PRIA - A Universal and Portable Retirement Account

A proposal from Senator Mark Warner and Congressman Jim Himes

While the nature of how Americans work is evolving, many important benefits programs are stuck in the 20th century. The model of traditional full-time employment where workers stay with their employers for many years, or even a whole career, is changing. Worker benefits must change with it. We propose a new approach for a universal and portable retirement savings account for Americans - the Portable Retirement and Investment Account or PRIA.[1]

The following paper lays out the background and concept for such a new proposal. We are hopeful that this outline can elicit stakeholder feedback on the idea so that we can draft and introduce legislation.

We encourage you to submit written comments and meet with our staff to discuss these proposals.

Please submit comments by emailing Sen. Warner's office at PRIA@warner.senate.gov and Cong. Himes's office at Mark.Snyder@mail.house.gov. Comments should be sent by Friday January 11th, 2019.

Background

Fewer workers are staying at a single employer for decades, which is a trend building over many years. For example, in 1983, men ages 45-54 had a median job tenure of over 13 years.[2] Today, for that same group, it is just eight years.[3] This increasing job turnover is potentially occurring at all ages.[4]

In addition, alternative work arrangements are playing a significant role in the economy. Over 15 million workers now use alternative work as their primary job, including independent contractors, part-time workers, and gig workers.[5]

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[1] Congressman Himes has separately introduced H.R. 6990. While sharing a name, the Warner-Himes PRIA proposal is distinct, and nothing in H.R. 6990 should be assumed to be included in the Warner-Himes PRIA, unless specifically provided in this document.

[2] Ellen Sehgal, "Occupational Mobility and Job Tenure in 1983," Monthly Labor Review 107, no. 10 (October 1984): 18-23, accessed October 2018, https://www.bls.gov/opub/mlr/1984/10/art2full.pdf.

[3] "Table 4. Median Years of Tenure with Current Employer for Employed Wage and Salary Workers 25 Years and over by Educational Attainment, Sex, and Age, January 2018," U.S. Bureau of Labor Statistics, September 20, 2018, accessed October 2018, https://www.bls.gov/news.release/tenure.t04.htm.

[4] Julie Hotchkiss and Christopher Macpherson, "Falling Job Tenure: It's Not Just about Millennials," Federal Reserve Bank of Atlanta, June 8, 2015, accessed October 2018, http://macroblog.typepad.com/macroblog/2015/06/falling-job-tenure-its-not-just-about-millennials.html.

[5] "Contingent and Alternative Employment Arrangements Summary," U.S. Bureau of Labor Statistics, June 7, 2018, accessed October 2018, https://www.bls.gov/news.release/conemp.nr0.htm.

These shifts in the workforce have occurred at the same time that traditional defined benefit pensions became much less prevalent.[6] As DBs became less common, workers had to take on more of their own responsibility to plan and save for retirement through defined contribution options like 401(k)s.

But as workers change jobs more often and alternative work arrangements become more common, the existing DC retirement options have not kept up. According to the Bureau of Labor Statistics, one-third of workers have no access to any workplace retirement account.[7] Even among those that do, challenges of moving from job to job are leading to millions of retirement accounts being "lost" by the workers who contributed to them.[8]

These gaps in the retirement savings market are hurting American workers and should not continue.

The PRIA

Americans in all types of work arrangements should have avenues open to them to help save for retirement, ones that they can manage with ease over the twists-and-turns of a career. These workers need flexible, modern, portable retirement benefit options.

We propose a new type of retirement savings vehicle - the Portable Retirement and Investment Account, or the "PRIA" – that can be an avenue to improve retirement savings for all workers.

The PRIA is based on four simple principles:

- **A. It is universal**. Every American gets a PRIA started on their behalf. It is always there for them when they need it.

- **B. It is portable**. Workers will have a direct deposit savings plan that goes with them as they move from job to job and smooths rollovers.

- **C. It is simple.** A new federal entity, the PRIA Board, is a one-stop shop for helping Americans save in their PRIA. The PRIA Board makes sure every dollar you want saved in your PRIA gets there, including contributions, rollovers, and even "lost"

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[6] Brendan McFarland, "A Continuing Shift in Retirement Offerings in the Fortune 500," Willis Towers Watson, February 18, 2016, accessed October 2018, https://www.towerswatson.com/en-US/Insights/Newsletters/Americas/insider/2016/02/a-continuing-shift-in-retirement-offerings-in-the-fortune-500. According to this study, in 1998, roughly half of the Fortune 500 employers offered a traditional DB plan to new hires. In 2015, that number had dropped to 5%.

[7] "Employee Benefits Summary: Retirement benefits: Access, participation, and take-up rates," U.S. Bureau of Labor Statistics, March 2017, accessed October 2018, https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table02a.htm.

