

THE HAMILTON PROJECT AT BROOKINGS

FALK AUDITORIUM

PROMOTING FINANCIAL WELL-BEING IN RETIREMENT

A HAMILTON PROJECT POLICY FORUM

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Keynote Address:

THE HONORABLE THOMAS E. PEREZ
U.S. Secretary of Labor

ROUNDTABLE: ADDRESSING THE CHALLENGES OF THE LONG-TERM
CARE INSURANCE MARKET:

Author:

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Discussants:

HOWARD GLECKMAN
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Moderator:

BENJAMIN HARRIS
Chief Economist and Economic Advisor to the
Vice President
The White House

ROUNDTABLE: IMPROVING POLICY FOR RETIREMENT SAVINGS
ACCOUNTS:

Author:

JOHN FRIEDMAN
Associate Professor of Economics and
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Discussant:

JAMES POTERBA
Mitsui Professor of Economics, MIT
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Chief Public Policy Officer
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Moderator:

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Senior Fellow and Director, The Hamilton
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P R O C E E D I N G S

MR. RUBIN: Welcome to the Hamilton Project, and its program. Today's discussion which, as you know, is on Promoting Financial Well-Being In Retirement.

Before turning to the program let me just say a few words about Hamilton Project, and most of you probably are familiar with it, but just as a reminder, for those who are not, that will be new information.

The Hamilton Project started about 10 years ago, Peter Orszag, myself, Roger Altman, and a few other people, and we are not an institution, we are an organization of policy experts, former public officials, business people with a strong interest in policy, academics. And we are organized as an Advisory Council, which then operates with a very small, but extremely good staff, that reaches out to people around the country who are, in their judgment,

best qualified to provide papers or engage in discussions on the topics that we hold events on five or six times a year.

We've been guided since our beginning by a bedrock belief that economic policy should serve the purposes of growth, broad-based participation of benefits of growth, and economic security. And we also believe that these objectives can be mutually reinforcing rather than antithetical, as is so often argued. As an example broad and increasing -- broad and ongoing increases in standards of living require growth, both because of a larger pie to split, and also because of the tighter labor markets.

And conversely, growth requires broad-based dissipation and the benefits of growth, in order to create demand, in order to create public support for growth-oriented policies, and very importantly, to provide workers with the resources to invest or expand on education, good nutrition, housing, health care and other requisites for productivity.

We also support market-based economics, but

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equally we support a strong role for government to serve the many purposes of markets by their very nature will not serve. It should be obvious from all the comments I've just made, that we are truly non-ideological, and we truly are pragmatic within the context of the framework that I've just described.

Today's program concerns one of the objectives of the Hamilton Project, long-term retirement security. More specifically, we will focus on workers and how they achieve financial security in retirement. The financial landscape for retirement, as all of you know, has changed dramatically over the years. We have rising -- greatly rising longevity, expectations which is good, but on the other hand, also create its own issues, increased dependence on individual savings, changes in the way employees save, and greatly heightens strains on Federal, local and state social safety-net programs.

Our current situation, when you put all that together, is not viable, and it is not sustainable for the long-term. We should have and we do have debates

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about how to address these issues, what we do not have is action. It was an absolute necessity, and inevitably would have to happen, but our political system will face its issues at all levels, federal, state and local, and to deal with these issues.

And that can only happen when there is a willingness to engage in principled compromise in accordance with policy and political divides, and that certainly is in large measure, absent at the federal, state and local levels today. ...

I strongly recommend that you read the paper that you receive on your way in, it's called 10 Facts About Financial Well-Being in Retirement, and I think that that rather, very succinctly but effectively addresses the enormous changes that have taken place in the environment of financial security and retirement.

Today's program features two papers, one dealing with private savings, the other with long-term care. The Panels will discuss the respective papers, and then they will talk more broadly about the issues

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with regard to retirement security.

As I said a moment ago, life expectancy, as we all know, has increased greatly over the last 50 years, which is very good, but it poses enormous challenges with respect to retirement. Take just one example, long-term care is usually expensive, the private insurance tends to cover relatively little of that expense. The result is that older Americans, in many cases, have to spend their own assets, and then when they deplete those assets, are dependent on Medicare and Medicaid.

That, in turn, puts extra pressure on those already-strained programs, and those programs, the health care programs as you know, are central to our own sustainable long-term fiscal position in this country.

Secondly, more Americans rely on investment-driven investment -- retirement vehicles than ever before, but roughly 13 percent of private sector employees still have defined benefit plans. In their stead as we all know, have come 401(k)s, IRAs, and

other instruments. The payments are more variable, and very importantly, these plans require workers to determine how much to contribute, how best to invest the funds and at what rate to spend down in retirement.

To make sensible decisions about these issues, people have to have a relatively, significant level of financial literacy. In a well-regarded survey, only one-third of the respondents ages 25 to 34 were able to correctly answer questions about fundamental investment concepts, like compound interest, diversification, and inflation. And in that same survey, people, ages 55 to 65, who are obviously much closer to retirement, only about half were able to answer those questions. Thus financial literacy is an enormously serious problem in a system that is now so dependent on private savings.

Third, many state and local pension funds, are significantly underfunded, and in most cases relatively little is being done about it. And the Federal programs, retirement programs face similar

problems. In 1960, there were nine active workers contributing social security for every retiree collecting benefits. Today, and there are various ways of measuring this, at least the way that we measured it.

