



Remarks prepared for Delivery
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“From Here to Empowerment: Finishing What the PPA started”

Introduction

Ida - many thanks for the kind words...

And thanks as well for this chance to speak to such a great group of people...

...some of whom actually had a role in crafting the Pension Protection Act of 2006...

...while others are well-positioned today to define and lead the next great step forward for retirement policy in this country.

Today’s Themes

So let me cut right to the chase and say that the keys to solving America’s retirement saving challenge are ***right in front of our noses***.

First - as a baseline -- we must all foster the political will to make Social Security solvent.

That’s the bedrock - as we will see.

Beyond that, in the defined contribution savings arena we've conducted a mass investing experiment for well over a generation now...

...the results are in...and we know what works.

In fact, we can trace the most beneficial factors that lift retirement readiness directly back to the PPA itself.

Its endorsement of automatic plan features, qualified default investments and legal safe harbor for plan sponsors who offer these features was a qualitative change in American retirement policy.

Empower's Lifetime Income Survey

Indeed...the benefits of the best practices that the PPA endorsed literally jump off the page in the Lifetime Income Score surveys that Empower Retirement – and before us, our sister company, Putnam Investments – have been doing for the past six years.

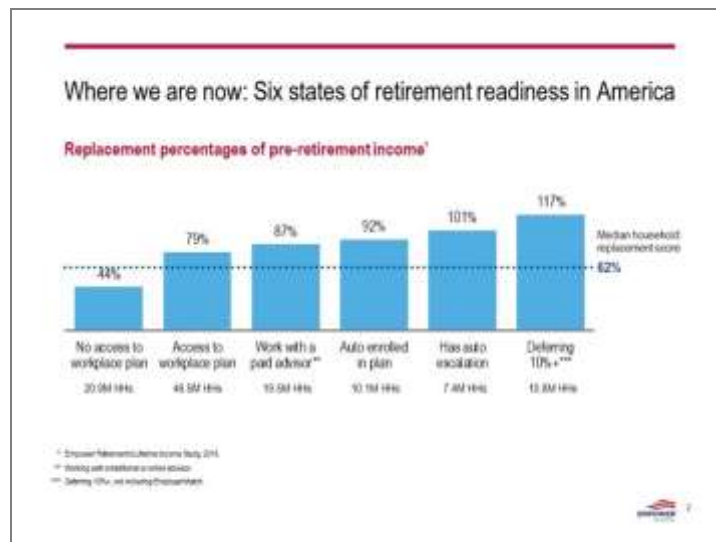
These surveys take stock of the total net worth of more than 4000 working Americans aged 18 to 65 – weighted to match US census parameters.

The assets we count are comprehensive -- Social Security and DB plan benefits, Defined Contribution balances and contribution rates, other savings, investments, insurance...and even home equity and the value of businesses that people may own – all of that.

Our analysis then projects the share of pre-retirement income that people are on track to replace once they stop work – to generate a Lifetime Income Score or LIS...

Because we see income replacement as the prime goal – the best, arguably the only metric of success or shortfall – for any retirement system or plan.

So here is a snapshot of this year's LIS survey findings – showing six very different states of retirement readiness.



Six States of Retirement Readiness

You can see that on the far left, we project income replacement of just 44% -- at the median -- for 20 million-plus households who have *no access* to savings plans on the job...

At the far right, are nearly 11 million households who stand - at the median - to draw incomes in retirement *well over full-replacement...117%, in fact.*

Overall, as the dotted line shows...we estimate that at the median, working Americans are on track to be able to replace roughly 62% of their current incomes in retirement.

Clearly, tens of millions of Americans may face a sharp fall-off in living standards in retirement...or at least real financial stress.

