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Revamping Retirement Episode 91

Intro: Covering the ever evolving retirement plan landscape to help identify the biggest opportunities for plan sponsors, CAPTRUST presents Revamping Retirement.

Matt Patrick: Hello, and welcome to another episode of "Revamping Retirement." I'm Matt Patrick, and I am gonna be hosting this month's episode. A little different format. I'm running solo, hosting. But I am very excited, for our topic today.

We're joined by Will Hansen, who is the Chief Government Affairs Officer for the American Retirement Association. And Will is joining us to cover, a paper and a study that the association has published this month, which is talking about, 401 tax benefits and how those are distributed across the plan and across income structures, and maybe looking to dispel some opinions or theories, out there about who is receiving the majority of those benefits.

So excited to dig in there because we're hoping to address some potentially misconceptions that people have about 401 plans. So Will, thank you for joining. Excited to have you on the show.

Will Hansen: thank you, Matt. Uh, you're gonna do amazing, as the, the solo host, here. But, thrilled to join this podcast and talk a little bit about this report, and the 401, 403 system we have in America

Matt Patrick: Nice. so I, mentioned your title, but for those that are not familiar with your work and your role, could you maybe talk through, your background and why we might be, chatting with you today?

Will Hansen: Definitely. So I am the Chief Government Affairs Officer for the American Retirement Association. For anyone that doesn't know who the American Retirement Association is, we are a education association, with about 40,000 members. Those 40,000 members are spread across five different organizations. each of the members of those five different organizations touch a retirement plan in some form or fashion, from the plan sponsor, who's running the plan behind the scenes at the company, to the financial advisor assisting the

plan, to the record keeper, the consultant, the actuary, the TPA, all of the above, are, members of the American Retirement Association.

So I oversee our government affairs. I am the executive director of Plan Sponsor Council of America, which is one of the five organizations under the umbrella. And then I am also spending a lot of time, in AI, or as of yesterday, we're supposed to now, I think, call it SI, super intelligence, for the, administration.

but we have launched a product for plan sponsors, called NOA, powered by PSCA, so I'm spending a lot of time, on that as well. But for background too, I'm a recovering lawyer. I'm a recovering, Capitol Hill staffer working for a senator. I'm a recovering plan sponsor working on a Fortune 200 company on employee benefits, and now I have been back in DC, for almost a decade now as a lobbyist and working at nonprofit associations to really advance the retirement system in America, which is ARA, American Retirement Association's goal.

we want to ensure that every working American has access to a workplace retirement plan because you are 15 times more likely to save for, retirement through payroll deduction than saving on your own, which is a good, stat, that can probably, lead us into, this report, that we're gonna talk about, among other things.

Matt Patrick: so before we get into the actual findings and what was in the study, we talked some in the intro about trying to dispel, certain opinions or views that are out there.

What are some criticisms of the retirement plan system that you were looking to address through this study?

Will Hansen: So the criticism that for many of the listeners have probably heard or others, is that there's this idea that the, preferential tax treatment behind 401 plans and similar plans is basically a subsidy for people who would be saving for retirement anyways. So those that are, higher income, earners.

That it's, a benefit that flows mostly to those upper income households, while working class Americans just get the leftovers. That narrative shows up in tax policy debates. It shows up in press coverage, economic reports, and sometimes it really does shape how, some lawmakers think about whether these tax incentives are worth preserving.

And so we wanted to actually test that assumption, against the data instead of just accepting it. and that was, one of the reasons why we, moved forward with putting together this report that we're gonna dive into in a little bit.

Matt Patrick: Great. and maybe as we continue to set the table for what you found in there, and for anyone listening, we will link, the study with the show, so that you can have access and flip through yourself. There's a portion in there that I found really helpful in terms of just setting the scene, which was it went through a few different and distinct eras within retirement plan savings.

could you cover and break down those four distinct eras and get us to like where are we today, which is where we're hearing some of the criticism you just mentioned?

Will Hansen: So the first era is really the pre-Social Security period. So we're going back to, before even where maybe, a handful of companies here or there had some sort of retirement plan, in place. But beyond that, retirement options were limited for working class Americans.

You were relying on your family and personal savings or charity at that point. The second era kicks off with Social Security, so in, you know, the 1930s through the 19, '70s, and that's when we really see institutional support start to show up, and it did make, a massive, difference.

one of the key statistics that I like to go and look at is elder, poverty, older Americans and the poverty rate. And, it was pretty high even through, like, the 1950s. I think it was, in the 30s, like 35%, give or take. but fast-forward now into the 19, '90s and beyond, we're under, 10%.