There are four workers for every retiree, and that number is declining. There are many thoughtful approaches to addressing these challenges with respect to social security, but what is the unavoidable truth that we don't like to face, is that action is needed, and of course Medicare and Medicaid, as I've already mentioned, face their own substantial, and growing financial distress, even with the decline and the rate of increase of health care costs.

And once again, we come back to the question of the unwillingness of government, at the Federal state, and local efforts, for the most part, not entirely, but for the most part; to engage in principled compromise, to make the difficult choices and decisions that we are ultimately going to have to make, because the system as it is today, is simply not

sustainable for the long-term.

Finally, as I said earlier, many Americans rely, more Americans forever rely on personal savings. But most families can't meaningfully increase their personal savings, because we have had stagnant or close stagnant medium real wages for a long period of time. Unless economic security as well as growth, and broad-based participation, and the benefits of growth are tied to meeting depressing, but complex challenge of achieving robust and ongoing rate of increase in median real wages.

We are joined today by really a remarkable group of authors and panelists deeply experienced and thoughtful, and a highly distinguished Keynote Speaker who I'll have the privilege of introducing at the moment. And they will help us all think through these complex issues. In accordance with the longstanding practices of the Hamilton Project I will not go through the résumés of our distinguished participants, they are in the materials that you received on the way in.

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But I will recognize the Keynote Speaker and the Panelists, as I now outline the program. The program will begin with remarks, by the Honorable Tom Perez, Secretary of the United States Department of Labor. He is, as you know, extraordinarily well-respected and we are deeply, deeply grateful to him for joining us, since Secretaries tend to be rather busy, and it was nice of him to take this time to be with us.

Our first roundtable will address challenges and opportunities in the private and long-term care insurance market. Those will begin with comments on his paper by Professor Wesley Yin by UCLA. He'll be joined as Discussants, by Tom McInerney, President and CEO of Genworth Financial. Alice Rivlin, Director of the Center for Health Policy at the Brookings Institute, and a member of the Advisory Council, and Hamilton Project. An Harry Gleckman, Resident Fellow at the Urban Institute.

The discussion will be moderated by Ben Harris, Chief Economist and Economic Advisor to the

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Vice President, and former Policy Director the Hamilton Project.

After a short break, we will focus on new proposal to reform retirement savings account, authored by Professor John Friedman of Brown University. Professor Friedman will be joined by Jim Poterba, Professor of Economics at MIT, and also President of the National Bureau of Economic Research; and Deborah Whitman, the Chief Policy Officer -- Chief Public Policy Officer at AARP, which I've had the privilege of belonging to for a long time. The Panel will be moderated by Melissa Kearney, the Director of the Hamilton Project.

Let me close by thanking the people who developed the actual construct for this program, and brought it all together. Melissa Kearney I've already mentioned; Christian McIntosh, Managing Director of the Hamilton Project. Jane Dokko, Policy Director of the Hamilton Project, and Brad Hershbein, Visiting Fellow at the Hamilton Project. Let me also thank our enormously talented and hardworking staff, without

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whom all that we do would be impossible.

Now, it is my honor and privilege to welcome to the podium our keynote speaker, who as a long, distinguished and highly-regarded record in public service as you can see from your materials. He is also universally respected for the work that he has done in his current position as an extraordinarily effective Secretary of Labor, United States Secretary Labor, Tom Perez, and we are, as I said before, deeply grateful for you being with us. (Applause)

MR. PEREZ: Good afternoon. It's an honor to be here, thank you for your kind introduction, Secretary Rubin. And most importantly, thank you for your distinguished service to our nation. We owe a great debt of gratitude to you.

To my friends at Brookings, it's always great to be back here, I always enjoy coming here, and particularly honored to be speaking here at the Hamilton Project, which has done so much. And when you were introducing and giving the history of the project it felt like it was 30, 40 years old, as

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opposed to 10 years old, because you have such a record of accomplishment.

Today's conversation is really about what it means to be middle-class in America. That's what we are talking about, because retirement security is such a critical pillar of what it means to be middle-class in America. And when you think of the Labor Department, if I did that Pavlovian, and tell me what's the first thing you think about, I think a lot of people would talk about our advocacy on behalf of workers, and I'm very proud of that.

But we are just as vigilant and aggressive when it comes to fighting for the interest of those whose working days are behind them. It's actually right there in our mission statement if you take a look at it, and I quote, "To foster, promote and develop the welfare of wage earners, job seekers, and retirees of the United States."

And as Secretary Rubin correctly points out, the retirement landscape has really changed dramatically in this country. This is not your father

or your mother's retirement. It used to be in the old days, Ozzie and Harriet that you work for the same company for decades, and you'd retire with a handshake, maybe a pen, a party and a pension. And you got that check every month and you didn't have to worry about who was taking care of it when you were working because you had a fiduciary who was doing the job for you.

And those checks came in the mail. Do you remember that thing, the mail that would get delivered to you, things like that. And oftentimes it continued to provide benefits for your spouse after your death. This is a new era, Ozzie and Harriet has been replaced with modern family, and if you ask a millennial like my kid, my oldest is about 19 years old, if you asked her what a defined benefit plan was, I'm confident she would know about as much of that as she knows about a typewriter.

And as you correctly point out, we've gone from 78 percent of the workers with a defined benefit pension in 1975, to 33 percent in 2012, 401(k)s, as

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you know, and IRAs are very vulnerable to that market volatility, and workers are now responsible throughout their careers for managing their own assets and making decisions that will affect their financial security for the rest of their lives.

And so, to put it slightly differently, the work at the Department of Labor in this space has never been more important, because we have so much work to do, we have a new paradigm, and we need to help them as much as we can. And that's exactly what we do.