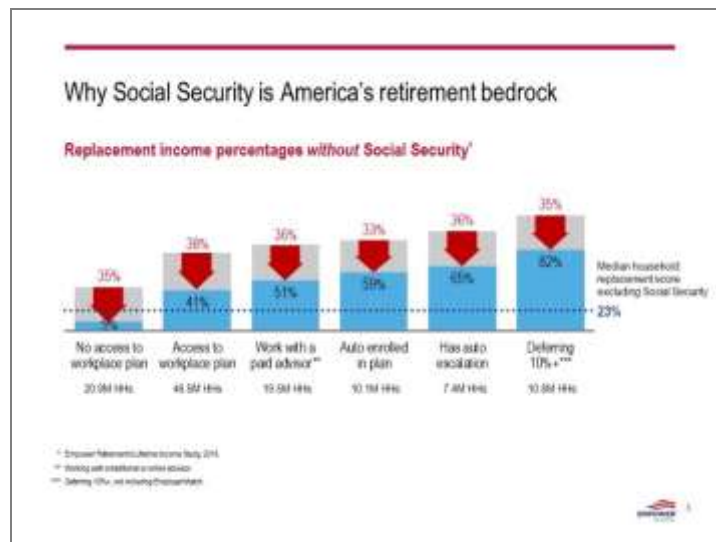
That's the challenge.

But what I'd like to suggest to you today is that this chart also provides us with something like a road-map...or an action check-list...

To identify priorities and solutions for America's entire retirement challenge.

For example, since our data includes projected Social Security income, we can see how *vital* this program is - and why making it solvent should be *retirement policy's Job 1...*

Take a look:



Why Social Security is America's Retirement Bedrock

Here's how retirement readiness would drop in the absence of Social Security...

Tens of millions of people would fall into absolute destitution. Many millions more would be sorely stressed.

That's why all of us who care about retirement policy should urge our political leaders to make Social Security solvency a high priority...because this system is under threat...
...and time is not on our side.

Roughly 18 years from now, the system's own trustees project that the last of the trust funds will be drawn down - and all recipients will face a cliff-drop of 23% - or more -- in their Social Security benefits.

Unless we act soon to make the system solvent - every American under age 49 today - who plans to retire at age 67 -- in 2034 and beyond - has to plan on facing a very nasty retirement income pay cut.

That's the very predictable price of inaction.

So let's hope that the next president and Congress have the courage to take on this challenge, compromise fairly, and shore up the foundation of Americans' retirement security.

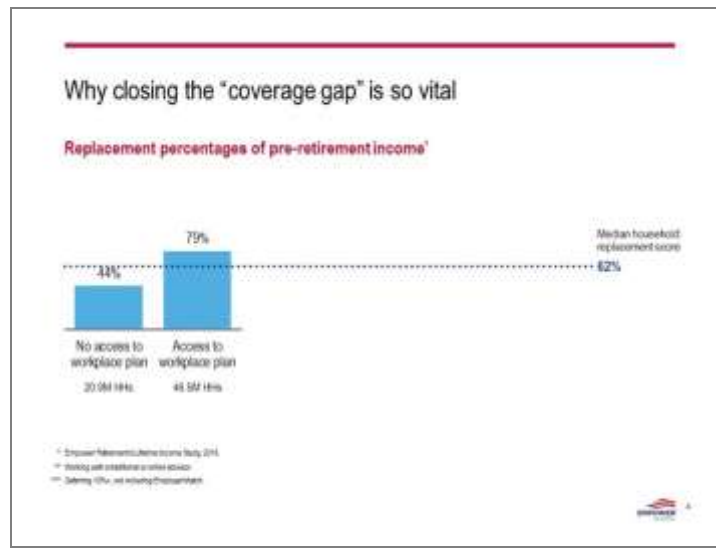
And let's help them do that...

They need prodding - and they need support for compromise and sacrifice.

If people like us here today don't offer that help, who will?

Let's also come together on the next most salient priority - getting every working American access to a savings plan on the job.

Because having such access is the next most powerful step toward retirement readiness that we can take.



Why Closing the “coverage gap” is so vital

Here’s the difference between *having* a payroll deduction plan – and *not having one*...

Access *alone* raises income replacement by fully 35% -- from just 44% to 79%.

At Empower, we believe that everyone who pays mandatory FICA tax should also have the option to set aside part of their paycheck for retirement.

Data from the Employee Benefits Research Institute shows that roughly 70% of workers earning \$30,000 to \$50,000 -- who *do have access* to a workplace plan -- choose to save at some level.

But among an identical cohort of moderate income workers – who *don’t* have a payroll savings plan – *less than 5%* open up an Individual Retirement Account.

