traditional (non-Roth) IRA are also tax advantaged. However, very few individuals take advantage of the IRA option. For tax year 2016, only 8.3% of eligible taxpayers contributed to their IRA(s) (IRS 2019b). TIAA (2016) survey data suggests that one in four Americans feel they know too little about IRAs to consider one as part of their retirement strategy. Automating IRA participation would likely increase utilization – and retirement security – dramatically.

² For 2019, total combined contributions to all traditional and Roth IRAs must not exceed the smaller of (a) \$6,000 (or \$7,000 for individuals aged 50+) or (b) the individual’s taxable compensation for the year (IRS 2019a).

C. Why Roth?

A Roth IRA allows individuals to make early withdrawals (with some exceptions, any withdrawal taken before age 59 ½) while only paying tax on the earnings, not the contributions. The Roth default makes savings more available for short-term use, a desirable function given that nearly 40% of U.S. adults report that they would be unable to cover an unexpected \$400 expense or would have to borrow or sell something to cover it (FRB 2019).

On one hand, this may increase pre-retirement leakage from the accounts, compromising the program's ability to improve individuals' retirement prospects. On the other, it may also reduce opt outs among workers who worry they will become financially constrained if they save into an IRA. Such workers may be more likely to remain in the program if they know their original contributions will remain available to them without penalty. Even if leakage from the auto IRA is relatively high, the accountholders will still be somewhat better off at retirement than they would be without the program. Further, the tax burden associated with early withdrawals may temper their use. The taxes would be small in absolute dollars, but would result in an additional 1099 tax form for the taxpayer to process when filing.

Further, the Roth default helps the program maintain revenue neutrality. A traditional IRA would defer taxation until funds are withdrawn, effectively shrinking the tax base in the short term. A Roth IRA, on the other hand, is funded with post-tax dollars and does not affect the tax base.

D. Employers

Costs to employers would be minimal, but non-negligible. Employers would be responsible for (a) electronically submitting workers' contributions, and (b) maintaining and updating lists of current workers, to account for hiring and termination events. Employers would have no fiduciary responsibility and no obligation to match employee contributions, although they would have the option to match employee contributions if they so choose (subject to nondiscrimination rules). Naturally, the costs would be felt most by small employers, who may still process payroll on paper rather than electronically. For this reason, many previous auto IRA proposals have included a size threshold below which employers would not be required to participate.³

While such a threshold could make the auto IRA more politically feasible, it could also create problems in the future. I caution against an employer size threshold because DC plan access is particularly low among employees of small employers. If some small employers were exempted from the program, a significant share of workers who lack plan access would not gain it. Further, benefits are an important component of employee retention. Exempting some small employers would make it harder for these employers to retain high-quality workers (relative to slightly larger employers). The costs of hiring and

³ For example, the Commission on the Regulation of U.S. Capital Markets in the 21st Century recommended 21+ employees (Chamber of Commerce 2007). Iwry and John (2006, 2009) originally suggested 10+ employees. The CalSavers program will eventually extend to employers with 5+ employees.

termination events are high for smaller employers. Reducing the smallest employers' ability to retain workers would harm these employers in the long run.

I recommend that all employers not offering a qualified retirement plan such as a 401(k) or similar eventually be included, regardless of size, but that small employers be given the most time to implement the changes. The OregonSaves auto IRA, for example, will eventually extend to all employers, but the very smallest (with <5 employees) will not need to comply until May 2020, some 17 months after the program started (OregonSaves 2019). I suggest an even more gradual phase-in, like that used in the UK when NEST Corporation introduced mandatory automatic enrollment into its pension scheme (NEST 2019). Employers would be grouped into six size categories (500+ employees, 100-499, 20-99, 10-19, 5-9, and 0-4) and the phase-in would last for six years. Those in the first, largest group would be required to implement the changes within one year of the program's start date; those in the second-largest group, within two years; and so forth. Any employer of any size could voluntarily decide to implement the program earlier than required.