The President outlined what he calls his three-legged stool of retirement security. And I don't want to talk too much about the first one, even though it is so, critically, critically important, and that is Social Security. We could have an entire session, and Social Security and what we need to do, and the President has been very clear, very unambiguous in his belief and support for the time honored Social Security Program, and he has outlined in detail, things that need to be done to make sure

that the greatest generation will have Social Security, and their grandchildren as well.

And the financial health, I will say though, about the Social Security system, and Medicare, and I serve on the Board of Trustees for the Medicare Trust Fund, it cannot be separated from the health of our labor markets, because the best thing for these programs, as you correctly point out, is a growing economy that continues to create more jobs.

During the recession, obviously the trust fund suffered because fewer people were paying into the system. Today, a resurgent economy has generated 12.6 million jobs over 63 consecutive months, and it's putting those programs on a sounder footing.

And just about everything I do as Labor Secretary, investing and up scaling so that people so that people can advance their careers. Fighting for higher wages by advocating for a minimum wage, or putting out overtime regulations, advancing the economic interest of women, but closing the pay gap, and the participation gap. Getting more women in the

workplace through progressive, such as paid leave.

All of these have the benefit of funneling more money into the Social Security system, and all of these benefit of preparing people for a more prosperous retirement, because it goes without saying, if you are making more throughout your working years, you are going to have a more prosperous retirement.

And that is why the issue and wage inequality is so front and center for this President. Social Security, and I could not be here without reiterating this, would be bolstered further if we had comprehensive immigration reform. Because the CBO and others have determined that you move people out of the shadow economy, and into the sunshine, and you will extend the solvency of the trust fund, by two years, and reduce the 75 years shortfall, by nearly \$1 trillion.

So a strong economy in which everybody is participating, naturally benefits Social Security, and this is another way in which, as a President often says, America is at our best when we feel the full

team.

Now the second and third legs of the stool, which absolutely need fortification, are personal savings and employment-based savings. We need to tighten the bolts on both of those, and both the Federal Government and State Government, the private sector and our partners play a critical role, and there is no magic bullet solution moving forward.

At the federal level, given the challenges we have with Congress right now, the President has been using his Executive Authority and the ingenuity of folks in his administration to do everything we can do. And the President took an important step forward in 2014 with the establishment of the myRA Program, to help the 60 percent of people who have no job-based retirement savings vehicle at all.

myRAs are designed by the Treasury Department to help Americans kick start their savings in a way that's simple, safe and affordable. If you enroll money it's automatically put into your account, as long as your employer uses payroll direct deposit.

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It's portable from job to job, the investment is backed by the U.S. Treasury. It costs nothing to open an account, and you can design it to fit your budget, contributing as little as a few dollars a month.

The President wants to move further with this idea, and the 2016 Budget Proposal includes a plan to automatically enroll Americans without workplace retirements plans in an IRA, and he has also proposed tax cuts for small employers who offer auto IRA. As with so many of the issues that we work on at the Labor Department, including wage security and paid family leave, leadership at a Federal level, is an important complement to our efforts.

And the synergy between what we are doing at a Federal level, and state initiatives that are designed to enhance retirement security is essential to our progress, several states have been stepping up and talking about this issue, and not simply talking, but acting. They are playing their traditional roles as incubators of innovation, launching efforts to encourage state-based options for workers whose

employers don't sponsor a retirement plan.

California and Illinois, in particular, have stood out for their leadership and others are following suit. For instance, Oregon just passed a Bill and it's on its to the Governor's desk, and I have every confidence that she will sign it. And we have been in communication with a number of the estates. Learning more about their approach, and providing technical assistance.

What these states have told us is that they need to find new and creative ways to help heir residents save, especially people who don't have other access to a job-based retirement plan. I'm very excited about these state-level efforts, and I want to do more to help them. We want to make sure that we can encourage and facilitate them, by removing barriers preventing them from flourishing, while preserving, absolutely essential, consumer protections.

I believe that the actions that's occurring and the innovation occurring at the state level, is

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one of the most important things that's happening in this retirement discussion at the moment.

You mentioned financial literacy Secretary Rubin, and financial literacy in education are so critical to making sure that we keep the steady stools, steady and indeed standing, and financial literacy in education has been an all-hands on deck enterprise. It's been a joint venture between the Feds, state and local governments, private sector, faith leaders. Where I live in Maryland, in Prince George's County, a group of faith leaders started what they call, the Collective Banking Group, which was an organization that was premised on the notion that people will talk about their finances with trusted opinion leaders.

And often those trusted opinion leaders, are their ministers. And so finding the people where they are, building those bridges of trust, we see so many people doing so many innovative things, and do you know what, I know as the parent of 3, young people are not the most diligent savers.

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I've got one kid who believes that if you make \$100, that means, you can spend \$100 that week. It's not quite that simple, I'm trying to explain, frequently without success. And so we are continuing and I see so much innovation that dedicated and talking to millennials, and talking to them in a way that they understand.

So there is an app out there. If you go out and go to Starbucks and pay \$3.48 for a cup of coffee, it will round up to \$4.00 and it will deposit the \$0.52 in savings. And the number of times that adds up, it's a nice, remarkable, simple, elegant, utilization of the technology, to help young people understand the power of savings. And what we also have to understand as we look at the issue of savings, is that it's not only young people who aren't saving enough, there is substantial research showing that there are alarming racial disparities in retirement account balances, across all income levels.

