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Working Paper

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AEI Economics Working Paper, No. 2017-13

Provided in Cooperation with:

American Enterprise Institute (AEI), Washington, DC

Suggested Citation: Biggs, Andrew G. (2017) : How hard should we push the poor to save for retirement?, AEI Economics Working Paper, No. 2017-13, American Enterprise Institute (AEI), Washington, DC

This Version is available at:

<https://hdl.handle.net/10419/280566>

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AEI Economics Working Paper 2017-13
Updated October 2017

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How Hard Should We Push the Poor to Save for Retirement?

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Draft of: October 6, 2017

Abstract

More than half of U.S. states are working to establish programs what would automatically enrollment in Individual Retirement Accounts (IRAs) workers who are not offered a retirement plan by their employer. These programs are designed to address a perceived shortfall of retirement saving, particularly among low-wage workers who are less likely to be offered an employer-sponsored plan. But the designers of state-run auto-IRA plans fail to consider three questions: Do the poor need to save more for retirement? Will state-run auto-IRA plans increase net household savings? And, after accounting for interactions with means-tested government transfer programs, will state-run auto-IRA plans make the poor better off? The answer to all three questions may be “no.” First, tax data indicate that most low-income retirees have incomes adequate to maintain their pre-retirement standard of living. Second, employees who are automatically enrolled in retirement plans may accrue additional debts that offset their own contributions. Third, income- and asset-tests for federal and state transfer programs could reduce benefits to low-earners in substantially greater amounts than they could save in auto-IRA accounts. In light of these issues, policymakers should reconsider the design of state-run auto-IRA programs. One potential improvement is to exempt truly low-earning workers, such as those with earnings below \$12,000, from automatic enrollment in these plans while leaving open the option to voluntary participate.

I. Introduction

Around the country, more than half of state governments and even several city governments are pushing to establish retirement plans aimed at low-income workers, who would be automatically enrolled and have contributions deducted from their salaries. (For details by state, see Pension Rights Center 2017.) There is a debate between states and the Republican Congress in Washington, D.C. over whether these new retirement plans should be subject to federal pension regulations embodied in the Employee Retirement Income Security Act (ERISA) of 1974. Both the House and Senate recently voted to invalidate regulatory exemptions granted to state retirement plans late in the Obama administration. (Lambert and Lynch, 2017.) States are vowing to move ahead regardless, and a political confrontation seems inevitable.

But this regulatory struggle threatens to overlook more fundamental questions: Do poor Americans need to save more for retirement? Will they be made better off by these new state-run retirement plans? To some proponents of state-run retirement plans the questions appear not even worth asking: it is taken for granted that low-income Americans should save more for retirement and would be made better off by policies that would encourage higher saving. In fact, however, it is plausible that the answers to both questions could be “no.” If so, considerable financial resources and political energy may be expended on policies that would be of only limited benefit to lower-income households, either prior to or after retirement.

The rationale for establishing new state-run retirement plans is seemingly obvious: most low-earning households don’t save much for retirement outside of Social Security. Many low-income employees work for businesses that don’t offer a 401(k) or other retirement plan. When offered a plan, relatively few low-earners choose to participate; those who do participate often contribute at lower levels than middle and high-income employees.

The new state-run retirement plans would address both access and participation. States would require all employers who don’t offer a retirement plan to automatically enroll all of their employees in an Individual Retirement Account administered by the state. Employees may withdraw if they choose, but the presumption is that most will stay. Depending upon the state, initial default contribution rates for these plans range from 3 percent to 6 percent of employees’ pay, with potential auto-escalation up to 8 percent of earnings.

The prominent behavioral economist Richard Thaler (2017), whose research helped form the policy foundation for automatic retirement plan enrollment, writes, “There is no coherent argument against these state plans.” Opposition is often taken to be based in the self-interest of the investment industry, who are afraid of being undercut or displaced by state-run plans, or via a misguided distrust in state governments’ ability to competently run auto-IRA plans, given the states’ current funding difficulties with defined benefit pensions for government employees.