And a lot of that can be driven through, what I will then talk about how is the third era, and the fourth era. But, the third era being then, 1978, with the Revenue Act, which really created 401 plans. and then 1981, we also had a few other IRS rulings that kinda clarified how pre-tax contributions, actually should, work, so that by, the early 2000s defined contribution plans had become, the standard, here in this country, which leads us into now the fourth era, where we're in the, I'll call it the innovation era, kinda continuous innovation, where, ever since PPA, Pension Protection Act, which, has now been 20 years, we have all these auto features, the advancements of auto-enrollment now being a mainstay, the increasing in auto, portability, increasing in auto re-enrollment, target date funds.

there is a lot of great innovation going on, in the retirement system, under this fourth era, which is really exciting.

Matt Patrick: In that, defining as the innovation area. It's something we've been talking a lot about, with our clients too, we've seen now with 20 years since, Pension Protection Act, you've seen the positive impact that has had in terms of plan enrollment, like you're saying, and target date funds have been such a major winner in that regard of collecting assets.

you really are starting to see, there was a style of target date fund, and that became very popular, and there was a consistent structure there, and now you're starting to see tweaks to that, whether it be the style of it, the customization within. there's a lot out there.

So for plan sponsors, one thing to take away would be like that innovation era is true, and you've probably seen it in innovation from your plan provider, from the asset managers that are in your plan, really from every part that you might interact with in terms of managing your plan.

we are truly in that like what is the next phase? What's the next thing to continue this positive momentum, we've seen over the last 20 years in terms of growth in these plans?

Will Hansen: Yeah, and they're hungry for more information, especially as you mentioned, target date, the evolution of that. now we're looking at retirement income products within the target date fund, private equity or private assets now in the target date fund. While not huge pickup in those areas yet, once those track records on these new products, are, substantial, five, 10 years, I think we'll start to really see some massive, growth in a lot of those new target date-like products that are out there.

Matt Patrick: Absolutely. And just indicative, like testing the waters on what's gonna stick, what's gonna resonate, and what's gonna work. all right, so we've established, over those last two areas, defined contribution plans have become the primary retirement savings vehicle for many Americans.

let's get into some of the findings here with that as the primary vehicle, like who is positioned to receive benefits the most in a DC plan structure?

Will Hansen: And this is really the heart of the report. So when you look at who benefits the most, and we're not looking at raw dollars. raw dollars, anyone

could clearly look at a piece of paper, and the more you earn, the more you are able to put aside, in the 401 plan.

It's clearly gonna show that, a high earner, from a raw dollar perspective is able to set things aside. But what we need to look at is what's relative to what people are actually paying into the tax system, and that's what this report focuses on, and it's the working and middle-class Americans.

So the reports found out that moderate income earners, which we defined as \$50,000 to \$100,000, are getting about 30% of the total retirement tax benefit, while only paying around 9% of all federal income taxes. On the flip side, high earners are paying over 70% of federal income taxes and getting less than 17% of the total tax benefit, that is being available to them under our tax preferential provisions that we have for retirement plans.

So this system, in practice, is doing the most for the people, conventional wisdom says is leaving behind.

Matt Patrick: And, is it fair to say, that's the group it's intended to target? Or is that just an unintended consequence of how it's been designed?

Will Hansen: No, that is the intent behind, when this was created. The 401 system was created for working class Americans. And, as we dive in more, you know, and the statistic I just read out there, it shows that, those who are benefiting it from the most from a tax perspective are, working class Americans.

Those who are in, let's say, lower tax brackets, that's where you have the safety nets. That's where you have Social Security, and Social Security will assist them and replace most of their income, because of that amazing program, that we have, and that's probably a whole other podcast on Social Security reform down the road.

Middle class Americans, Social Security is not going to be a total income replacement for them, and that's why the 401 system is there, to assist them in replacing their income. And then for the high earners, it's not the 401 system. You know, it is primarily going to be through their own, self, savings and wealth creation tools, that they have used.

Matt Patrick: Back to how you've defined, your focus on the benefit relative to how much is paying into the system and not the raw dollar amount. Do you find like when the criticism comes up, it is focused on just the raw dollar, say, and

that's essentially like the angle that is being leveraged to say higher earners are benefiting more?