[8] Ben White, "The Story Behind 16 Million Abandoned Retirement Savings Accounts," The Aspen Institute, June 6, 2018, accessed October 2018, https://www.aspeninstitute.org/blog-posts/the-story-behind-16-million-abandoned-retirement-savings-accounts/.

accounts. The PRIA Board can automatically invest the money on a saver's behalf, or savers can choose a version of PRIA with more options.

D. **It is smart.** The default investment is a single target date fund developed by the private sector, a prudent investment for most savers. If savers want to take more direct control of their investment, they can easily use the investment company of their choice and broaden their investment options.

The PRIA is not meant to replace 401(k)s, IRAs, and other existing retirement accounts. Rather, it offers those currently not well-served by the retirement system a new avenue to save and manage their retirement assets. We expect the PRIA to have many of the characteristics and advantages of current employer-sponsored plans or IRAs.

The following paper includes additional details about how a PRIA would work. We are seeking feedback from stakeholders and interested parties on these ideas.

Additional Details

A. Universal - Every American gets a PRIA

To totally eliminate the gap in access to retirement accounts, every American will get a PRIA established on their behalf, which is taxed similarly to a traditional IRA. The account is created by the PRIA Board when a person is provided a social security number. Even if a PRIA goes unused for many years, the PRIA Board keeps the account on the books, there and ready for the day any American needs it. The PRIA could receive salary contributions, employer contributions, retirement-plan rollovers, and "abandoned" accounts.

B. Portable - Every worker now has access to workplace retirement savings

For the millions of Americans who do not have the benefits of a workplace plan, the PRIA is an account that travels with them, job to job.

Every employer who does not offer a workplace retirement plan will be required to provide direct deposit of employee elective contributions to the PRIA for every worker on their payroll. For employers that have a plan, but exclude any wage earners (for example, not allowing access by part-time workers), the employer now needs to offer direct deposit to the PRIA while the employee is ineligible. And large facilitators of independent workers, such as mobile "gig economy" platforms, must also offer direct deposit to the PRIA. Independent workers can make deposits directly into their PRIA. As workers move among these jobs, the PRIA travels with them.

Rollovers will be easier than ever

It is not just workers without retirement accounts that need portability. It should be easier for workers to track and consolidate their employer-based retirement assets as they move from job to job.

As workers change jobs more frequently, they are likely to have retirement accounts spread out at current and future employers. The high hurdle of rollovers – either to an IRA or a new employer's plan – keeps many people from consolidating accounts when they leave jobs. These accounts can linger for years, or are even forgotten. To ease retirement fund consolidation, every employee will be given an option when they leave a job to just check-a-box, and the balance of their employer-based retirement fund will be sent to their PRIA. Workers that would rather keep their funds in their employer plan can still do that.

The existing workplace retirement system is not disrupted

Millions of Americans are well-served by the existing employer-provided retirement accounts, like the 401(k), 403(b), and 457. The PRIA leaves these workplace retirement plans in place, without trying to undermine the system. We have considered two approaches to having both the PRIA and existing workplace system in place:

1. *Workers eligible for employer plans cannot make PRIA contributions*. When a worker is eligible to contribute to a workplace plan, they are no longer eligible to make contributions to a PRIA. There is no option for depositing new savings into the PRIA while eligible for an employer plan.
2. *PRIAs can be the "deposit destination" of employer-plan savings*. When a worker becomes eligible to contribute to a workplace plan, they can elect for direct deposit savings to get deposited in the employer-plan fund or in their own PRIA. Contributions to the PRIA are treated as contributions to the employer plan, and are subject to all the rules and regulations of the employer plan, including nondiscrimination testing. For nondiscrimination administration, all PRIA contributions must be made through the employer in this period – there are no direct cash deposits allowed. If PRIA contribution limits are otherwise lower than the employer plan limits, they match the employer plan limits in this period.

We seek comment on which of these two approaches is preferable. Other ideas on how the PRIA and the existing workplace system should or should not be integrated are welcome.

We also intend to set the PRIA contribution limits and other rules in such a way as to not undermine the current workplace system, as discussed further below.

C. Simple - The PRIA Board is a one-stop shop for making it easy to save in a PRIA

To facilitate these accounts, a new federal entity is established -- the PRIA Board. It is a one-stop shop for helping Americans save in a PRIA. The PRIA Board's guiding principle is to make sure that if your money is set aside for retirement, it can easily make its way to the PRIA.

Mirroring the makeup of the Thrift Savings Plan board, the number one role of the PRIA Board is to make it easy for workers to save in their PRIA. Since a saver can only have one PRIA, the PRIA Board will know where a saver has decided to house their account.