African-American and Latino families don't have as big a nest egg as their White peers. The gap

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gets smaller as you move to higher income brackets, but even among people earning \$120,000 or more, in 2010 Latinos had \$0.72 and African-American at \$0.71, for every \$1 saved by White households. We see it among Federal employees as well, both Ariel Investments and the Office of Personnel Management, have looked at specifically at participation rates by minorities and the Federal Thrift Savings Plan.

The OPM Study found that, even among workers at the same salary grade, minorities are much less -- are less likely to contribute. And when they do, they contribute less. It is critical that we understand and address these disparities, especially as our nation grows more racially diverse, and the millennial generation, gets into the workforce. Ariel Investments and the Labor Departments own ERISA Advisory Council, they've looked at these issues, and they have a host of recommendations, for closing these gaps.

Both for young people, and for people of color, including the greater use of technology-

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enhanced efforts at financial education and outreach, using automation as much as possible, and taking advantage of social medial and other available communication tools to get the message out. I think that's so critically important and we are going to continue to work in this area.

And I've seen so much remarkable at a grass roots level. Just today I met with an individual, John Hope Bryant, he is the CEO of Operation HOPE, which was founded in the aftermath of the 1992 riots in Los Angeles. It's America's first nonprofit, social investment banking organization, they call themselves, the nonprofit private bank for the working poor, the underserved, and the struggle middle class.

In addition to providing internships, apprenticeship training, they do remarkable work in economic education and financial literacy empowerment for young people. Especially young people of color. He speaks -- ad I met John again this morning, and he speaks of what he calls silver rights, the next phase of the Civil Rights Movement were underserved

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communities can attain financial dignity, access to the resources they need to thrive in a free enterprise system.

And so this will continue. I applaud the work, and the Richard Cordray, at the Consumer Financial Protection Bureau, we have an alphabet soup of Federal agencies that are dedicated to this task, and making real progress, and working together, I education and outreach can be a critical effort, and a critical role as we move forward.

But what happens when workers and families do all the right things, when they are conscientious about saving, when there's frugal improvement -- prudence, and when they smartly put aside, immediate gratification, to think long-term and they still have the promise of a dignified retirement, snatched from them, unceremoniously? How can we keep them from being victims.

How can we make sure that the hard-earned money that you have put away goes to you? This is a question that we have been dealing with at the

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Department of Labor for some time, and I appreciate the dedicated work of career staff, and this is a question that is front and center, today.

And let me explain what I'm talking about and the best way to explain it is to tell you a story. Regrettably, this is not fiction, this is reality. Merlin Toffel did everything right. He was a veteran of the U.S. Navy, an electrician, he and his wife, Elaine, raised their four kids in Lindenhurst, Illinois, and they instilled in them, the middle-class values that are befitting of the greatest generation.

They loved to travel, but they worked hard and took care to save wisely. Over four decades, they built up an impressive portfolio with Vanguard. Merlin was at the helm managing the account actively, and his who was an accountant was keeping the books. But life happened, life took its toll, and Merlin was diagnosed with Alzheimer's, he frankly passed away just a few months ago.

When Merlin could no longer manage their finances, Elaine made an appointment at the local

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retail bank. This was the bank they had used throughout their careers, throughout their lives, they trusted this bank. And the bank's investment broker told her to liquidate the Vanguard portfolio, and sold them variable annuities to the tune of \$650,000. Elaine trusted that advice; she thought it was in her best interest, she really thought so, but it turns out not to be the case.

But those variable annuities charged nearly 4 percent of the investment, so they had a \$26,000 annual fee. You could buy a pretty darned good car each year for \$26,000, and if they needed to access the money right away, as all too many families face when our loved one is in decline, a 7 percent surrender charge would cost them more than \$45,000.

And in the end, conflicted advice cost them more \$50,000, and that does not factor in the remarkable mental anguish that they had from having to haggle and deal with this situation, while simultaneously dealing with his declining health.

And his story is tragic but I, regrettably,

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must say, that it's not unique. Conservative estimates by the Council of Economic Advisors, and some of the best economists in the history of the United States once worked and directed the Hamilton Project, I'm told. The Chair of -- he told me to say that, by the way -- actually that's not true. But conservative estimates by CEA placed the cost of conflicted advice at more than \$17 billion annually.

Our economic analysis at the Department of Labor shows that, conservatively, the amount that savers would benefit from our rule, and this is only based on a slice of the IRA market, and the CEA analysis was only based on a slice of the market as well.

Our analysis shows that consumers would have a \$40 billion benefit over ten years, if we eliminated conflicted advice in this one space. And for families like the Toffels, folks who have done everything we ask of the American middle class, I think the stakes couldn't be higher. And that is why we, a few months ago, released a proposed rule addressing conflicts of

interest.

And the underlying principle of our rule is very simple and it's rooted in basic common sense. If you want to give financial advice, you have to put your clients' interests first, and not your own. That's the basic premise of our rule. Completing this rule is one of the single most important things that we can accomplish in the remaining 577 days. I've got a note on my desk, 577 till the weekend, January 20, 2017, and this is on the top -- this is at or near the top of the list, of things that we have to do to help strengthen and grow the middle class.

Because if you think about it, and you put this in perspective. I'm the youngest of five. I've got four siblings. They are all doctors, and I am a lawyer. I promised them I would never be a plaintiff's personal injury lawyer. I did keep my promise, and I mean no disrespect to those who are in that line of work.

But I think about this in the context of the fact that three of the most important decisions, or

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types of decisions, that people make in their lives, are medical, legal and financial. And for doctors like my siblings, and lawyers like myself, the rules are clear. I've got to put your best interest first.

