Episode 58

Hello and welcome to Revamping Retirement, a podcast brought to you by CAPTRUST, where we explore the opportunities and challenges facing today's retirement plan sponsors and fiduciaries. Our hosts, Jennifer Doss and Scott Matheson, lead the employer- sponsored retirement plan practice at CAPTRUST, one of the largest registered investment advisors in the U.S., and a thought leader in the retirement plan, advisory, and consulting space. We hope you enjoy Revamping Retirement.

Jennifer Doss: Welcome everyone to another episode of Revamping Retirement. I'm your cohost, Jennifer Doss. And today I have a special cohost with me, Matt Patrick. I've been lucky enough to work with Matt on serving our D.C. plan sponsors for almost 10 years now. So I'm sorry about that, Matt. But welcome to the show.

Yeah. So maybe for our listeners who have never heard you speak before, or met you, if this were speed dating, what would you share with the audience, let them know about you?

Matt Patrick: As Jennifer mentioned, I've been with CAPTRUST for close to 10 years now. And my main area of focus within the defined contribution space is where CAPTRUST is serving in a discretionary capacity to define contribution plan sponsors.

Jennifer Doss: Awesome. Welcome, Matt. And we also have a wonderful guest with us today: Dr. Nari Rhee from University of California, Berkeley. Dr. Rhee is the director of the retirement security program at the center, and she focuses on retirement issues in California and all around the U.S. So welcome, Dr. Rhee, to the podcast. Thanks for being with us today.

Nari Rhee: Thank you for having me. I'm excited about this conversation.

Jennifer Doss: Great. I just introduced you by title only, and that usually means nothing to people. So maybe just spend a minute talking about your background, what you do every day, what types of problems that you focus on trying to solve.

Nari Rhee: Yeah. So my general background is that I'm trained as a social scientist and I primarily focus on labor issues. Over a decade ago, I got pulled into working on retirement issues, both for private sector employees and also for public sector employees. And really, focusing on what's happening with changes in the structure of the U.S. retirement system, what's working and what's not working. And in particular, who is it not? Who is it not serving well, right? And for low- and middle-income workers, particularly in the private sector, the system has not been working well in that there's been increasing burden, right?

(It’s on workers to accumulate their own retirement wealth and, quite frankly, they haven't been able to keep up with the need, looking at what are the plan design aspects of that, looking at what are the regulatory aspects of that, and also the equity aspects of that in terms of race, gender, and also socioeconomic divides around education.

Matt Patrick: That's great. Maybe we can jump into some of the great work you've been doing. So, you said a lot of your work focuses on inclusion and equity and retirement. I'd be curious, what do you think are the most important elements of your research for plan sponsors to be aware of?

Nari Rhee: I think the primary issue is that — I always say this — Social Security is a bedrock. It's a really important program. but it's not enough and it's not even enough for low-wage workers, right? Because on the one hand they get higher replacement rates, a higher percentage of their earnings replaced by Social Security than middle- and higher-income workers, but their costs don't go down and, in fact, there's some argument that they might need 100% or more of replacement just to stay at the same standard of living because as you get older, health costs go up. And so a lot of the savings that middle- and high-wage workers see when they retire, which is basically their taxes go down, and a lot of their expenses go down, right?

it's not going to happen for somebody who's already living on the edge, so it's really just as important for lower-wage workers and the kinds of workers who wind up in those jobs, in particular Black and Latino workers, to be able to have assets outside of Social Security and, for various reasons, that just there's a generational wealth gap, right?

There are all kinds of structural reasons why, in particular, Black and Brown communities have a hard time. If you're getting assets over your life cycle, and there are some barriers in the way, in particular (how) defined contribution plans are designed. So compare it to a pension, just because I did a study looking at the equity impacts of pensions. There are traditional pensions. If you're a worker in a job that is covered by a pension, you don't have to do anything; you are in and you accumulate credits. Your employer makes the contributions for you. And so anybody who works for an employer, as long as they're in a covered job, they have those benefits.