Additionally, I recommend a tax incentive for small employers (i.e., those with <20 employees). Such employers should be eligible for a one-time tax credit to offset the costs of switching from a paper to electronic payroll system and/or of setting up an internal protocol for complying with the federal auto IRA policies. Electronic payroll is available for even the smallest employers (those with a single employee), and is significantly cheaper and more secure than paper (ADP 2019, Gusto 2019, Smith and Lasher 2008). Making this switch will not harm employers in the long run.

E. Contributions

In a survey of 900 workers without access to an employer-sponsored savings plan, the Pew Charitable Trusts (2017) asked respondents to consider whether they would remain in an auto IRA if automatically enrolled into one. Respondents were randomly assigned to learn about an imaginary auto IRA with a default contribution rate of either 3 or 6%. The rates of default participation (defined as neither opting out nor changing from the default contribution rate) were similar for both groups, but higher for the group that saw the 3% default.⁴ The difference in stay-in rates appears to be driven by individuals who reported either (a) that they would stay in, but reduce their own contribution rate or (b) uncertainty about what they would do.

In the US, state auto IRAs in California, Illinois, and Oregon have all coalesced around a beginning default contribution rate of 5% of post-tax pay. In other settings, individuals have been eased into a program more slowly, starting at a low contribution rate and increasing it for everyone over time. In the UK, for example, NEST Corporation used a 1% employee contribution rate until all employers of all sizes had implemented the program, then escalated to 3% one year later, and finally 5% one year after that. (The UK system is not perfectly analogous because it includes a mandatory employer match component.) In Québec, default contribution rates in voluntary retirement savings plans (VSRPs) started at 2% and have since escalated to 4% over the intervening two years.

⁴ In the survey, 60% of respondents who were presented with a 3% default said they would stay in, compared to 53% who were presented with a 6% default.

I recommend a gradual approach, like that taken in the UK and Québec, to ease US workers and employers into an auto IRA regime. I suggest the program start with a 2% default rate and keep that in place until all employers had begun participating, then to increase the default rate (for new and existing enrollees) by one percentage point annually until reaching 6%. Other variations on this pattern would likely also work. Although this model would delay the beginning of the fully-fledged program, it would also make it easier for households to adjust their consumption to account for their reduced take-home pay.

Some US states also include individual-level automatic escalation, in which one's contribution rate is increased by one percentage point annually until reaching 8% (in California) or 10% (in Oregon). Thaler and Benartzi (2004) report that opt-outs from their Save More Tomorrow™ program are uncommon; inertia keeps participants in the program, even as their savings rate climbs higher. Further evidence suggests that high defaults are less likely generate unintended consequences than low defaults (Beshears et al. 2017). A similar pattern could be followed with a federal auto IRA; I suggest auto escalation to 10%.

The system must also help prevent individuals from exceeding the annual limit on total IRA contributions (see fn.2 above for 2019 limits). This cannot be done with perfect precision since individuals could choose to contribute to other IRAs besides their federal auto IRA. However, at minimum the system must preclude federal auto IRA contributions in excess of the annual limit (i.e., treat the federal auto IRA as the individual's only IRA). Contribution rates that allow an individual to reach the annual limit before the end of the year should be permitted, insuring against potential job loss or other employment shocks later in the year.⁵

F. Default asset allocations

As important as determining the size and destination of contributions is the question of how to invest them. Savers may not feel knowledgeable enough to make sound investment choices, so it is crucial that the federal auto IRA have a default investment option that meets the Labor Department's qualified default investment alternative regulations. I recommend a Thrift Savings Plan (TSP) L Fund (if administered by the FTRIB) or a comparable target date fund (if administered by a new agency).