If I go to the doctor, and I'm diagnosed with cancer, she's not going to tell me what's suitable. Or if she does, I'm not going to be satisfied with that, I want to know what's best for me. And I don't want to know what's suitable. But that is the challenge in the financial space.

Some people have taken already an oath to act as a fiduciary. The individual that my wife and I use, is a fiduciary, so he has obligation to put his customers' best interest first. But you know what, so many people don't, in fact the majority do not. Now this is not a challenge and it's important to say this, I don't believe that the challenge here, is that we have a bunch of people have malice in their heart. That is not it, they are undeniably bad actors in this, undeniable bad apples just as there are doctors, who are undeniably bad applies, but to me, the crux of

this issue is that there are good people operating within a structural flawed system.

A market that sees the interest of the advisor and the firm all too frequently misaligned from the best interest custom. So the singular goal of this proposal, is to align the two, or simply put; we want to create an enforceable best interest standard. Because the existing regulation is completely anachronistic. It was created 40 years ago, back in Ozzie and Harriet years, now we have literally \$12 trillion in the IRA and the 401(k) markets.

And so we need to get into the modern ages of our regulation. And so we recognize that this regulation is the C-change for some, and that is why when I started this job almost two years ago, we slowed the process down. The original rule was proposed back in 2010, and it was withdrawn, and I made a commitment to slowing it down, because I'm a big believer when you regulate, that the most important thing you can do is build a big table, and

make sure that every voice is heard.

And that you go through your enterprise with humility, because you know what, if you think you know it all then you are not going to get the job done, because there are so many people out there who know so much. And that is why we spend so much time before put this proposed rule out, and that is why the proposed rule we put out a few months ago, reflects the feedback we have gotten, because there is no one-size-fits-all template for serving clients' best interests.

And that is why our proposal provides the guard rails of the best interest standard, but does not involve putting in place straightjackets that unduly limit what people can do. So we provided carve-outs and exemptions, to give the industry that flexibility. The proposed exemptions from Prohibited Transaction Rules would broadly permit firms to continue common fee and compensation practices, as long as they adhere to basic standards aimed at ensuring that their advice is in their clients' best

interest.

This is the work that we are doing, and this is the work that we are continuing to do, and the collaboration that has marked our entire process will continue. We've met with representatives of all of the major financial industry groups, financial services, CEOs large and small, and representatives of employers who offer retirement plans to their workers.

We met with consumer advocates and civil rights groups. We've worked extensively with our government partners, including but not limited to the SEC, whose expertise continues to be very critical, because successful rulemaking, as I mentioned, cannot happen in vacuum.

And we put that feedback into action. A number of people were concerned we were going to ban commissions, this rule does not ban commissions. A number of people wanted to make sure that we clarified the line between education and advice. And, we have tried to do so, and we continue to take feedback on what we should be doing.

And tell you what's most interesting and exciting to me in this process of listening and learning, has been the recognition, the increasing recognition at the highest levels of the industry, that the best interest standard is the right thing to do, and the smart thing to do.

Leaders like John Thiel at Merrill, and Brian Moynihan, at B of A, have come forward to say a best interest standard should be the rule. Now they have questions about making sure the implementation and the operationalizing of that are done properly, and we continue to have that feedback, but they are understanding. And they are not the only saying that the best interest standard is the way to go.

Jack Bogle, the founder of Vanguard, has been one of our more outspoken allies; 64 years in the business, and I remember one day when said, you know, I've been in this business for 64 years, and I've learned that when you put your customers first, it's great for you customers, and it's great for business.

And we've also heard smaller, more

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entrepreneurial firms, who serve people with lower net worth and a more modest portfolios. Companies like Financial Engines, Wealthfront, Personal Capital and Rebalance IRA, they all provide personalized advice, while already embracing and adhering to a fiduciary model.

Christopher Jones, who is the Chief Investment Officer for financial engines, calls this rulemaking, "An important step to ensure the quality and independence of the investment advice provided to 401(k) investors."

Bill Harris, the CEO of Personal Capital calls it, "A no-brainer." He adds, "If it's not in the customer's best interest, it's not advice." Plus, Harris says, "If you give best interest advice and do it well, it will redound to the benefit of your firm."

When I talk to firms like these and tell them about the argument that some of our opponents say, that this rulemaking will make it harder to serve the small savers: could you give these small savers our email address, because we are already doing it,

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and we are doing well at it, and we welcome their business.

And the bottom line is, you know, this is \$12 trillion industry, I am hard-pressed to think that folks are going to walk away. As I learned in Seattle, when I was out there on April 1st, talking about a new Minimum Wage Law, there wasn't a representative of the Restaurant Association, standing right next to me. And she said, You know what, any good business in America, regardless of what sector you are in, the businesses that thrive, are the businesses that adapt.

The businesses that thrive are the businesses who understand that customers comes first, and the businesses that thrive do that. That applies in the restaurant industry, and it applies here, and I believe that this rule will serve as the catalyst for further innovation in the industry as more firms devise new tolls and strategies, assisted by modern software and new technology tools, to accommodate even those with only a few thousand dollars to invest.

One of my most interesting listening sessions when I went out on this rule, was to go the U.K., because I had from some that the sky had fallen, after the U.K. had put in place some regulations, and in many respects that regulations were even stronger than ours. The banned commissions altogether, had heard repeatedly that the sky had been falling.

And here is what's happening the U.K., there are far more people who are now investing in low-fee index funds. And do you what I've learned in this business, most people, especially small saver, their needs are simple. Their needs are served by simple investments.