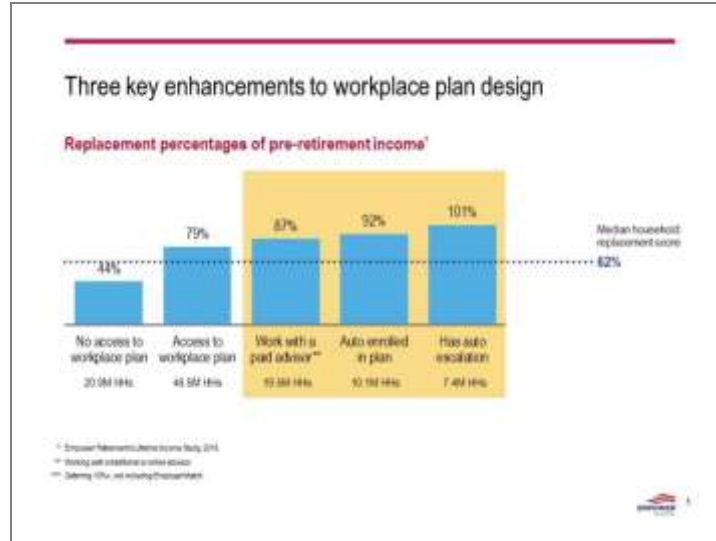
Payroll deduction, then, is roughly *14 times more effective than the tax incentive itself*.

To us, this suggests that *the only real path to retirement readiness runs straight through the workplace*.

That’s why we support robust solutions to the access or coverage “gap” – at the national level – the Auto-IRA, Multiple Employer plan reforms, simplified 401(k) proposals...

....any and all measures that expand workers’ access to payroll savings.

We also believe there are major benefits to be realized from enhancements to plan design – most of which were blessed -- and speeded up -- by the PPA.



Three Key enhancements to workplace plan design

Savers who draw on professional advice, for example, step up their media income replacement rate to 87% at the median.

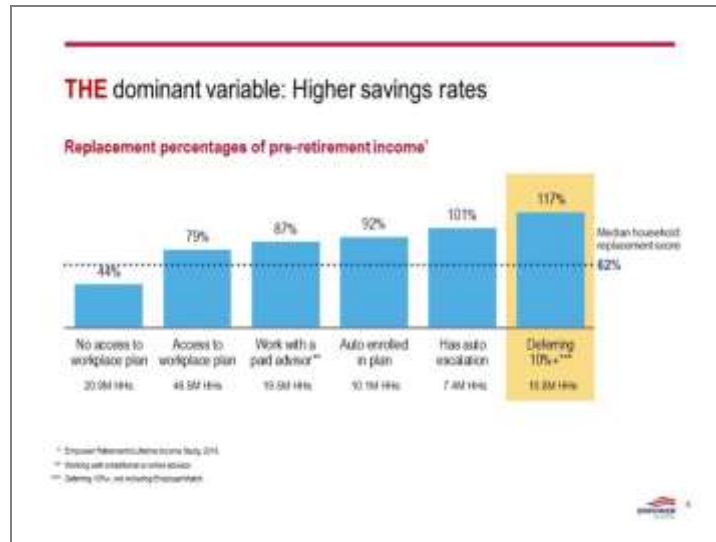
It remains to be seen whether the new DOL fiduciary rule will enhance – or damage – access to advice. The jury is out.

Workers whose companies adopt auto-enrollment in their plans take a further step up.

They are on track to replace 92% of their work-life incomes – again, at the median.

Firms that go on – *as they all should* – to add automatic savings escalation bring their media workers' replacement rates to just over 100% -- which is **success by any measure**.

Lastly, we come to the highest success category...on the far right.



THE Dominant Variable: Higher savings rates

These are workers who not only enjoy fully-automated savings plans on the job – but who are deferring at rates of 10% or more...

At a median replacement rate of 117% -- this cohort of workers may actually be able to step up their living standards in retirement.

This group, by the way, is not some tiny number of well-heeled outliers.

It includes between 20 and 30 million people from a variety of income levels.

That's Empower Retirement has advocated for 10%+ deferral rates for years...

We are very pleased to see the Financial Services Roundtable endorse that goal through their great "Save 10" campaign which we are part of.

We don't expect to win a Nobel Prize by pointing out that "more is more" and that higher savings compound over time...

But we *do* think that setting a target of 10%+ -- system-wide – is actually an ambitious target – well worth aiming at.