In fact, there are at least three coherent arguments against state-run auto-IRA plans. The following sections address these three questions: Do low-income households need to save more for retirement? Will low-income households who are automatically enrolled in state-run IRA plans increase their total saving? And will auto-IRA plans make low-income households better off after netting out interactions with means-tested government transfer benefits? In the following sections I examine these questions in greater detail.

II. Do Low Earners Need to Save More for Retirement?

A threshold question for state-run retirement plans is whether Americans, in particular the low-income Americans at whom the plans are aimed, need to save more for retirement (See Biggs and Schieber, 2014). If they do not, or if undersaving is a more isolated problem, then shortfalls where they exist might be better targeted through means-tested transfer benefits or adjustments to the Social Security benefit formula. But discussions of state-run auto-IRA plans often assume rather than prove the need for low earners to save more for retirement. As Mitchell (2008) notes in a review of Orszag, Iwry and Gale (2006)’s *Aging Gracefully*, one of the first books to argue for automatic retirement account enrollment,

[T]here is no discussion of how Social Security interacts with pensions for the lower-paid. Social Security rules, for instance, pay lower-wage workers much higher relative benefits than higher-paid workers; the lower paid also pay less tax and are more likely to receive social insurance disability income and survivor benefits. So why, then, should low-paid workers be required, induced, and/or subsidized to save, when government benefits are already proportionately rather more generous? Maybe low saving rates are optimal for the poor and middle class, especially as research has shown that Medicare, Medicaid, and other government transfers tend to crowd out private saving and insurance in the expected ways.

These questions have been little explored in the subsequent decade; indeed, in policymaking circles it is often taken as obvious that all Americans, but especially lower-income households, should save more for retirement. In this section, I examine the adequacy of retirement for low earners through several analytic devices: poverty rates before and after retirement; replacement rates, which represent Social Security benefits or total retirement income as a percentage of pre-retirement earnings; and implicit saving rates via Social Security.

Judging the adequacy of retirement saving is a complex task without straightforward answers. While most analysts accept the core of the life cycle model's predictions – that households will borrow and save in an effort to smooth the marginal utility they derive from consumption – this basic framework is consistent with a variety of conclusions regarding the adequacy of Americans' overall retirement saving.

For poor households, however, a simpler and more easily verifiable framework is possible. We can reasonably imagine that such households, who are most at risk of poverty, will seek to minimize the chances that their incomes fall below the poverty line. For instance, if poor households had incomes somewhat above the poverty line while working but below the poverty line in old age, they might save during their working years in order to reduce the risk of poverty in retirement. If poor households did not save under such circumstances, we might infer that factors such as inadequate liquidity, lack of access to retirement plans or psychological inertia prevent many from saving as they might wish to. In such a circumstance, policy steps to mandate universal access to and automatic enrollment in retirement accounts might provide significant welfare gains to low-income households.

And yet the age-related path of poverty risks is precisely the opposite of the one described above. Census Bureau data show that in 2015, 8.8 percent of Americans aged 65 and over had incomes below the poverty line. The Current Population Survey used to measure poverty is poor at counting the incomes that retirees draw from IRA and 401(k) balances, capturing only 55 percent of the pension and annuity income that retirees report to the IRS. This implies that the true elderly poverty rate is likely even lower than the 8.8 percent rate reported in CPS data (Biggs, 2015). Bee and Mitchell (2017), using IRS tax data to more accurately count income from private retirement plans, find that just 6.9 percent of Americans aged 65 and over have incomes below the poverty threshold, nearly two percentage points below the rate found

using CPS data. By contrast, working-age Americans had substantially higher poverty rates. The rates below are based upon CPS data, but should be reasonably accurate given that the main source of inaccuracy in the CPS is measuring retirement income. Among Americans 55 to 64, 10.3 percent had incomes below the poverty threshold. Among those 45 to 54, the poverty rate was 9.5 percent, while poverty was 12.0 percent among those aged 35-44 and 12.9 percent among those aged 25 to 34. Overall, Americans are about twice as likely to live in poverty during their working years than when they are in retirement. Given this, it is not clear that saving more for retirement would make sense for low-income working-age households.