Variable annuities are not the answer for so many people. They weren't the answer or the Toffels, and the reason they become answer, inappropriately for so many, it's because the system is misaligned. And so what we've seen is that actually are getting better advice. And I was told that, you know, there wouldn't be anyone out there clients

Well during this period that one of the

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studies looked in the U.K., there were 310,000 old clients who were lost, and they've added 820,000 new clients. Now I went to law school because I'm not very good at math, but I don't think I need to be a math whiz to figure out that that a fair amount of addition into the market.

And so I bring that up because I think we can do this. If you have the will to do this, you can figure out a way. And we will continue to receive and review very commend that we get, and we've heard a lot of interesting and important and concerns. We've heard concerns, for instance, that the additional data retention and point of sale disclosure requirements are too cumbersome, challenging to implement and won't provide significant benefits. And we've received feedback from others who have the opposite view.

And we hope to take in that many comments on this is important issue. The reason those comments are so important is because they have already begun to sharpen our thinking about what we should do to make changes to the exemptions, for example, by eliminating

any of those provisions I just mentioned, so that the proposal accomplishes its goals in the most simple and least burdensome way possible.

The more voices that are heard, the more open, inclusive and transparent the process, the stronger the new rule will be. And I firmly believe, as I said before, that this rule, as we talk about the retirement space, is one of the most important things that we can do at the Department of Labor.

Because you know, the Department of Labor is really the department of opportunity, and as I conclude, you know, I wake up every single day, with an abiding optimism, about the future of this country. I wake up every single day with a hop in my step. A hop in my step, it's a function in no small measure of the knee replacement I had a couple of years ago, but I hop in my step metaphorically as well.

And I have that hop because I think about the times we are living in, and I think about the mission of the department of opportunity. And you think about the five pillars, because this is not

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simply a conversation you are having today, and we are having today, about what happens when we turn 65, it's about the future of, and very definition of what it means to be a middle class.

It's about those five pillars, wages, so that you can put food on the table. Quality education for you and your family. A roof over your head. Affordable health care and retirement security, all of those pillars need to be fortified and strong, and we are in the fortification business, and in order to fortify this middle class, we need to strengthen and protect all of those pillars.

And the Department of Labor is involved in so many, and that's why I love my job, because we have that opportunity, and I am firmly convinced, if we are to project the retirement pillar we need to continue with common sense regulation. There is this false choice that people make, and we've seen it at work, in so many context.

We either have regulation or we have a sound climate for lending, or a sound climate for advice. I

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categorically reject those false choices, just as when I used to do police misconduct work, I categorically rejected the false choice between either protecting public safety or respecting the Constitution. That's a categorically false choice. And we live in a world where all too many things are defined in binary, inaccurate terms.

We can build a stakeholder economy where employers take care of their shareholders, they take care of their workers and they take care of their customers, and we see so many people who understand that the high road is the smart road.

Jeff Bogle and other in this industry understand that same thing. They understand that innovation is a key to success. They understand that it is an economic imperative, not mention a moral imperative for them to make sure customers' best interest first. And it is in their enlightened self interest, because the high road is, indeed, the smart road.

And so in these 577 days that I have left,
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until the weekend, I will continue our efforts to make sure everybody has a fortified middle class existence, including but limited to the work we are doing here today, and discussing today, in the retirement space. I know that we have many challenges, and I know that there are many storm clouds, but this isn't the first time in our nation's history that we've confronted storm clouds.

And we've always been able to come together, because we recognize, and something you said, Secretary, resonated with me profoundly. We recognize historically, that idealism and pragmatism are not mutually exclusive. We recognize that, you know, principled compromise, is not a four-letter word, and we can recognize that again, and in the work we every single day to enhance retirement security, we are doing just that.

I see points of light across this country, I see flowers blooming across this country, I see innovation in states, I see leaders in the corporate community stepping up and saying, this is what we need

to do, and this will be good for our business.

Whether it's a conflict of interest rule, whether it's other common-sense regulations that level the playing field for everybody.

I'm confident that we can move forward in a productive way, but this is, indeed, an all-hands-on-deck enterprise, because with the grain of the population, time is less and less an ally, and that is why this convening today, could not be more timely.

So thank you for having me. I'm sorry that I can't participate in the next conversation with this distinguished Panel, but I know that this Panel will produce not only dialogue, but action that will help build a better and more inclusive America. Thank you so much for allowing me to speak. (Applause)

MR. HARRIS: Hello, everyone. Welcome to our first Panel. I don't about you all, but I'm feeling very energized after that terrific address. So, no better time to talk about long-term care. Today's event brings together two of the things that are dearest to my heart. The Hamilton Project, and

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Retirement Security, so needless to say, I'm thrilled to be here today.

As we heard from the Secretary's comments, this issue of retirement security is obviously of paramount importance. He discussed the key pillars of retirement security, including private saving and Social Security, and so while these issues are undoubtedly critical, another very, very important aspect of retirement security is long-term care.

Over the next 40 years the number of Americans needing long-term support and services will more than double to 27 million, spending on long-term services to support, were nearly tripled to 3 percent of GDP. In 2011 alone CBO estimated that roughly \$400 billion in economic resources were devoted to the issue of long-term services and support.

So, obviously it's a critical issue for our economy. Recognizing the importance of the issue, the Hamilton Project has put out a new paper today, on long-term care insurance, and long-term services support, or LTSS, in the paper Wesley Yin advocates

for a novel approach to an improved, private long-term care insurance market. In a moment I'll invite Wes to the podium to give a brief overview of the proposal, and then we'll move to a moderated discussion.