Within a defined contribution plan, there are a lot of hurdles, because typically you have to sign up if there is an auto enrollment; there's increasing auto enrollment among sponsors. And I think that's really a move in the right direction. But the fact is, for a lot of workers, they're not going to take that step, especially at the low-wage end. And I think low-wage workers are about 25%, roughly a quarter, is likely to take that step and sign up for a plan as higher-wage workers. And the other thing is the system of providing a match. The employee has to take the step of putting in.

And when the employer matches, that's a typical 401(k) design that winds up also being a barrier, because it's really hard for low-wage workers to take that step again, affirmatively, that I'm going to take 5% out of my paycheck, when things are already tight, to be able to take advantage of a match.

Another dimension is that, at the low-wage end of the job market, their entire industries are dominated by frontline workers with relatively high turnover, and they're mostly part time. This is especially the case in the service sector, especially in retail and other services.

And so what that means is that they're never going to make it to … how long they need to stay there to actually qualify for retirement benefits, Or they may not work enough hours. And we've recently had legislation to try to soften some of that, but it's still an ongoing issue.

And so I think there are just a lot of different barriers in the way in how plans are designed, right in the plan rules, that really are barriers for workers, low-wage workers, to participate, and that becomes a waste equity issue because a lot of those workers are just Black and Latino workers.

Jennifer Doss: Yeah. it's interesting because not only do we ask people to take it out of their paycheck and to save proactively, whereas maybe, like you said, with a traditional defined benefit plan, they didn't have to. Somebody did it for them. We're also asking them to invest it, right? And to figure out how to invest it, and then — not to get into a retirement income discussion — but how

to decumulate those assets and how to withdraw them. It's just there's so many things that a traditional pension plan did for you, the average worker, that a 401(k) system, for its benefits, but it just had drawbacks. those are things that they don't,

Nari Rhee: Yeah.

Jennifer Doss: Right.

Nari Rhee: Yeah, I think that's a really good point, and I'm glad you brought it up because in terms of what behavioral finance research has found, which is how do people actually behave as opposed to how economists think they should behave, based on financial incentives.

It's really different, and choice overload. And there's been some, I think, movement, especially among large plan sponsors in terms of having high-quality defaults. And so that is one of the things that comes with auto enrollment, that if you automatically enroll someone, they have to go into some sort of investment vehicle… the employer essentially has to choose for them until, and unless, the employee makes a choice for themselves.

And so making sure that we have vehicles for that, whether it's a balanced, low-cost ballast fund or a target date life cycle fund… but yeah, that just becomes another thing that can become overwhelming for somebody who has to actively sign up.

Matt Patrick: I think your comment about the income replacement piece is interesting because we certainly do a lot of work, and there's a lot of planning tools out there. And I think out of, for efficiency's sake, you have to pick a standard replacement assumption there, of your income, but I don't know. There's a lot factored into who needs what level of income replacement and whether that planning tool is going to work for them. If we're pushing that out, saying this will be great, you should plan for your future this way, and it's not actually working for them, it's probably something worth considering as we look to roll those tools out to participants.

Jennifer Doss: Pivoting to a big topic this year, Secure Act 2. 0 that passed at the end of last year. In your view, what did it get right? And maybe is there still some room for improvement? What did it maybe not address or go far enough to address?

Nari Rhee: Yeah… I think the most exciting thing about Secure 2. 0 is the conversion of the savers match, low- income savers match.

Jennifer Doss: Hmm.

Nari Rhee: Sorry, excuse me, it's the conversion of the low-income savers credit to essentially a federal match for savings for low-income workers. So it used to be that you had a relatively small credit, and it cut off at a really low income point, and it wasn't refundable. So if you're a low-wage worker and you are barely paying anything in federal taxes, it just wasn't actually a lot of benefit for workers there.

And so converting that into an actual match, which is refundable, I think was a huge step. It's something that policy experts had been hammering on for years, and it was really great to see that go through. I would really like to see that expanded, where it doesn't go far enough, I think, in terms

of really looking at the overall tax benefit structure for retirement savings. Because 80% of the federal tax benefit for retirement savings goes to the top 20% of households, and there's been a lot of research showing that, in fact, the tax deduction isn't actually great at increasing savings.