One reason poverty rates are lower in old age is Social Security's progressive benefit formula, which pays more generous benefits to low earners. For a single worker turning age 62 in 2017, Social Security's benefit formula replaces 90 percent of the first \$885 in Average Indexed Monthly Earnings (AIME), 32 percent of AIME between \$885 and \$5,336, and 15 percent of AIME above \$5,336. However, the dollar values of AIME are indexed to economy-wide wage growth, which is not a relevant figure for personal financial planning decisions. Roughly speaking, Average Indexed Monthly Earnings tend to be about 28 percent higher than the same earnings indexed for inflation, which is a more relevant measure for a household seeking to maintain its pre-retirement standard of living once it retires.¹ (See Biggs, Pang and Schieber, 2015.)

Assuming a 28 percent difference between wage-indexed and inflation-indexed career average earnings, the Social Security benefit formula currently replaces 90 percent of the first \$1,133 in real average monthly earnings, 32 percent of real earnings between \$1,133 and \$6,830, and 15 percent of real earnings above \$6,830. The annualized figures are \$13,594 and \$81,961, respectively. This implies that an individual who earned a poverty level wage of roughly \$12,000 during his working years would receive a Social Security benefit that replaced roughly 90 percent of those pre-retirement earnings. At 125 percent of poverty the replacement rate declines

¹ The 27 percent figure is derived from Congressional Budget Office (2016) estimates of Social Security replacement rates for different birth cohorts, when replacement rates are calculated relative to wage-indexed average earnings or to earnings adjusted for inflation via the Personal Consumption Expenditure (PCE) deflator. For birth cohorts ranging from the 1940s through the 2000s, replacement rates calculated relative to inflation-adjusted earnings ranged from 20 to 35 percent (not percentage points) higher than those calculated relative to wage-indexed earnings, which implies that wage-indexed earnings exceed inflation-indexed earnings by that amount. Over the full birth cohorts modeled the difference averages 28 percent.

to about 84 percent and at 150 percent of poverty it falls only to about 76 percent. Again, it is not clear why a worker with poverty-level earnings would place a great emphasis on saving for retirement versus other potentially more pressing needs.

An alternate approach is to estimate the implicit saving rates for low-earning participants in Social Security. The Social Security Administration's actuaries calculate "money's worth" ratios for stylized earners, which represent the present value of lifetime Social Security benefits relative to the present value of lifetime Social Security taxes, inclusive of taxes paid by employers. (Clingman, et al., 2016.) Present values are calculated based on the yields on special-issue Treasury bonds held by the Social Security trust funds. One way of looking at this positive money's worth ratio is to note that, due to Social Security's progressive benefit formula, a very low wage worker receive an implicit rate of return on his payroll taxes that exceeds the yield on Treasury bonds. But another approach is to calculate the implicit saving rate for workers by multiplying their money's worth ratio by the Social Security payroll tax rate they paid during their working careers. The resulting figure represents how much a worker would need to save in safe investments to produce the same level of benefits in retirement.

For instance, consider a single worker born in 1958 and earning what SSA's actuaries refer to as "very low" earnings, equal to about 25 percent of the national average wage or slightly below the federal poverty threshold. "Very low" wage workers make up about 19 percent of the retiree population, making them a logical target for automatic retirement saving programs. Assuming retirement at age 65, such a worker would receive lifetime benefits equal to 1.74 times his lifetime payroll taxes.² Since the Social Security payroll tax rate is equal to 12.4 percent of earnings, a money's worth ratio of 1.74 implies that lifetime Social Security benefits equal what the worker would have received by saving 21.6 percent of their lifetime earnings in Treasury bonds. Now, it is not intuitively clear whether a retirement saving rate of 22 percent is sufficient to produce an adequate retirement income. But one would not be surprised if a low-wage work who already saves 22 percent of his earnings for retirement focuses his marginal income on more immediate needs.