But first, let me quickly introduce our very distinguished Panel. We have a remarkable lineup today. To my left is Howard Gleckman, Howard is a Senior Fellow at the Urban Brookings Tax Policy Center. He is the Editor of the Fiscal Policy Blog TaxVox. He is the author of book, *Caring for our Parents*, and he is a nationally-recognized expert on long-term care issues.

Next to Howard is Tom McInerney. Tom is the President and CEO of Genworth. By far, the largest provider of private long-term care insurance in the United States. Tom has a long and distinguished career in the insurance industry, in serving in an array of Senior roles with a host of insurance companies, including Aetna and ING.

Next to Tom is Alice Rivlin, who also needs no introduction, but it's sort of fun to say her

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accomplishments anyway. So, Alice is a Senior Fellow in the Economics Studies Program at Brookings, and the Director of the Center for Health Policy here. She was the Founding Director of CEO, she was the Director of OMB, and she was the Vice Chair of the Federal Reserve.

Next to Alice is Wes Yin. Wes is an Associate Professor of Public Policy and UCLA and a Faculty Research Fellow at the National Bureau of Economic Research. Prior to coming to UCLA Wes served as Acting Assistant Secretary for Economic Policy at the Treasury, which I believe carries the title, Chief Economist, United States, which I think is a terrific title, so congratulations. Wes has also taught at Boston University and the University of Chicago.

And with that, Wes, I invite you to the Podium to give a quick overview of your proposal.

MR. YIN: Ben, thanks for that introduction, and I appreciate the opportunity to talk about this very important issue. So, it might be surprising to many of you that on average, that over-65 senior

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couple spends, or incur costs around \$65,000 over their lifetime, on long-term supporting services.

It's actually a 5 percent chance that that couple's incurred cost in spending of over \$260,000. It's an enormous and shocking amount, and it really represents long-term care risk, the greatest source of financial risks facing American seniors. Right? But at the same time, public insurance, public coverage through Medicaid is actually quite incomplete, and when you think about buying private insurance, for a variety of reasons that would have to be addressed. People don't buy private insurance.

So, particularly for middle-class Americans, Americans who don't immediately qualify for Medicaid and don't have enough wealth to self-insure, they are ill-suited and ill-prepared for the financial risk that they face. At the same time those who do rely on Medicaid, an important and critical social safety net, they are participating in a long-term care program that is facing increasing financial strain.

Medicaid is growing at 6 percent a year for

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the long-term care -- long-term support and services. It's a far higher growth rate than GDP, and if not addressed it's going to continue to strain our commitments to the most vulnerable and other social objectives.

So, what we need? We need action on two fronts here. We need increased risk protection for the middle class, furthermore we need the strength in Medicare, not cut benefits, but reduce it, but we need to strengthen through increased efficiency and offering the types of services that meet the needs, the various needs of Americans.

So, in thinking about, like a reform there really are several constraints that we have to consider, and through those constraints it really creates -- lay markers for a path forward. One is that there's probably little support for a large market expansion in public benefits. Similarly, that there might be limited support for a mandatory financing program.

It turns out that we actually don't need

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market expansion, what we need, we don't need more financing, we need to redirect what we are currently spending in the public, the public direct spending and long-term support and services, and what we are spending on private, spending on long-term support and services, we need to redirect that towards the purchase of more insurance, more risk protection. And to the extent that we do have increased spending, we want to have that spending be increased private spending, particularly for those who can afford it.

So, the proposal really has two main pillars, and I'll talk about these two, as well as it's a few complementary proposals, but these are the two main pillars here, one which I call a long-term care advantage program, and it's a voluntary participation program. Where, in lieu of Medicaid long-term support and service benefits, the government will provide a cost-sharing subsidy for claims.

It's a progressive cost-sharing subsidy, and what I mean is, if we peg to lifetime Medicare earnings, for example, my Medicare lifetime earnings

might then qualify me for a 30 percent government cost-sharing, so that in the future when I incur long-term care support and service spending, right, the government is going to cover 30 percent of that. So when I buy a long-term care insurance policy the carrier will know that that fraction of the spending will be covered by the subsidy, and therefore my premiums will be dropped accordingly.

So there's that benefit. And what's nice about this is that it allows people to add to or top up the benefit that's provided by the government in order to buy greater risk protection above that which is covered by Medicaid. Okay. So that's a critical kind of look at an architecture, or a platform upon which we are going to build some other of these main - - these pillars of this proposal.

The other main one is this risk-sharing program. It turns out that carriers had the unenviable task of covering and trying to project out their claims, 20, 30, 40 years into the future, where they are subject to risks like, interest rate risk

over that time, lapse rate, disability duration, disability rates. These are very hard to predict.

Normally what insurers do, is they pull that across individuals, in this case they can't do that, because everyone gets hit by the same shock. Everyone is a common macroeconomic factor. So, these carriers really are ill-equipped to bear this risk, and so the proposal here is to say, well, qualifying risks, qualified losses that these carriers face, right, they are going to be shared among consumers, in clear and transparent ways, as well as the government.

And the key point here is that only qualifying losses are covered, what I mean by qualified are, losses associated with unfavorable movements in this key macroeconomic financial parameters, and not the things that the carriers themselves can control. So it doesn't give rise to bad behavior on the parts of firms. Like moral hazard and such.

And finally, just a few things about these other complimentary proposals, product standardization

which fosters, you know, consumer choice, in smarter competition, penalty-free withdrawals from tax-advantaged retirement accounts for the purchase of long-term care insurance. That's kind of a sensible thing when we think that we need to tap this pool of the retirement savings, to buy the very products that will help insure retirement security, encouraging employers to offer private insurance.