It's mostly an incentive for wealthier households to shuffle around money that they would already be saving, Into a way that optimizes their tax burden. But it's not actually that effective at increasing all the money that we spend into it, which is a lot, it's in the billions… we don't actually increase savings a lot for what we're spending on it in terms of federal tax dollars. And also, by extension, state income tax dollars that sort of mirror federal policy, like in California. So I think there's just a long way to go in terms of looking at the overall tax expenditure by the federal government and figuring out how best to allocate it.

Another thing that I really like about Secure 2. 0 is tightening a lot of the loopholes around who employers are allowed to exclude from a plan.

Jennifer Doss: And so that was where more part-time workers are getting covered, and they don't have to work quite as long, right?

Nari Rhee: Whether you're full time or part time, right? You're getting included in the plan and becoming eligible for the company plan sooner. And I think that's a step in the right direction. I do think that it raises the issue of some of the tensions around, right? There are actual, real reasons why employers limit eligibility, right? If there's turnover, then they have to deal with these accounts. And so because we have this really scattered system, where it's employer by employer of having these plans, we do have an issue of lost accounts. I think that it raises the issue of what's the infrastructure, right?

What is the infrastructure that is needed to really support? That workers save at every job, right? Workers hopefully get a contribution from their employer at every job. And that doesn't get lost or leak out, that actually stays in accounts for the worker until they get in retirement.

So another highlight from Secure 2.0 is auto enrollment for new plans. They should have really gone further and placed an auto enrollment for all plans. And hopefully, maybe that will happen with Secure 3.0. Because that auto enrollment really is the biggest plan design tool for increasing equity in who participates in a defined contribution plan.

Jennifer Doss: Got it. And I know there were a lot of provisions in Secure 2. 0 that were focused on tax incentives for employers to start new plans, and to the argument was that it would increase coverage and that some of these workers you're talking about just didn't even have access to a plan.

Forget about traditional defined benefit plans. They didn't have access to a 401(k) plan. In your opinion, do you think that stuff's gonna move the dial? Do you think we're gonna increase coverage that way, or — I know you also look a lot at the state, auto IRAs — is that a better way?

Nari Rhee: Yeah, there's nothing wrong with trying to defray some of the costs, especially for small employers, because that's where this is targeted. And small employers do have a hard time.

There was recently a study actually looking at what do small employers know, what do they think about what it takes to set up a plan? And what do they know about the benefits that are available to

help them do that? And it really found that there's a tendency to really overestimate the cost. And also that employers just aren't aware of these tax credits that can actually help defray the costs that actually are there. And part of it said they don't necessarily know about some of the lower- cost, new options that are out there; 401(k)s can be expensive, but you can do, like, a SEP IRA. They're very small business plans that are a lot simpler and cheaper to administer for employers to do something.

And so with the state auto IRAs, what's really important is a mandate saying employers, if you don't offer a plan, then you have to auto-enroll your employees into this state-sponsored plan, which is privately run in terms of who actually manages the money and administers the plan.

And it's got public oversight. I think there's been some really interesting research showing that it's actually prompted more employers to adopt their own plans, which is good. And at the same time, the state programs are also having enforcement issues.

It's if employers, small employers, if they don't know about it, right? They're like the hardest group to reach, especially the micro employers. Now that, both Oregon and. In California, have a mandate down to any employee other than the. Employer,

Jennifer Doss: Oh, geez.

Nari Rhee: So if you're paying yourself as an employee, then you don't have to worry about it. But otherwise, if you have any employee other than yourself, the state mandate covers you. So it's one thing to have the regulations and laws in place, but the actual implementation around marketing and enforcement I think has still been pretty challenging for the states, especially with the smallest employers.

Matt Patrick: Do you think those challenges are a reason why it would be more favorable to have the outcome be that the company launches their own plan, or what do you think is the best outcome there?

Nari Rhee: I think the best outcome, I think in combination with through mandatory auto employment, which I think applies for kind of medium and large, it doesn't apply to small employers. So that's still an issue. But if you had new plans to actually do auto enrollment, then I think it would actually be a better outcome.