Will Hansen: Definitely. in a lot of the reports that are out there by, economists, think tanks, and others who just wanna weigh in on this debate is focused on the raw dollars, focused just on income levels, and really not taking into account, other factors that are at play, when it comes to our retirement system

Matt Patrick: And then I guess we've kind of referred to it broadly as tax benefits Could you expand some on what those benefits are and how those are realized, by the individuals in those different groups?

Will Hansen: Definitely. So in the report, we look at four things. First is the one that we all probably know about, the pre-tax deduction people are getting on their contributions. So this is that Internal Revenue Code 402 limits, that is adjusted, every year. I think we're at 25.5 or 26. I always have to, track and look.

I have a trusty, cheat sheet somewhere. 24.5 and 20.6. so we're looking at that. we're looking at the employer contributions, that are taxed when they go in. A lot of reports, by others do not take into account, the employer matching contributions, profit-sharing contributions. we're also looking at the tax-deferred growth on investments while they sit in that account over, many, many, years.

and then we're looking at the fact that a lot of people end up withdrawing that money in retirement at a lower marginal rate than when they, contributed. Most analyses of, our 401 system only look at the deduction. That's it. They don't look at the three other items that I just, mentioned there, and we really think that misses most of the story, when it comes to how we have developed this system and why the system is working for working-class Americans

Matt Patrick: It seems like a, common theme too is, and probably true for a lot of stuff online that you'll see is, like, digging in and actually understanding, what is being targeted and maybe some headlines, to your point, only looking at, one source as opposed to, like, all of the benefits that could filter through.

Very similar to, "Hey, let's not just look at the raw dollar amount. Let's actually focus on, what are the relative benefits here and, how is it designed?" So it feels like a good takeaway there as, people assess, think pieces and stuff that are out there related to plans.

so you're mentioning there, expanding beyond just the, deferral amount. Employee matching is mentioned a lot throughout the report. how big a piece of the benefit story is that versus just the tax deduction?

Will Hansen: It plays a significant role. a lot of employers, do an amazing job at, providing a match, as in addition to, profit sharing. And it is a, I would say, a significant missing piece of the puzzle that a lot of those other economic reports, don't utilize really when they're putting it together.

but that four or five, six or higher percent plus that profit sharing over 10, 20, 30 years, that does play a significant piece, in an individual's retirement

Matt Patrick: with all of that, looking forward, what should a takeaway be for policymakers, and what would you hope that, people would be looking at moving forward given where we are today?

Will Hansen: the big one is don't assume this is a benefit that you can just trim at the top without consequences for, working families. If you're looking at capping deductions, restructuring the tax treatment, which basically means expanding Roth, whatever the proposal is, understand that you'd be touching a system that's already tilted towards helping working and middle class Americans build, retirement security.

so for now, our recommendation is to obviously maintain, that current structure, keep both pre-tax Roth options in place, keep the employer contribution exclusion, intact, and look for ways to, build on it, not scale it back. Now, obviously, as we are looking at future, retirement policy debates, a Secure 3.0, we'll need to look and see what are the provisions in that package, to enhance retirement security, and then weigh that against any changes to the tax system that, may be necessary in order to, pay for all the other enhancements, to the system

Matt Patrick: what about something like the saver's match? are those the types of policies you'd be referring to as that's an expansion and a continuation of this focus on that working class group?

Will Hansen: Yeah, the savers match I'm excited about. I can't wait hopefully, to see all the success around, that provision because it was debated for such a long time. all the data showed that the savers credit, which the savers match is replacing, was, ineffective, in, really targeting, low-income Americans and getting them to save more dollars into, the defined contribution, system.

For background, just take a step back for any listeners that don't know what the savers match is, it is geared towards, low-income Americans really in that single filer 35K around, if you're married, around 70, 77K, filers, where the government's going to give you, up to \$1,000.

So if you save \$2,000 into your retirement plan, they're gonna match it at 50%. So it maxes out at that, \$1,000 deposited directly into your retirement account. That goes into effect, 1/1/2027, so it's for your dollars that you contribute in '27. You would then see the contribution from the federal government sometime in 2020, eight.

just last week, there was a bill introduced to expand, the savers match. so I think there is a lot of buzz and excitement around it. fingers crossed, knock on wood, that this is, implemented effectively, so that, we're really seeing those low-income Americans, take advantage of this I'll say free money, from the federal government

Matt Patrick: while we're on the topic of, future regulation, future opportunities, what are your thoughts on, the IRA marketplace that's out there and in the works?