Today, defined contribution participants average deferrals of just over 7%...

So what we're calling for with "Save 10" -- is actually a step up of nearly 40% -- in the savings rate of tens of millions of Americans in DC plans today.

Let's face it: we don't serve anybody well by allowing them to believe that they're on track to retirement readiness when they're saving 3% or 5% or even 7%...

If Americans want financial security for 20 or 30 years after their work lives end...

We will simply have to *save more* – and *a lot more* – than we're doing today.

So let's tell people *the truth*.

One last point on this six-step “x-ray” of retirement readiness...

You might think that what lifts people to the solid readiness we see on the far right is sheer income...

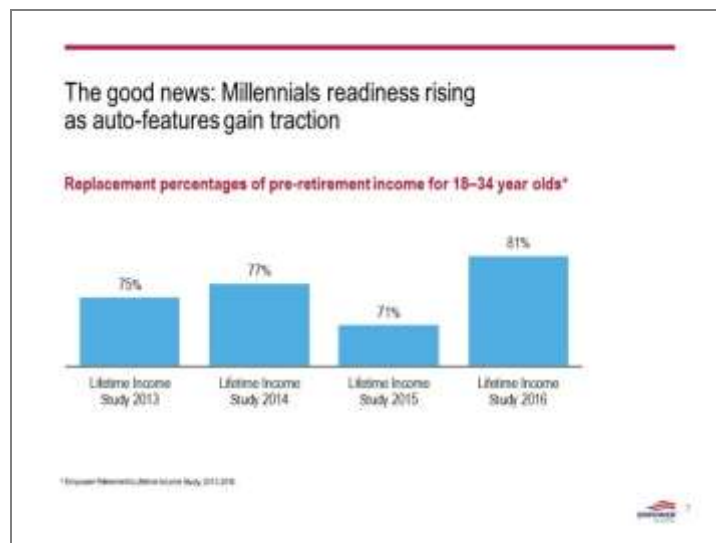
But that’s just not the case.

It is true that higher-income people are somewhat more able to save – though a surprisingly large number of them don’t.

But our survey also finds that plenty of low and moderate income people do reach high levels of readiness – because of plan design features that get them engaged in savings and allocate them to solid default investments.

Plan design matters critically.

It is possible – and it should be our goal – **to create a defined contribution system that makes success easy – and failure hard.**



Millenials gaining traction on retirement readiness

One example from this year’s survey suggests that progress towards that goal may be gaining traction...

We are seeing an uptick in the retirement readiness of younger workers over the past few years...to 81% in this year’s survey...

This data set is too short to be definitive, but we suspect it reflect the fact that many more companies have been adopting auto-enrollment – for new hires -- in recent years.

We’ll be watching this space for confirmation next year.



The Best Practice imperative

But I don't think we need a lot more data to tell us the main policy implications of the great retirement savings experiment that Americans have been living through over the past thirty years.

We simply must spread the best practices found in the defined contribution universe - as widely as humanly possible.

Access itself is vital...having nearly 70 million Americans outside the DC system is a scandal.

Besides coverage, we need to make "full-auto" plan design as universal as possible.

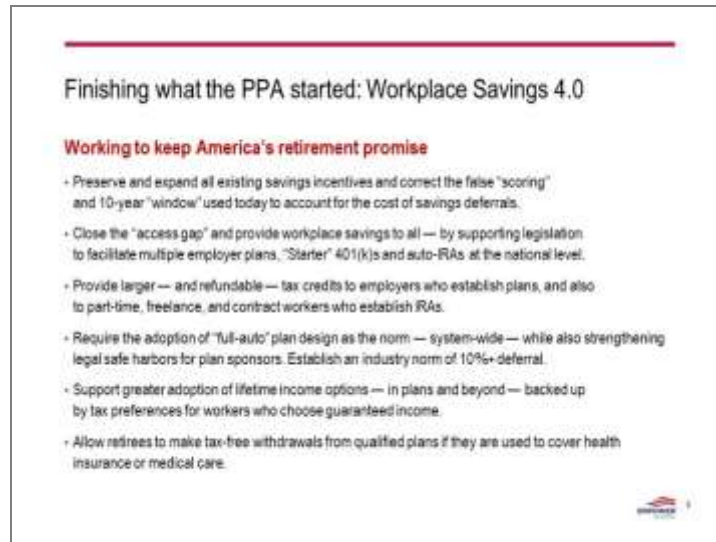
At Empower, we feel a fiduciary obligation to support any measures - legislative or regulatory - that can close the coverage gap - and make success contagious - by making these best practices in plan design **the national norm.**

We feel like medical researchers who discover a vaccine for a dreaded ailment - in this case, elderly poverty - and feel obliged to share that vaccine with all our fellow citizens.