To do that, mainly because there's at least then a possibility of state employer contributions. And so what the states really had to give up on employer contributions because of federal preemption issues, right? If they did anything, not even mandating it, but just even voluntarily, that employers could voluntarily contribute to these employee accounts in the state-sponsored plan, it would run afoul of ERISA, right? And federal preemption on retirement plans. So that was a bitter pill to swallow when we were going through the process in California, but it's just the way it was legally. And so these are really de minimis plans, right? In terms of contributions, they can only take employee contributions.

And so to the extent that employers adopt plans and, hopefully, provide some contributions to their employees, I think that would be a better outcome.

Matt Patrick: Makes sense.

Nari Rhee: I think there's a lot to be said about the way that our retirement system works. You talked about some of the challenges in some of your other commentary, but I are any of these playbooks from some of the retirement systems we see around the world? Does anybody have a better system that we could look to, to get some ideas, or we have different problems, we're a different system, we have different people, but yeah…

Jennifer Doss: Commonalities there?

Nari Rhee: Yeah, definitely, and I think the states have actually been taking their lesson from the UK program. So the state auto IRAs were inspired by what happened in the UK, which is the national government said, again, mandate, right? If you don't offer your own plan and you have to auto enroll your employees in this government sponsored plan, in that case, it is a sort of nationally run program. It’s a little bit more government-run than the state auto IRAs in the U.S., but the basic plan design and concepts remain the same. The publicly sponsored plan is going to cover workers who are left out of the employer-sponsored plans. There is, I think, a small required employer contribution with that.

And the whole thing about auto enrollment is that it's just short of mandatory participation that's essentially like a behavioral nudge; we just nudging people in the right direction and so people can coast right if they do nothing or they can take matters into their own hands. But at least everybody's being nudged in the right direction.

So obviously the U.S. could adopt some model, and that actually has been on the table for a long time, which is this idea of a federal auto IRA, which is, again, a mandate for employers that if you don't offer a plan that the employees need to go into this federal plan, and the federal government already runs an excellent defined contribution plan called the thrift savings plan with really low fees and good investment options. And there are a number of ways to do it, but I think leveraging the advantages of the TSP could be a really good idea. Another model is in Australia. They basically require that basically that all employers have a plan. And I think there are some industry plans.

We have a line in the U.S. between who is considered an employee versus not, and employees get all of these rights and protections. And then otherwise, you have no rights or protections or benefits; it's very binary. In other countries, including Australia, it's actually people who are not formally employees for some purposes still get a lot of benefits, a lot of mandated benefits. And so yeah, whether it's a pension or a 401(k) type plan, every employer is in a plan, and there's a mandatory 9% contribution.

Now I want to say it's a little bit different. You have to look at retirement plans in the context of the total system. So they have a very different system in terms of how they fund Social Security, what we would call a social security program. It's a little bit different from ours, but anyway, there is right now a 9% contribution on what are called superannuation funds, which is basically their sort of, um, their 401(k), their pension plans, right?

Employer pensions. And so those are two models that are based on defined contribution, default, or it was defined contribution, essentially. Minimum standard. So employers do offer DB pensions, but at the very least, employees are in some kind of defined contribution plan.

And so the idea has been on the table for a long time in the U.S. It's just there hasn't been any movement.

Jennifer Doss: Yeah, I think people don't like the word mandate, but we got a better word for it: auto enrollment. And so let's just talk about auto enrolling people into our auto-creating 401(k) plans. Let's talk about creating plans instead of mandating them, because one definitely has a better connotation.

Matt Patrick: I'm going to pivot again, to another area that you've focused on. So we talked some about the inequality across race and gender, but I'm curious, maybe on a generational lean, you've done some work around how different generations are positioned. Just curious if you had any comments there or anything of note.

Nari Rhee: Inequality is a growing problem, and every generation is experiencing it worse and worse. I recently, several years ago, coauthored a study on financial assets by generation and looking at financial asset inequality within generations. And so it's really important to understand that, especially in terms of, wealth builds over a life cycle.

People, you start out, if you go to college, you have debt and then hopefully you pay it off, but then you buy a house, hopefully if you can, and accumulate that asset and you've saved for retirement in various ways as you get older. You're supposed to, and you definitely need to have more assets and younger people.

So it was really interesting to look at, like, intragenerational. Looking at financial assets, we're seeing sort of an acceleration of inequality for millennials; in terms of the level of wealth, inequality among millennials is increasing. Precocious. So they're achieving a level of inequality that baby boomers didn't get to until much later, until they were much older.