Target date funds are designed with an intended retirement date in mind – for example, 2050. When there are still decades of expected working life left for investors, the asset mix skews heavily toward stocks; as the predicted retirement date approaches, the share of bonds ticks up. Lifecycle funds prepare workers for retirement by shifting them towards less risky investments, without any action required of the consumer. They are common defaults in 401(k)s and other defined contribution plans, and in the TSP, which serves all federal employees hired after January 1, 1987 (TSP 2015). For example,

⁵ Contribution limits into IRAs are currently quite low (see fn.2). These limits are designed in part to encourage low- and moderate-income households to save without creating an unnecessary tax advantage for high-income households to exploit. However, there is no immediate tax advantage to Roth contributions, which are made on a post-tax basis. Thus, the current contribution limits may unnecessarily reduce the amount of retirement assets that one could accumulate in a federal auto IRA. Even in the context of traditional IRAs, the current system provides high-income households with a larger short-term benefit than their low- and moderate-income counterparts (Gale et al. 2012). There are many reasons to consider updating IRA contribution rules.

the TSP “L 2050” fund, intended for participants who will retire in or after 2045, currently has 10.7% allocated to bonds. By January 2030, that allocation will be 12.96%; by January 2040, 25.13%; and by January 2050, 61.69% (TSP 2019).

Target date funds allow individuals to remain passive throughout their working years, without thinking much or at all about the ideal investment allocation. However, as Pozen (2011) notes, the lifecycle model fails to account for variation in individuals’ needs. As addressed in Section I.B. above, individuals struggle to plan for their late life, and health, employment, and other shocks can easily and quickly derail their plans for retirement. Pozen (2011) suggests that at age 50, workers adjust their allocations to meet their unique needs. In the case of the auto IRA program, this could mean adjusting away from the target date fund and into other funds. Of course, sensible defaults are critical because they are sticky; people tend to stay with the default, and even if they want to change, they procrastinate (Carroll et al. 2009).

G. Balances and rollovers

Assuming short-term leakage is less than 100%, over time the balances in these accounts will grow, hopefully to a meaningful size. There are two main schools of thought on how to manage balances, described below. Balances could either be:

- Allowed to grow indefinitely in the account; or
- Automatically rolled over into a private-sector account when they reach some pre-defined balance threshold.

Determining the optimal choice is predicated on first gauging the appetite of private-sector financial providers to receive rollovers and their ability to offer competitive fees (for more on fees, see Section II.H below). Small accounts do not generate profits, but providers may be interested in receiving rollovers that have reached a profitable size and seem likely to continue growing (Iwry and John 2009). Thus, I strongly recommend a public comment period to measure providers’ interest before proceeding. In the next paragraphs, I present the relative advantages and basic mechanics of each option, but stress that making a choice between the two should come only after receiving more information from the private sector.

The indefinite-growth model simplifies matters for the saver, who need not plan for a transition when their account balance reaches a certain threshold. It also reduces the burden on plan administrators, who would need to process any rollover to a private-sector account, and employers, who would need to update their records following such a rollover to ensure contributions were made to the appropriate account. This approach may also reduce leakage by maximizing the saver’s passivity.

The automatic rollover model is more complex, but could reduce administrative burden on plan administrators and offer the private sector an opportunity to profit from the new system. Once a saver’s balance reaches some pre-determined threshold of profitability – perhaps \$15,000, as suggested by Iwry and John (2009) and used in the now-defunct *myRA* program – the funds would be rolled over to a private sector provider. A handful of providers could be chosen during an open competitive process, much as New Zealand used when it implemented its KiwiSaver program (Cullen and Dalziel 2006). When

they reach the threshold, individuals could choose a rollover destination (from among the default providers, or not) or do nothing and let the destination be selected for them. In the latter situation, balances could be rolled over randomly (such that each of the n providers received a random $1/n$ of these rollovers) or by market share (such that each provider received a random set of rollovers roughly proportional to its total market share).

In both models, savers would retain the right to roll their balances over to a destination of their choice at any time. Contributions would continue, uninterrupted, at the same frequency and amount into the destination account.