Working with the Treasury Department and the Social Security Administration, every dollar of income withheld for a PRIA will make its way into the account. For large employers, this will occur similar to the systems for direct deposit of paychecks or tax withholding submission. But the employer needn't have such an advanced system. Even if an employer just mailed in one check to the PRIA Board with a list of names and amounts, the money will get into the right account. If it is accidentally sent to the Treasury, or the SSA, or the IRS, it will still make its way into the right PRIA.

The PRIA Board helps savers reclaim their "abandoned" accounts

Workers can benefit from improving fund consolidation for the accounts they have lost. There are millions of "abandoned" retirement accounts that need to find their way back to savers. Maybe the worker left the sponsoring business years ago and lost track of the retirement fund, or a company went bankrupt with a 401(k) still out there. Under this plan, any abandoned retirement fund can be deposited in a worker's PRIA, making it easy for workers to access their money and unburdening employers with the added costs of administering abandoned funds.

Because employer-based funds often have low fees and are well managed, we do not want every account held by a former employee to get moved into the PRIA. We intend to set certain parameters on when an account is "abandoned," and seek comments on what would be a reasonable set of standards to achieve this. If a former employee wants their funds to remain in the former employer's plan, they should have that ability.

D. Smart -The PRIA has prudent investments created by the private sector

There will be two types of PRIAs: a PRIA Basic and a PRIA Choice. Both will include investments created and managed by the private sector.

The PRIA Basic is the default account created for every American with one investment option. Any saver can easily opt into a PRIA Choice account to use the financial institution of their choice and broaden their investment options.

The PRIA Basic – a practical investment for most savers

The PRIA Board will oversee the PRIA Basic plans by hiring a private sector firm to develop the investments, administer the accounts, and perform record keeping. The PRIA Board will be the fiduciary for these accounts.

When savings are put into the PRIA Basic, the money goes into the one-and-only equity investment option allowed: a target date fund tied to the expected retirement of the worker. The investment management of this target date fund will be done by a private sector financial firm, selected by the PRIA Board in a competitive process with a focus on broad diversification, sound management, and low-fees. Only firms that can prove their safety and soundness could do it -- generally, an investment firm that is already approved as an IRA trustee could qualify to bid on these accounts.

Currently, we are considering a few different options for target date funds which are developed specifically for the PRIA Basic. Two options are:

1. An investment firm develops a target date fund specifically for the PRIA, with one year of accounts being offered at a time. For example, Firm A could win the contract for all PRIA holders born in 2019, to develop a target date 2086 fund (67 years after 2019).
2. One or more investment firms could develop target date funds covering a series of years, with PRIAs being assigned randomly to each fund. For example, Firm B and Firm C each develop a target date fund for 2085, which is used for anyone turning 67 from 2083-2087. Savers in this window are then randomly assigned to the target date fund designed by Firm B or Firm C.

Alternatively, instead of having target date funds developed specifically for the PRIA, publicly-offered target date funds could be purchased for PRIA Basic savers. As more money is saved in PRIA Basic accounts, more shares are purchased for these accounts. Two options are:

1. An investment firm manages all the PRIA accounts for a fixed number of years. For example, Firm D wins the management contract for 2021-2025, managing every PRIA Basic account during this five-year period. For any PRIA savings made in those years, Firm D purchases publicly-traded target date funds to match the account holders, regardless of the retirement target year. In 2025, the contract is rebid, and Firm E could then win the management of all the accounts for 2026-2030.
2. An investment firm manages all the PRIA accounts for a retirement date cohort, purchasing publicly-traded target dates funds for that cohort. For example, Firm F wins the contract to manage all PRIA Basics for retirement targets from 2083-2087. When savings are made in these accounts, Firm F purchases publicly-traded target date funds for this retirement window. Firm F would retain management of the PRIA Basics for this cohort, subject to periodic review.

It may be best to consider multiple strategies – such as purchasing publicly traded funds when a cohort's assets are low, but transferring to a specifically-developed target date fund when the assets reach a certain threshold. There may be very many small-balance accounts that would need a different approach than large-balance accounts. In addition, if accounts are contracted by birth year, there may be many years when most accounts have $0, making private-sector management less cost-efficient.

We seek comments on these potential target date fund ideas and other target date strategies, as well as input on how to ensure a diversity of investment firms are being used by the PRIA Board.

We are also considering including a Treasury bond fund in the PRIA Basic, for any saver who is highly risk-averse. We seek comments on whether this would be an improvement from only having the target date fund (which would itself have some Treasury bond holdings, which varies based on distance to retirement).

The PRIA Choice – choose your investments, choose your investment company

At any time, a saver can convert their PRIA Basic to a PRIA Choice, an account which is fully administered and managed by a private financial institution, with a broader set of investment choices. Financial institutions will need to compete with each other on their fees, the desirability of their investment choices, and the service they provide a saver.