And so what tends to happen is that wealth inequality does increase, as the generation gets older, because people who have nothing can stand, have nothing, but then people at the top continue to accumulate. You just get a wider spread of wealth as people get older, but that spread is wider, basically, relatively speaking for millennials, than it was for baby boomers when they were the same age.

And so it speaks to the fact that baby boomers came of age at a time when there was a lot of public investment and education, obviously, mortgage interest subsidies; essentially, there was more equal opportunity in some ways for baby boomers when they were growing up.

Interestingly, there was more race and gender inequality at the time, but from a class standpoint, there was actually a broader opportunity, and we're seeing much more unequal opportunity for younger generations. and that's the problem.

Matt Patrick: I'm curious if you have thoughts on maybe what's driving that, because I'm a part of the millennial generation. I get pushed a lot of stuff on social media around the financial environment for millennials, and what's hard and what's easy about it. So I'm curious for your thoughts on what's driving that inequality and what's made it so accelerated.

Nari Rhee: There's declining public investment and things like public education, and again, the baby boomers also have the GI Bill, which … that was a massive public investment in people's higher education. and also helping people buy houses and whatnot. And so those are really significant benefits that kind of help spread things around and help people accumulate assets more equally. And so there's just that, really coming of age, and in a system where there's just less public policy to ensure more equal financial outcomes. And also, I could go on, but in terms of the kinds of jobs that are right, if there's a decline of unions and what that's meant in terms of wage inequality in the labor market, of industrial restructuring, the rise of service sector jobs, that also contribute to more inequality.

There's been a hollowing out of the middle in a lot of different ways, and in terms of various costs becoming more expensive. So the wages at the middle and the bottom just have not really kept up with the generational changes in the standard of living and the cost of living.

And, yeah, it's a little bit bleak. And I think that's why; there are a lot of reasons for why there's inequality. And I think public policy is definitely another one. There's also a lot happening on Wall Street, but I'll just stop there. There's just a lot of different forces really pushing to increase financial inequality.

And I think if it was just partly, that's what's happened historically, and millennials have essentially, that's what they've experienced. And it's very different from what baby boomers experienced. I'm Gen X, by the way, we always get forgotten. Yeah.

Matt Patrick: I think that's really helpful just 'cause there is a lot of commentary about it out there and there are so many factors in play. It's hard to keep your head straight on what is meaningful, what's not in terms of that type of discourse.

Jennifer Doss: I'm curious, like you said, maybe sometimes it seems a little bleak, or it is a little bleak… what would be, if you could wave your magic wand and influence policy and make changes, what do you think would move the needle the most on retirement security for the U.S.?

Nari Rhee: I think, in terms of a conversation from right to left, and back again, in terms of what needs to happen in Social Security, right? Sometimes that conversation is dominated around cuts and sometimes the conversation's more focused on enhancements and strengthening the program. I do think it's really important. The Federal Reserve has done several studies showing that if you add Social Security and defined benefit pensions to the household balance sheet, then it goes a long way toward reducing all kinds of inequality — by education, by race, also by gender.

It's a hugely important program; it's always No. 1 on my list is to strengthen Social Security, to pump up benefits for low-wage earners and also for caregivers; this is a big issue for women in terms of losing out on those Social Security credits, because you took time to take care of your family or to take care of your parents. This is really important work, for society, that caregiving work, and it has value. The second piece is, I think, some sort of a national mandate, basically a national framework to make sure that every job, that every worker at every job, is accumulating retirement assets one way or another. So those are, I think, the two kind of big planks, and then, in addition to that, I do think that there needs to be reform on the tax incentives.

Jennifer Doss: Yep.

Nari Rhee: And frankly, if I had total control, I would probably convert it into essentially just a flat tax credit to make sure that the people who need it most get the most help proportionately. But really, there are a lot of options, tax policy options, that are probably better than we have now.

And I think the main thing is there needs to be some research on what is the most efficient thing to do in terms of what will improve outcomes the most.

Jennifer Doss: Those are some big things.

Nari Rhee: Yeah, those are huge.