Rollovers, and particularly the automatic rollover model, would create additional work for employers, who as noted above would need to update their records following such a rollover to ensure contributions were made to the appropriate account. This could be mitigated with the creation of a government clearinghouse, such as the Australian government's Small Business Superannuation Clearing House, which would be responsible for allocating payments to individuals' proper accounts (ATO 2019).

H. Administrative costs

Administering a nationwide auto IRA plan could be a costly endeavor. Costs would be borne by savers in the form of an asset-based fee. CalSavers, Illinois Secure Choice, and OregonSaves charge annual asset-based fees ranging from 0.75 to 1.0%.

The TSP has far lower fees (0.040%), mostly because it receives significant administrative income from forfeitures (e.g., employer contributions made to individuals who exit the federal workforce before they are vested). Further, while the TSP offers a Roth alternative, most accounts are traditional and therefore early withdrawals are subject to a 10% penalty. As a result, balances grow larger there than they would in a Roth option like the proposed federal auto IRA; these larger balances lower the size of the fee that must be charged.⁶

Fees for the federal auto IRA would likely be significantly higher than in the TSP, even if administered by the FRTIB. However, they would likely be lower than the state asset-based fees (0.75 to 1.0%), as the economies of scale associated with a nationwide system would drive costs down.

As mentioned in Section II.E above, private-sector financial providers would need to charge fees that can compete with those charged by the FRTIB (or other administering agency) for an automatic rollover system to be feasible. Thus, I strongly recommend that policymakers develop a more precise estimate of auto IRA fees and communicate it to private-sector providers during the public comment period mentioned above.

I. Other thoughts

Many other features could be incorporated into the auto IRA to increase its reach and effectiveness. For example:

⁶ To generate \$10 of fee income on \$1,000, a plan would need to charge a 1.0% asset-based fee; to generate \$10 on \$1,500, a plan could charge 0.67% instead.

1. Contingent or gig economy workers are in a particularly precarious retirement situation given their non-employee status (Gale et al. 2016). These workers should certainly be allowed to participate, but an ideal system will go further to encourage them to save.⁷ I recommend two amendments to Form 1040:
 - a. Schedule SE should be amended so that by default a small percentage of any self-employment income is diverted to the auto IRA. Filers could choose to divert a different percentage or to opt out altogether, but saving would be the default action.
 - b. Form 1040-ES should be amended so that filers paying quarterly estimated taxes by default divert a small percentage of their income to the auto IRA. Again, they could choose to change the percentage or opt out altogether.
2. Forms 1040 and 8888 should be amended to allow any filer to divert all or part of their refund to their auto IRA.⁸
3. The auto IRA should be explicitly publicized as a method to supplement Social Security benefits, particularly for prospective early claimers, alongside information about the enhanced longevity data described in Section III below. Program publicity should be targeted to contingent workers and groups known to have high mortality.

III. Proposal #2: Enhanced longevity data

A. Overview

As discussed in Section I.B. above, individuals struggle to predict their and their partner's mortality, to anticipate late-life health, employment, and other shocks, and, as a result, to plan well for their retirement needs. Facilitating saving during working life, as described in Section II, will help households with different needs and situations smooth their income in retirement. Sharing more nuanced longevity information with the public will also help individuals plan.