² For simplicity, money's worth figures presented are the weighted average of the male- and female-specific figures calculated separately by SSA's actuaries.

While these figures are necessarily stylized, their broad conclusions are maintained by studies using tax data on pre- and post-retirement incomes. Brady et al. (2017) use IRS data to track household incomes from the year prior to Social Security claiming through three years after retirement. Among households in the bottom quintile of pre-retirement income, mean earnings in the year prior to Social Security benefit claiming were \$13,310 while initial Social Security benefits year years following claiming were \$10,522, an 80 percent effective replacement rate.³ For that same bottom quintile, the sum of Social Security benefits, pension and IRA income was \$13,883, equal to 106 percent of earnings immediately preceding retirement. In the second income quintile, where final earnings averaged \$21,211, Social Security and combined pension income replacement rates averaged 60 percent and 104 percent, respectively.

Bee and Mitchell (2016) performed a similar replacement rate calculation, using IRS data matched to household responses to the Survey of Income and Program Participation (SIPP). The authors measure incomes ranging from as early as three years prior to Social Security claiming to five years past claiming. Bee and Mitchell do not break down retirees by incomes by instead by education and by marital status. For households in which the female member lacked a college degree, median incomes five years past retirement were equal to approximately 95 percent of incomes three years prior to retirement. Similar replacement rates are found for unmarried women, who tend to have lower average incomes. Again, it appears that most lower-income households have retirement incomes that are more than adequate in terms of replacing pre-retirement consumption.

Another way to consider retirement income adequacy is to compare the growth rates of retirement incomes to the growth rates of pre-retirement incomes over time. While not dispositive, this comparison will likely indicate the trend rate in retirement income replacement rates. Bee and Mitchell (2016) find that at the 25th percentile of the income distribution of new retirees, mean total incomes grew by 50 percent above inflation from 1989 through 2007. By contrast, using Survey of Consumer Finance data, I calculated that inflation-adjusted total incomes for households aged 50 to 60 in the second income quintile (the 20th to 39th percentiles)

³ This rate is likely lower than the 90 percent rate calculated based on the Social Security benefit formula in part due to retirees claiming Social Security benefits prior to the full retirement age of 66. Social Security benefits are measured three years past claiming, rather than in the year of claiming, because incomes in Brady et al. (2017) are measured on a per capita household basis; measuring Social Security benefits three years past initial claiming for the head of household makes it more likely that both spouses have claimed benefits.

grew by only 15 percent from 1989 to 2007. If we assume that the households do not shift dramatically in the income distribution as they shift from work into retirement – meaning, that the poorest age 50 to 59 year olds will tend to be in the poorest group of new retirees – these data indicate the retirement income replacement rates have been increasing, perhaps fairly dramatically, for the low-income retirees that auto-IRA programs are aimed at.

Auto-IRA plans are paternalistic programs operating under the assumption that, while low earners might not affirmatively enroll in retirement plans on their own, in retrospect auto-enrollees will be glad that it was done on their behalf. Undoubtedly there are many low earners who fit this description. But a larger number may not. The substantially lower risk of poverty in old age coupled with more-than-adequate typical replacement rates indicate that many low-income households may be saving adequately as they are and that the soft compulsion of auto-IRA plans could cause them to over-save. Over-saving is not costless; it reduces a household's standard of living during its working years and makes it more difficult for a household to finance business or human capital investments that could lead to higher incomes in the future.

Proponents of state-run plans should establish in greater detail why low-income households would wish to reduce their standard of living during a period in which their risk of poverty is highest in order to increase consumption during a later period when their risk of poverty is substantially lower. As the following section discusses, many low-income households may not wish to increase their retirement saving and may undertake sometimes-costly efforts to undo semi-mandated retirement saving.