Because our data tells us that **we really can solve the accumulation side of the retirement challenge** -- just by implementing the proven successes that PPA helped foster.

Once we do that, we should move on to finish the job that the PPA started...

That means **solving for the distribution phase.**



Building on PPA: Empower's vision for change

At Empower Retirement, we call our vision for the next generation of workplace savings in this country Workplace Savings 4.0.

...because it follows three previous, sometimes overlapping, generations of workplace savings.

1.0, if you will, is the initial explosion of DC savings plans from the mid-1980's to the middle 1990's...

Workplace 2.0 dates to the middle 1990's, when more progressive plan sponsors and providers began experimenting with features like target-date funds...and trying out auto-enrollment and savings escalation...

Workplace 3.0 - the era we're still in today -- began in 2006 -- when the PPA essentially codified these best practices...

But today, with 10,000 Baby Boomers moving into retirement every day - we're entering a ***new phase*** in the evolution of workplace savings...

We still have to finish implementing PPA-endorsed best practices... take the DC system to a new level - and then move on to solve the ***new challenge*** of lifetime income.

This slide shows our Workplace 4.0 agenda -- in a nutshell.

We start by preserving all existing savings incentives - and seeking to correct the bogus "scoring" methods that make retirement savings such a juicy target...for budget hawks.

The "ask" here is for honest arithmetic - distinguishing between tax deferrals and once-and-gone tax expenditures - and doing that before any major tax reform.

The next major goal is to close the access gap – at the national level...

...so we will actively support legislative and regulatory efforts to do that – through Auto-IRAs, multiple-employer plans, “starter” or simplified 401(k)’s – *whatever it takes*.

We favor more generous – and refundable – tax credits to encourage more employers to establish plans...

...and we support efforts to engage the large and growing share of the workforce doing part-time or contract work...

That’s a big challenge because these workers have no regular W-2 payroll income to take deductions from.

They need *strong, new* incentives to engage retirement savings.

Across the existing workplace system it is time for regulators – and legislators – to *guide, nudge* or even *mandate* the adoption of full-auto plan designs...

These designs are *qualitatively* better than purely voluntary plans without auto-features...they have vastly more prospects of helping workers attain retirement readiness.

In short, *they work*.

To get to a full-auto system will, almost surely, require new legislation – and stronger legal safe harbors for plan sponsors who do the right thing.

And we also need to continue efforts already underway – led by the Treasury – to make it easier for workplace plans to include guaranteed income options...

...annuities, partial and deferred annuities and guaranteed draw-down plans.

To spur greater adoption of income solutions, we would favor a tax preference – perhaps allowing workers to draw the first \$10,000 a year in guaranteed income tax-free.

Last, not least, we believe Congress could deliver major help to many millions of retirees by allowing tax-free withdrawals from qualified plans to cover medical expenses and health insurance.

These changes, taken together, will go far toward fleshing out the next generation of workplace savings in America...

Conclusion

I want to close by emphasizing the great opportunity that all of us in retirement services have to make this country more *prosperous*, more *dynamic* – and indeed -- more *just*.

Keeping the promise of a dignified retirement after a lifetime’s work is not just a decent goal to fight for...

...it's a way to turn what could be a crisis...into an opportunity for renewed growth and national confidence...

Imagine an America in 2020 where every worker has strong incentives to save...in plans designed to actually deliver a dignified retirement...

...with those savings flowing through the markets to finance growth, entrepreneurship and job creation...

Imagine a country that knows that it can meet real challenges - because it has just done so.
That's what solving our retirement challenge could do for America.

So let's go from here to Empowerment...

Let's set the agenda for change in retirement policy this year...

...then drive it forward in 2017.

Because if we don't..who will?

Thanks so much for listening.

I would be pleased now to take some questions.

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Empower Slide Q&A

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