Matt Patrick: Just some small goals, minor.

Nari Rhee: There's always friction logistically whenever you start a new program, like the state auto drivers are facing, but the fact is, other countries have done it, and it's working. So we have models. It's not pie in the sky. It's really just… it's really the politics. That's very hard to learn.

Matt Patrick: Makes sense. I want to make sure we get in one last question, which is our staple. What does retirement look like for you, on a personal level?

Nari Rhee: Fortunately, I have a pension and I would be in big trouble without it. I didn't really start saving for retirement until I was almost 4 years old.

What's the future going to look like for me, and 40 is pretty late to actually start saving a lot in earnest. For me, it was also the fact that I got my PhD when I was 37 years old. And a lot of college debt. So one thing that's been really amazing was a public service loan forgiveness program and the special waiver from the Biden administration that sort of took a lot off my mind because, right now my daughter is going to go to college around the time I retire. So where I work, at UC, there is a pension. And In addition to that, there's a 403B and a 457 plan, so I do contribute. But it's definitely a sandwich generation issue for me because I have a young daughter and so I'm saving for her college. And then I also have a mother who's in her late 70s and looking at things like potentially needing long-term care.

There's a lot of stuff to balance between those two things, but the nice thing about being a researcher and academic researcher is that there's actually a lot of longevity to your career. So yeah, I think about this, and also because I work with a lot of life expectancy data, some of it by race and gender, and some data for California was really shocking in terms of how long Asian women live.

Jennifer Doss: Wow.

Nari Rhee: That goes across socioeconomic status, whether you're poor or rich, Asian women just tend to live a long time. And that's great in some ways, but it's also daunting in terms of how do you fund that retirement. It's really nice to be able to have the pension in addition to the defined contribution plan, because you get that income insurance, right? So anyway, it really is a three-legged stool for me.

Matt Patrick: I think you've covered a lot of things that I'm sure listeners are concerned about, caring for parents to saving for college for kids and taking care of them. And I'm sure it's hard to find time to focus on your own goals, but anything non-work-related that you'd like to do in retirement? What does that look like for you?

Nari Rhee: I really enjoy working. I think it's because it's actually stimulating. I, and so I think when, if I'm not doing this … I'm actually pivoting to looking at long-term care issues. And so I think my goal is to stay sharp. And then, yeah, the rest is some boring stuff like travel.

Jennifer Doss: I love that, like some boring stuff like hobbies and travel and all this other stuff that gets in the way.

Nari Rhee: I think what makes life worth living for me is to really just be exposed to lots of new ideas and coming up with solutions, like that's what's really fun and exciting. I'm a total geek.

Jennifer Doss: Well, I think you teased for us what you're working on next. And I feel like long-term care is something we're going to care about. So you might have us reaching out again and bothering you some more.

Thank you so much, Dr. Rhee, for your time today and for your insights. We appreciate your perspective so much. Matt, thanks for joining me today on the podcast. And before we sign off, we're going to hear from Mike Webb in our Minute with Mike regarding the different fiduciary arrangements under ERISA.

Thanks as always for listening, and don't forget to subscribe wherever you do get your podcasts. Thanks, everyone. And we'll see you next time. Take it away, Mike.

Mike Webb: This month, we'll cover the different types of services fiduciaries can provide under ERISA. These services are often confusing since they're referred to by their numerical ERISA provision. There are three types of fiduciaries. A plan administrator under ERISA 3 16, a fiduciary under ERISA 3 21 and an investment manager under ERISA 3 38.

A plan administrator is the entity that actually signs the annual report for the plan... This is often the employer, though the employer can indeed outsource plan administrator duties to a third party. Ideally, this would result in the outsourcing of all administrative services to that third party, but the extent of such outsourcing would depend on the agreement with that outside firm.

The other two types of fiduciaries are similar, both investment advisors, with the difference being the degree to which investment advice is outsourced for 3 38 investment managers; the investment advice for the plan is completely outsourced, so the investment manager is making all investment decisions for the plan.

A 3 21 fiduciary, which is the most common type of fiduciary, is merely making recommendations to the plan sponsor as to investment decisions. The decision-making authority is in the hands of the plan sponsor.

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