III. Will Auto-IRAs Increase Savings?

Although employees would automatically be enrolled in state-run auto-IRA plans, participation would not be mandatory. Employees could withdraw if they chose, but the underlying assumption is that most employees will remain enrolled for the long term following their initial automatic enrollment.

One interpretation of the stickiness of automatic enrollment is that participants, once enrolled, appreciate the benefits of saving and acquire an affirmative desire to remain enrolled. In other words, automatic enrollment generally leads to tacit consent. A second interpretation is that auto-enrollees pay little attention to saving decisions prior to being enrolled and remain

inattentive after being automatically signed up for a plan. The danger in this case is that auto-enrolled employees, sensing a decline in their take-home pay, may seek to maintain their standard of living by reducing saving or borrowing elsewhere in their household budget.⁴ Of particular danger is that some of these sources of borrowing carry considerably higher interest rates than savers are likely to earn in their IRA accounts, meaning that a perfect offset of retirement saving into debt on an annual basis could lower households' net worth and standard of living over time. Two paths of research indicate that these risks are worth paying attention to.

Beshears et al. (2016) examine the effects of the U.S. Army's decision in 2010 to begin automatically enrolling its civilian employees in the Thrift Savings Plan (TSP), the federal government's version of a 401(k). The authors were given access to the employees' account balances as well as to their credit reports, which allowed them to track both the new savings accumulated in the TSP and any offsetting debts accruing outside of the program. Beshears et al. find, as expected, that TSP balances increased for auto-enrolled employees relative to previous employees who had not been automatically enrolled. However, debts also increased, particularly credit card debt and installment loans, sufficient to fully crowd out increased employee contributions to the TSP. Employee TSP balances did increase due to the employer matching contributions. However, employer matches would not be allowed under state-run retirement plans, due to a desire to avoid regulation under ERISA. Note, however, that the results reported in Beshears et al. are preliminary; the authors note in personal communications that the results may change as the research is revised.

While surprising, the finding that auto-enrollment retirement saving programs may not increase household savings is not unique. In 2007, New Zealand instituted KiwiSaver, a tax-favored retirement plan to which most full-time and permanent part-time employees are automatically enrolled. Employees contribute between 3 and 8 percent of their earnings, but are able to take temporary "holidays" from contributing. While not identical to states' proposed auto-IRA plans, KiwiSaver is similar enough that many of the same policy issues arise.

⁴ For instance, auto-enrolled employees may save less outside of retirement accounts, such as by reducing bank balances or by making smaller down payments on mortgages or other loans. Alternately, they may accumulate debt in credit card accounts, installment loans for automobiles or home appliances, home equity loans, payday loans, and so forth.

Two subsequent studies undertaken by New Zealand Treasury economists using different datasets and a variety of analytical techniques have found that KiwiSaver failed to increase net saving. Law et al. (2011) find that only 9 to 19 cents of each dollar of KiwiSaver contributions constituted new saving; when the cost of KiwiSaver's tax incentives were included, the effect on total national saving was negative. A subsequent analysis (Law and Scobie, 2014), based on linked survey and tax administrative data, used two methods to analyze the effect of KiwiSaver enrollment on saving. These analyses "suggest that KiwiSaver membership, at least until 2010, had not been associated with greater accumulation of net wealth, and hence improved retirement income outcomes."

But again, this may make sense: research published by the New Zealand Treasury finds that most residents, in particular low earners, already will have sufficient retirement incomes through the combination of existing household savings and government pension benefits. (Le et al., 2009) As with the TSP participants studied in Beshears et al. (2016), KiwiSaver participants may have reacted as adequately-prepared-but-rational agents might: remain enrolled in the retirement saving program to obtain the matching contribution, but then dis-save elsewhere to maintain pre-retirement consumption.