The saver can decide which financial institution will manage their PRIA Choice. They can select a national financial company, their local bank, or anywhere in between, as long as the institution has met certain PRIA Board standards (generally being qualified to be an IRA trustee). The financial institution serves as the fiduciary of the accounts.

The PRIA Choice can offer a wider mix of investment options than the single-investment PRIA Basic. Since PRIAs are automatically created for everyone, can benefit from expedited rollovers, and receive abandoned account funds, it is likely necessary to put some limits on the universe of potential investments. We do not want PRIAs to lead investors into overly-risky products, be overwhelmed by choice, or to unintentionally pay high investment fees.

While every PRIA Choice must provide a few low-cost investment choices, we seek comments on how broadly to allow other investments. The following are some ideas on how to limit PRIA Choice investment options, some of which can work in tandem:

- Limit the options in a PRIA Choice to a small number of funds for any saver, in the range of 10-20 different investment options.
- Require that every investment option in a PRIA Choice be a highly-diversified, low-cost fund, such as S&P 500 funds, target date funds, large cap fund, or something similar.
- Allow some less-diversified funds to be PRIA Choice investments, such as a real estate fund, technology fund, or social investment fund.

- Allow the option for savers to purchase an annuity within their PRIA.
- Require that at least some portion of the fund (e.g., 50% of value) be in low-fee, highly diversified investments, with the balance allowed for less-diversified investments.
- Allow for certain certified investors to access the broadest set of investments through their PRIA, including individual stocks, non-publicly traded products, hedge funds, etc.

We also welcome other ideas on the appropriate ways to limit the investments available in the PRIA Choice.

Ultimately, if the limits on a PRIA Choice are too constricting, and if savers want more options in how they select their investments, money in a PRIA can always be rolled over into an IRA.

E. Other Components & Administration

Start-up contributions for low-income families

While this plan should help millions of Americans start saving, we know that many households do not save for one simple reason – they cannot afford it. Every dollar they have goes towards keeping a roof over their heads and caring for their family. We can do something to help get these families started on a retirement account, with the hope that they can save a few more dollars through their lifetime.

That is why we envision having a sliding scale (up to $500) federal contribution into the PRIA of any child born into a household that receives the EITC. This is one potential mechanism for getting low-income households started, and we seek comments on the best method to provide this type of benefit.

A contribution limit that does not disrupt the marketplace

There is no interest in causing disruption in the market of existing workplace retirement plans. While we have not finalized how much can be saved in a PRIA annually, we envision something that is not lower than the annual IRA limitations (currently $6,000), but could be higher.

There are outstanding questions on: How various annual contribution limits may affect the market for other savings vehicles, such as 401(k)s, SIMPLE IRAs, and IRAs? How many potential PRIA savers could take advantage of higher contribution limits?

In addition, since some employers may offer nonelective or matching contributions, it is a question whether the annual PRIA contribution limit should be inclusive of employer contributions, or if a separate limitation should apply on any employer contributions.

Auto-deduct and auto-escalation

The PRIA can include auto-deduct and auto-escalation rules to help get more workers saving. Since we expect many PRIA accounts to be from low-income workers, we seek comments on applying these concepts.

Further, auto-deduct is more complex where payments are gross revenue rather than net income, such as for independent contractors and workers operating through gig platforms. We seek comments on the best way to determine whether to apply these concepts at all, and how to calculate them if they do apply, for these workers.

Direct contributions

We envision the PRIA primarily operating through employer direct deposit, but individual direct contributions could be allowed if the saver is otherwise eligible to make the contributions through their employer, but does not (or does not reach the total limit). We seek comments on this approach. We also seek comments on whether contribution amounts should be limited by wages and/or AGI in a year, and if there is any non-abusive avenue for non-employer third parties to make contributions (e.g., contributions from other family members).

PRIA account numbers and consumer protection

Every American would be issued a PRIA number, which they could give to their employers for making direct deposits into the PRIA. It is expected that the PRIA Board would be able to utilize other information to ensure that every contribution is going to the correct PRIA, such as the Social Security Number, address, or former employer EINs.

We seek comments on the best way to utilize this information and connect the PRIA Board, Treasury Department, and Social Security Administration, while ensuring the best consumer protection that is possible.

State auto-IRA program

More states are enacting their own state-facilitated retirement savings programs, including auto IRAs and open multiple employer plans. The PRIA is intended to complement, not preempt, state activity to expand coverage, and we seek input on how state programs can still thrive when the PRIA is in place.

Other rules

Where not otherwise determined, the PRIA will generally follow the rules for IRAs, including distribution ages, catch-up contribution, and the 10% penalty. We seek comments on this approach.