Will Hansen: So the IRA marketplace in the works, And I'll, dig in a little bit, on that because it's not just at the federal level. there is now the launch of trumpira.gov, and that will be launched, relatively, soon. it's gonna be just at least another option, available out there, for folks.

but What's the kicker? what's gonna, really get that marketplace, and/or, more, individual saving for retirement is auto-enrollment. is ensuring that more people, if they're working at an employer that does not provide a plan, are somehow, auto-enrolled, into some sort of product, whether it is something that employer decides to now offer, or it auto-enrolled into, the IRA marketplace, or, state options, that are out there, as well.

What's key to, focus on any sort of, policy debate, is that while this is, some sort of requirement, it's just a requirement to have a new payroll line added. payroll withhold, there's no additional burden placed on, an employer of any kind.

and by having them auto-enrolled into the IRA marketplace or an IRA product, or a state product, that is really the best way to ensure that an individual is starting to save for retirement. And so I mentioned state. There are 17 states, that now have a state secure choice plan or similar, marketplace-type option, up and running.

we're seeing movement in about eight other states as well, where, employers are now going to either, need to auto-enroll, their worker into some sort of product, or there will be at least more visibility and education, marketplaces set up for employers to be more aware of how easy, no burden, no cost, to at least provide this type of retirement benefit, to their employees, can be added, with relative ease for them.

Matt Patrick: there's no, better way to drive more, retirement and financial security than having something available through the workplace. and anything that encourages that is gonna be a huge benefit.

So appreciate you covering those. I think we've nailed, the big findings from the study, maybe some thoughts for policymakers, thoughts for things in the future. I guess any big takeaways for plan sponsors, something you want them to leave with, after hearing this?

Will Hansen: I think plan sponsors, they already know this, most do, that, what they're doing is for working class Americans. the retirement plan that they have in place, is helping out, the bulk of their, population. and I think they just need to remind themselves, about that.

Though with that said, I always encourage plan sponsors, especially if they've been on autopilot for a long time with their plan, is to, talk to their friends, and their friends being their advisors, their consultants, of their retirement plan and say, "Hey, can we like sit back and look at the design of our plan and make sure that we really are benefiting, maxing out that benefit to our, working class Americans, our low to moderate income workers?"

Look at the match, for example. Is the match designed in a way that it's, helping out, those who need it the most, those in the middle tiers there? look at your auto features. are you doing auto re-enrollment? look at your, target date fund lineups.

Look at your fees. Like just, pick something every quarter or once a year and, make sure that you're constantly innovating, your plan, to ensure that, you're keeping up with, the best practices, that are out there to maximize, the effectiveness for working class Americans.

Matt Patrick: we are in the innovation era after all, so go-gotta do it. Perfect. thank you so much, Will, for running through, the study. as I mentioned before, we will, put a link out there to the study so it's easy to find for anyone listening

that wants to flip through it, 'cause there's more good stuff in there than we're able to cover in our time here.

But, before we go, Will, gotta, turn it to a, personal side as we do with all of our guests on here. so really wanna know, we've been talking about retirement for working class people, retirement for Americans. What about retirement for Will Hansen? what does that look like for you?

Will Hansen: no emails. that's

Matt Patrick: that's a good

Will Hansen: the yeah. Yeah.

my goal is no emails. Andwho knows? By the time I retire, emails might not exist. you never know the way that we're, advancing, with our technology.

but with that, constantly learning, is the goal during, retirement. continuing to advance my own skills even though I'm not answering emails day in and day out. finding that right volunteer opportunity, as well, will be really important, to me. and then, while I do travel a lot, right now,finding those places at that age I can still,travel to, explore, and learn from.

that's the goal for me at least.

Matt Patrick: travel just for fun. That sounds, that sounds nice

Will Hansen: Ja, exactly.

Matt Patrick: thank you again for joining. I know, Will, you've launched a new podcast venture of your own. for anyone, listening that wants to hear more of your content, Iwhere can they find that, and where can they find anything else you put out there?

Will Hansen: Yeah. it's great that you asked me that last question because I ask a similar question, in my podcast. but, there is a pun here, when it comes to the title of my podcast, and it is called "Will U Retire?" and the U is just a letter U. so Will, letter U, Retire. and that can be found on all major podcast,channels, however you look for your podcast.

Or, you can go to PSCA, Plan Sponsor Council of America, psca.org, our website, and search in the toolbars there and find, all of our content along with, our podcast, there too.

Matt Patrick: Thanks

so much, Will, and thank you all for listening to this month's episode. if you haven't, please, like and subscribe " Revamping Retirement" wherever you get your podcasts, and we will see you all next month. Thank you.

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