More recently, the United Kingdom's National Employment Savings Trust (NEST) began automatically enrolling employees without workplace pensions in an IRA-like savings vehicle. Beginning in 2012 the total contribution rate was 2 percent of employee wages, rising to 8 percent by 2019. Employees will contribute 4 percent of their salaries, matched with a 3 percent contribution from their employer and a 1 percent contribution from the government. It is too early to know how NEST accounts will affect net saving, but it would not be surprising to see low earners offset their NEST savings with additional debt. NEST balances, or employer plans offered in place of NEST, will be used to supplement a flat rate government pension benefit of about \$775 per month. For an individual earning one-quarter of the average U.K. wage, the flat government benefit would replace approximately 100 percent of pre-retirement earnings. Thus, while NEST is not identical to the states' proposed auto-IRA plans, it is similar enough that policymakers should watch as data and research become available over time.

IV. Interactions with Means-Tested Government Benefits

A third element to consider is how the accumulation of auto-IRA account balances would interact with means-tested government transfer programs. With government welfare programs instituting asset tests as low as \$1,000, low-income households who participate in state-run retirement auto-IRA plans could lose eligibility for benefits. Later in life, the drawdown of auto-IRA balances could trigger income-based means-tests. Loss of transfer benefits could make participation in an auto-IRA plan a financial loser for certain low-income households. Moreover, if state auto-IRAs are implemented without thought to how they would interact with means-tested transfer programs, both the federal and state governments may face difficult subsequent policy decisions in terms of reconciling the two policies.

The federal and state governments sponsor a variety of means-tested transfer programs, but major programs include: Medicaid; Temporary Aid for Needy Families (TANF); Supplemental Nutrition Assistance Program (SNAP, commonly referred to as “food stamps”); Supplemental Security Income (SSI); Section 8 housing assistance; and the Low Income Home Energy Assistance Program (LIHEAP). TANF, SSI, Section 8 and home heating supplements generally have both asset and income tests, with asset-based eligibility restrictions differing by state but usually in the range of \$1,000 to \$3,000.

Data from the Survey of Consumer Finances for 2013 show that, among employed households aged 21 to 64 with neither a retirement account nor entitlement to a traditional defined benefit pension, 41 percent received transfer income that might be subject to an income or an asset test. Such transfer income can include unemployment benefits, alimony or child support, TANF, SSI, SNAP or other welfare benefits. For households with earned income below \$35,000, 48 percent received transfer benefits in 2013. Thus, there is significant overlap between non-saving households and those receiving transfer benefits that may be subject to means tests.

Even at low contribution rates and modest investment returns, it would not take many years for low-income auto-IRA participants to bump up against common asset thresholds. For instance, the Social Security Administration characterizes as a “very low” earner an employee with annual earnings equal to approximately 25 percent of the national average wage. If such an individual were auto-enrolled at a 3 percent contribution rate at age 22 and earned a 5.7 percent return on their savings, their balance would reach \$1,200 by age 27, \$2,000 by age 29 and \$3,000 by age 32. At this point, eligibility for transfer programs with asset tests would become difficult.

Chen and Lerman (2004) show that roughly one-quarter of all U.S. households received at least one means-tested benefit in 2000; given expansions in Medicaid and SNAP benefits, the current figure is likely higher. Using the Urban Institute's Transfer Income Model (TRIM), Chen and Lerman simulate the effects on means-tested benefits of increases in household assets. For a married couple with two children, increasing the household's liquid assets from below \$1,000 to between \$1,000 and \$2,000 would reduce annual benefits from means-tested transfer programs by almost \$3,000. As that household's assets increased to cross the \$2,000 threshold, it would lose an additional \$5,600 in annual transfer benefits, a 47 percent reduction.

During auto-IRA enrollees' working years, assets tests could reduce or eliminate eligibility for various means-tested benefits. In retirement, participants whose auto-IRA balances cause them to exceed Medicaid asset limits would need to "spend down" their savings to cover Medicare premiums and other health costs until they regained full Medicaid eligibility.