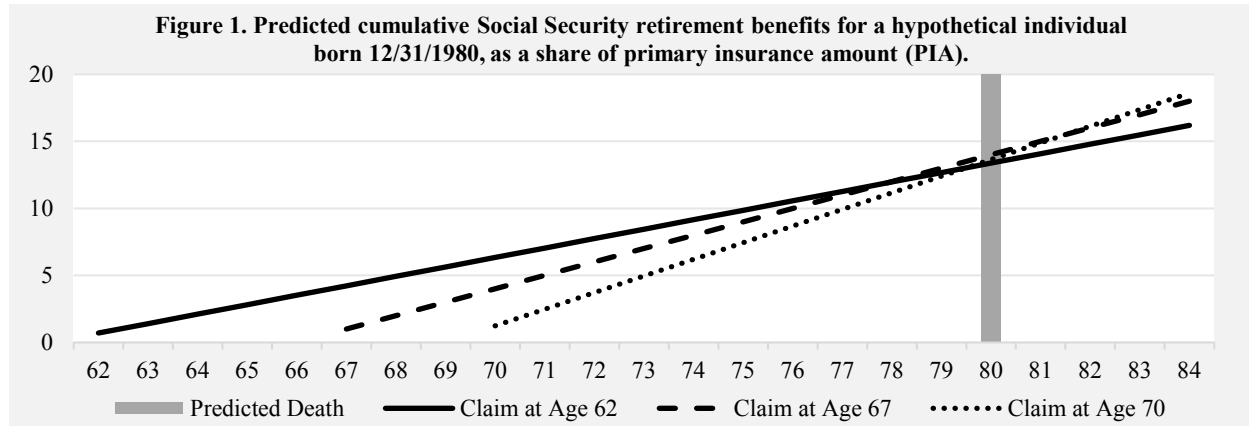
The existing early-normal-late claiming system for Social Security benefits allows beneficiaries to receive their full retirement benefit at age 67 (normal claiming, henceforth "NC"), a reduced benefit as early as age 62 (earliest possible claiming, henceforth "EPC"), or an increased benefit as late as age 70 (latest possible claiming, henceforth "LPC"). The system is designed to discourage premature departures from the workforce, which reduce the amount of taxable payroll (and therefore, the amount of income to the Trust Funds) and increase the number of payments made to beneficiaries. The model is roughly actuarially fair for individuals of average longevity (Heiland and Yin 2014). The basic principle is simple: assuming that longevity is fixed, the earlier one claims, the longer the Social Security Administration (SSA) will

⁷ The auto IRA should be available to anyone with a Social Security Number or Individual Taxpayer Identification Number, even those without earned income. However, users without earned income should be reminded of the importance of ensuring that any savings they might accumulate do not jeopardize any means-tested benefits they may receive.

⁸ Form 8888: Allocation of Refund (Including Savings Bond Purchases)

need to pay monthly benefits to that person. A prospective beneficiary chooses between many smaller payments (early claiming), fewer larger payments (delayed claiming), or something in between.

However, because the current system does not take differential mortality into account, it has negative consequences for groups with high mortality driven by variables like race, ethnicity, gender, and income. As Figure 1 shows, an individual born in 1980 must survive to age 78 for NC to surpass EPC in cumulative generosity, and to age 82 for LPC to surpass NC in cumulative generosity. As of 2015, the mean remaining life expectancy for 35-year-olds was 45.4 years.



This situation is problematic because the current system provides long-lived individuals with richer monthly and cumulative benefits than their shorter-lived peers. Consider, for example, the likelihood that different demographic groups from the 1980 birth cohort will survive to ages 78 and 82. As reported in Table 1, the probability of surviving from age 35 to ages 78 or 82, given 2015 age-specific mortality, varies significantly across groups. For example, less than half of non-Hispanic black men are expected to survive long enough for NC to surpass EPC, compared to roughly 70% of non-Hispanic white women and almost 80% of Hispanic women.

Table 1. Probability of surviving from age 35 to ages 78 and 82, given 2015 age-specific mortality.

		To age 78	To age 82
All races, ethnicities, and		0.647	0.534
Hispanic	Female	0.779	0.689
	Male	0.659	0.552
Non-Hispanic	Female	0.623*	0.517*
	Male	0.467*	0.354*
Non-Hispanic	Female	0.703	0.595
	Male	0.587*	0.467*

Source: Tables 1, 11, 12, 14, 15, 17, and 18 of https://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67_07-508.pdf

Consider as well that income also affects mortality, even controlling for race and ethnicity. Using national pooled 2001-14 data, Chetty et al. (2016) show that higher income is associated with longer life at all income levels (see Figure 2). Among 40-year-olds, the difference between expected age at death in the top and bottom income percentiles is 10.1 years of women and 14.6 years for men. Chetty et al.