Sponsoring governments are not unaware of these issues. California's legislation establishing its retirement plan states that account balances would be treated identically to any other IRA for the purposes of the state's means-tested welfare programs (California State Legislature, 2016). Likewise, proponents of state-run retirement plans cite a study by Segal Consulting (2017) finding that states would save \$5 billion on Medicaid costs in the first 10 years following implementation of state-run retirement plans, as higher incomes due to auto-enrollment plans cause retirees to lose their Medicaid eligibility.

One argument proposed for state-run retirement plans is that, due to low retirement saving, the costs of means-tested government programs will rise considerably in the future. For instance, Trostel (2017), a report funded by the AARP, states:

Inadequate savings for retirement creates fiscal costs due to increased elderly reliance on public assistance (mostly in Medicaid, Supplemental Security Income, Supplemental Nutrition Assistance Program, and housing assistance)... Moreover, savings for retirement has been declining in recent years, which will further exacerbate the problem. But the fiscal burden from the retirement-age population does not have to grow. Simulations show that increasing retirement income through greater preretirement savings can substantially reduce the need for taxpayer contributions for public assistance.

In this view, automatically enrolling low-income workers in retirement accounts will not so much throw households off of means-tested transfer programs as simply keep the benefit rolls from rising.

But Trostel (2017) works from fairly crude extrapolations of current benefit costs. More detailed projections do not forecast an explosion of means-tested benefit costs for retirees. For instance, the Center for Medicare and Medicaid Services (2016) projects that aged Medicaid beneficiaries will decline slightly as a percentage of the over-65 population, from a high of 12.2 percent in 2012 to 11.5 percent by 2025. Projected increases in Medicaid costs are driven more by health care inflation than by rising enrollment. Similarly, the Congressional Budget Office (2017) projects that the number of SNAP beneficiaries (of all ages) will decline by 24 percent over the next decade, a period over which the U.S. population is projected to rise by about 9 percent. (Also see Brynne and Jennings, 2017.) The CBO (2017a) projects that from 2016 to 2027, aged SSI beneficiaries will fall from 2.2 percent to 1.8 percent of the over-age 65 population. The Urban Institute's DYNASIM model similarly projects that fewer future retirees will receive SSI benefits as rising real incomes reduce benefit eligibility. (Urban Institute, 2017.) Likewise, the Social Security Administration projects that the poverty rate among individuals over age 65 will fall from 7.0 percent for the Depression birth cohorts to 5.7 percent for Gen X-ers born from 1966 to 1975. Given that most means-tested benefits are in some way pegged to the poverty threshold, these projections imply lower, not higher, future benefit costs.

It may be possible to adjust means-tested government programs to accommodate more retirement saving by low earners. But it is not necessarily simple. Exempting only state-run auto-IRA balances would address concerns among the low-income target participants, but bias the broader marketplace against employer-provided 401(k)s or other retirement plans. Likewise, exempting all retirement savings from means-tests could broaden eligibility and push up costs for government welfare plans. This complexity belies auto-IRA proponents' claims that all the federal government need do is "stand aside" and let states get on with the work of establishing retirement plans. To date, there has been little careful analysis of how state retirement plans would interact with mean-tested government transfer benefits, which may be rash given the stakes for both participants and government budgets.

Automatic enrollment of workers in state-run auto-IRA plans is sometimes portrayed as a way to wean low-income households from dependence upon government and to build self-reliance. For instance, with reference to New Jersey's proposed Secure Choice retirement plan, the AARP (2016) states that a such a plan "helps encourage private savings, promotes self-reliance, and means fewer New Jerseyans would need to rely on government safety net programs later in life." Yes, while marginal effects on transfer benefit eligibility might be overlooked by the largely-progressive coalition that supports state-run retirement plans, it is difficult to accept that this coalition has thrown its weight behind a savings program that would push large numbers of households of all ages off public assistance. More likely is that many proponents of state-run retirement plans have not yet realized the potential effects of auto-IRA enrollment on eligibility for means-tested benefits. If large numbers of workers or retirees were rendered ineligible for benefits due to their auto-IRA accounts, supporters of these plans may lobby for policy changes to maintain benefit eligibility. The appropriate time to analyze potential policy responses by the federal and state governments is before, not after, state retirement plans are established.

V. Conclusions

State-run retirement plans for private sector workers are proposed as way to increase retirement incomes for principally low-wage earners who are not currently offered a retirement plan at work. But research and data indicate that this may not work as planned. Many low-income workers may be rational in not saving substantial amounts for retirement over and above what Social Security will provide. Reducing their working-age take-home pay in order to raise income in retirement may produce an imbalance between standards of living between working-age households and those same households in retirement. In response, low-earners who are automatically enrolled in a retirement plan may offset their new retirement savings by increasing their borrowing and debt. As a result, net increases in household net worths may be substantially lower than gross increases in retirement savings. And finally, due to asset and income tests associated with government transfer benefits, many low-income workers who are automatically enrolled in state-run IRA plans may lose more in benefits than they gain in savings. Taken at face value, the main beneficiaries of state-run retirement plans may be the state governments themselves, who may offset increased household savings on a more than dollar-for-dollar basis with reduced transfer program benefits.

States that have approved auto-IRA plans understandably wish to begin implementation as soon as possible. But even leaving aside the recent loss of exemption from ERISA regulations, the policy considerations raised here seem sufficiently important that states should consider how their plans are structured and how to work with the federal government with regard to interactions between auto-IRA plans and means-tested government transfer programs. The federal government should reciprocate that cooperation.

To be clear, there is no easy solution by which to achieve the states' goals of broadening retirement saving while avoiding the pitfalls raised here. Any increase in retirement saving by low-income households – not simply savings in proposed state-run plans – is subject to concerns regarding over-saving for retirement, dissaving outside of retirement accounts, or the loss of eligibility for means-tested benefits. Perhaps the most obvious step is to exclude from auto-enrollment workers with incomes low enough that they rationally would choose not to save on top of Social Security. For instance, the U.K.'s NEST program automatically enrolls only workers with annual earnings over £10,000 (about \$13,000). Employees with lower earnings may participate, but must affirmatively petition to join.

In the U.S. context, such a policy would require a realistic assessment of how much retirement income low-earning individuals require relative to the levels provided by Social Security alone. (See Biggs, 2017.) If we assume that a low-wage earner would desire a retirement income equal to roughly 80 percent of his final earnings, the earnings exclusion for an auto-enrollment retirement plan would be around \$12,000, just slightly lower than the U.K.'s level. Social Security by itself would provide an adequate replacement rate for retirees with average pre-retirement earnings of less than \$12,000, while incremental earnings above that level workers could be subject to an auto-IRA contribution. At these earnings levels and above, most households already are saving for retirement, but an auto-enrollment retirement plan might assist those who currently are failing to save but would benefit by doing so. Such a policy does not solve the problem of interactions between retirement saving and means-tested benefits, which in some cases can be an issue for households with earnings well above the poverty threshold. But an exemption for truly low-income workers would at least begin the process of thinking about auto-enrollment saving policy in a more comprehensive way.

Similarly, Social Security should be reformed to strengthen poverty protections for low-earning households. (Biggs, 2013.) While Social Security's progressive benefit structure is highly beneficial for low earners, the program offers no strong guarantee against poverty in old age. Moreover, quirks in the Social Security benefit formula mean that households with the same lifetime earnings and contributions to the program can receive significantly different replacement rates and levels of social protection. A universal, flat-dollar benefit set at the poverty threshold, similar to the retirement systems of New Zealand and the United Kingdom, could at reasonable costs eliminate the threat of poverty in old age while simplifying decisions regarding how much to save for retirement on top of Social Security.

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