(2016) report this variation is highly correlated with health behaviors (such as smoking) and geographic differences. On the other hand, Finkelstein (2018) studies Canadian health record data and suggests that health behaviors do not sufficiently explain the variation in socioeconomic mortality differences.

For short-lived individuals, early claiming may not be driven by an irrational desire to increase their leisure time. In fact, because it yields the highest cumulative benefit of all the options that are truly available to them, it is likely their most rational benefit. However, the result is that they receive permanently diminished benefits for the entirety of their relatively short retirements. In effect, their means and overall quality of life are permanently reduced simply because they have high fixed mortality.

Alternative entitlement programs like unemployment insurance (UI) and Social Security Disability Insurance (SSDI) fail to meet the needs of many high-mortality groups. UI requires beneficiaries to demonstrate that they are seeking employment, and is by design temporary (≤ 30 weeks, depending on the state); it cannot and is not intended to supplement retirement income (CBPP 2019). For some early Social Security claimers, SSDI may be used to make up the difference between NC benefits and EC benefits. However, this requires not only that the beneficiary be unable to work because of a long-term disability, but that the beneficiary was disabled to such an extent before claiming their Social Security retirement benefits. This effectively excludes individuals who became disabled after exiting the workforce, not to mention the many early claimers who are not disabled but are still likely to die before reaching the threshold at which NC becomes more cumulatively generous than EC.

B. Dissemination

Race-, ethnicity-, and income-adjusted life expectancy information should be disseminated to the public, both by updating the online life expectancy calculator and by adding these enhanced life expectancy figures to Social Security statements (SSA 2019a, 2019b). These resources should also be prominently featured on any federal auto IRA communications, including websites and statements.

Sharing information is generally not the most powerful way to change behavior, and the Social Security statement appears to have had mixed effects on individuals' financial literacy (Biggs 2010, Mastrobuoni 2009). However, Smith and Couch (2014) use 1998 and 2001 survey data to show that workers aged 46 or younger were more likely to correctly answer questions about Social Security if they had previously received a Social Security statement. Liebman and Luttmmer (2015, 2012) show that labor force participation among older workers is sensitive to an information intervention, in which they sent an informational brochure and an invitation to an online tutorial about Social Security, and that claiming decisions are sensitive to how the early-normal-late claiming system is framed.

Sharing race-, ethnicity-, and income-adjusted longevity information on the Social Security statement is valuable, but only if the statements are once again sent relatively often. Since 2017, SSA has only sent paper statements to individuals aged 60+ who have not yet claimed and don't have an online *my Social Security* account (Walker 2017). Before the change, which saves roughly \$11 million annually, individuals received a paper statement every five years starting at age 25 (Mercado 2017). While cost cutting is generally sensible, this particular cost is tiny in relation to the total SSA budget, and the result is that many Americans lack the information they need until it is nearly too late for them to

adjust course.⁹ By age 60, some individuals have already experienced a significant negative health or employment shock; giving them information about the claiming structure when EPC is only two years away gives them far too little time to plan. SSA should return to sending paper statements every five years beginning at age 25, and should explore ways to reach more workers electronically without requiring individuals to voluntarily sign up for a *my Social Security* account.

The dissemination of race-, ethnicity-, and income-adjusted life expectancy information expands the SSA's standing practice of preparing period life tables annually, and making the information publicly available in the Trustees Report and online. The Centers for Disease Control and Prevention (CDC) already collects data on differential mortality for different race and ethnic groups, and makes summary statistics publicly available. In fact, SSA already uses CDC data on deaths by age and sex to prepare its period life tables. The task of incorporating additional existing CDC data into SSA's period life tables should not be overly burdensome, nor should the inclusion of these findings in its online longevity calculator and Social Security statement.

IV. Conclusion

Nearly every worker will one day need or want to retire, yet the current system fails to adequately help workers prepare for retirement. These proposed policies would work together to increase retirement security and help individuals plan during their working years. A federal auto IRA would allow more workers to benefit from the automaticity that has already yielded significant increases in employer-sponsored defined contribution plan participation and savings. Any worker, regardless of their expected mortality, can benefit from more assets to carry into retirement. Enhanced longevity data will help individuals gauge how much they may need to save for retirement. While it is impossible to be completely prepared for late life shocks, this enhanced data can nonetheless help workers think critically about when to claim their Social Security benefits and how much to save in other vehicles (such as the federal auto IRA).

⁹ In 2018, SSA collected \$888 billion in payroll taxes, comprised of roughly \$421.5 billion in employer FICA payments, \$421.5 billion in employee FICA payments, and \$45 billion in SECA payments (SSA 2019c). \$11 million is a tiny fraction of that revenue.

Appendix: Illustrative Examples of Auto IRA Features

The account will follow an enrolled worker throughout their career.

For example, imagine that Patricia accrues \$12,000 in her auto IRA at Employer A. She then takes a new job at Employer B, which happens to offer a 401(k) account. While employed at Employer B, Patricia does not make automatic contributions via payroll deduction to her auto IRA, but may voluntarily elect to contribute if she wishes. After a few years, Patricia takes a new job at Employer C, which does not offer an employer-sponsored account. Patricia's automatic contributions to her auto IRA resume while she is employed at Employer C.

A Roth IRA allows individuals to make early withdrawals (with some exceptions, any withdrawal taken before age 59 ½) while only paying tax on the earnings, not the contributions.

Imagine that Penelope has \$1,500 in her auto Roth IRA, of which 95% (\$1,425) are original contributions and the remaining 5% (\$75) are earnings. If Penelope decides to withdraw \$200 at age 27 for an emergency expense, she must withdraw proportionally from contributions and earnings. This means that 95% (\$190) of her withdrawal will be contributions and therefore non-taxable; the remaining 5% (\$10) is subject to both income tax and the 10% early withdrawal penalty (IRS 2019c).

Further, the tax burden associated with early withdrawals may temper their use. The taxes would be small in absolute dollars, but would result in an additional 1099 tax form for the taxpayer to process when filing.

To continue the example above, Penelope might owe perhaps \$3 on the \$10 taxable portion of her \$200 distribution. The \$3 itself is trivial, but the work it would create might deter her from making an avoidable withdrawal.

One possibility is to start with a 2% default rate and keep that in place until all employers had begun participating, then to increase the default rate (for new and existing enrollees) by one percentage point annually until reaching 6%.

For example, imagine that Peter works for a large firm with over 500 employees, and that firms of this size are assigned an implementation date of January 1, 2021. Peter is automatically enrolled at a default rate of 2% on that date, chooses to stay at the default, and remains at 2% for the next six years. At that point, all groups of employers will have begun implementing the program, and the last group of employers with <5 employees will have been doing so for one year. Peter's contribution rate increases to 3%, 4%, 5%, and finally 6% on January 1 of 2027, 2028, 2029, and 2030, respectively.

Some US states also include individual-level automatic escalation, in which one's contribution rate is increased by one percentage point annually until reaching 8% (in California) or 10% (in Oregon). A similar pattern could be followed with a federal auto IRA; I suggest auto escalation to 10%.

In this case, Peter's contribution rate might continue increasing annually, perhaps up to 10% by 2034.

Imagine that Patrick begins his first job (at an employer without another retirement savings plan) in March 2031. At that time, his default contribution rate is 6%. His contribution rate rises to 7%, 8%, 9%, and 10% in March of 2032, 2033, 2034, and 2035, respectively.

Contribution rates that allow an individual to reach the annual limit before the end of the year should be permitted, insuring against potential job loss or other employment shocks later in the year.

Imagine that Peter's earnings and contribution rate are high enough that he reaches the annual IRA contribution limit in April. This should be permitted but contributions should cease for the remainder of the year.

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