And then lastly, I propose a Medicare demonstration. And the point here is that the delivery and financing of long-term support and services right now is completely disassociated from the delivery and financing of acute and primary health care. So this is a proposal to integrate the financing to better coordinate the service delivery of long-term support and services, as well as health care, and either a Medicaid, Advantage, or ACIO mechanism.

So that's the proposal, and I'm very much looking forward to the discussion.

MR. HARRIS: Thank you, Wes. So let's just

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dive right in. Let's start with a question for Tom. Tom, in 2012 The Wall Street Journal wrote an article that said, in the prior five years, say, between 2007 and 2012, 10 of the largest life insurance companies offering long-term care insurance had dropped out of the market, including big players in Prudential and MetLife. When you look at the demographics the aging of a population, and look at what's going on with health care, you would expect the exact opposite. So, what's going on?

MR. McINERNEY: It's a good question, and it's a complex question, and it covers, you know, a lot of reasons for that is, Wes explained. So, just to give a little bit of background, there are about 850 life insurance companies in the U.S., at its peak about 15 years ago, there 130 that were offering long-term care, today it's about 18 that say they are offering long-term care policies, but if you look at who is really active in the market it's 10 or 12.

We are one of the largest players but we have collectively, of an industry, I would say if you

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looked at all the long care policies sold from -- this industry is a relatively new industry by insurance standards. You know, life insurance has been around for about 150 years, long-term care has been around 40 years. So there weren't very many good predicting tables, and for the systemic risk very low interest rates that have been historic, have really been a problem, because you typically are selling a long-term care policy to somebody who is between 50 and 60, you expect to receive those premiums and invest those.

And while some of them can claim the next day after a policy is issued, in most cases they don't claim till they are 80, so what you earn on interest rates over a 25 or 30 years, as Wes said, you can't predict it, and because rates have been historically less, it's a big issue. Also lapse rates have been very, very different in long-term care policies.

Again, on these old policies, in most life insurance, disability insurance, on average 5 or 6 percent of policies lapse each year, and so that was all taken into account by all of us, when we did, when

they actually rated the pricing, and because these policies turn out to be so valuable, instead of 5 to 6 percent lapsing per year, it's been less than 1 percent.

And so in the pricing we assumed a number of people would pay in for a period of time, lapse their coverage, you keep the premiums and that could -- and the investment income, that could spread around initiative the pool to pay for the policyholders who stayed, just about all the policyholders had stayed, so that was underestimated.

Then the state insurance regulatory environment has really sought to manage long-term care as a level premium product. So, again, because you are taking 30 or 40 year risk, that mechanism doesn't really work. So, a lot of people have gotten out.

I still believe that there is a strong place for private market. Like Wes, I think that most Americans probably will continue to be covered under public programs, but I do think we need to expand private insurance. Only about 8 million -- 8 percent

of Americans are covered about 7 million policies.

So hopefully some of the ideas that Professor outlined, can help inspire more people to have some subsidies, or what have you, to buy more private policies. And if we could move to a regulatory regime that's more flexible, I do think over the longer run we can have more players come back in the market.

MR. HARRIS: Great. Alice, can I ask you the next question? It seems from my perspective that long-term care is changing, we are not just talking about nursing homes anymore. When we talk about long-term care and long-term services and supports, what are we really talking about these days?

MS. RIVLIN: We are talking about a lot of different things. And you are right, that what we are talking about is changing. Back in 1988 my colleague, then colleague Josh Weiner and I did a book which we called *Long-term Care of the Elderly Who Will Pay*, and this is the question we are still talking about, in case you hadn't notice.

But at that time, we thought that nursing home use would go up very rapidly as the population aged. And we made some long-term projections, going into the 2020s, which is when the baby boom generation really hits the long-term care age, and that projected a very heavy nursing home use.

So far that hasn't happened. Nursing home use has actually come down, not just as a proportion but absolutely, it fell about 20 percent between 2010 -- between 2000 and 2010. What has exploded is all kinds of other arrangements, home health care, assisted living, villages. I'm in one that -- meaning aging in place. People coming together, mostly upper-income people, so far, but not exclusively, to have volunteer systems, to help people stay in their homes and continuing care communities, and so forth.

That is reflected in the public spending, Medicaid, as you noted, is the principal public spender, and Medicaid has an institutional bias, it's still biased towards nursing home, but the states have moved to get waivers from the Federal Government, and

say we want to cover home health care and other senior daycare, all kinds of stuff, that means that Medicaid now approaching half of the spending is not nursing homes, it's these other home health, and other services,

MR. HARRIS: Thanks, Alice. In Wes' presentation, and Tom noted this, too, Howard, that we should think about the right split between whether or not there should be a public sector solution, or whether or not we should just look solely to the private sector beyond what we are already doing in the public sector. What's the right way to think about the split between the private and public sector?

MR. GLECKMAN: So, Ben, I think there does need to be a split, but to me I think one of the main issues here is voluntary versus mandatory. Politically everybody recognizes that there's no political constituency for mandatory insurance, but there are some real challenges with voluntary that it's important to confront.

Wes, I think, did a very good job in his

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paper of addressing those, but I think it might be useful to just briefly discuss what some of those are. The first thing is cost, long-term care insurance policies, typically, for somebody in their 50s early 60s is going to cost somewhere between 2,500 and \$3,000 a year.

That's vastly more than people either can afford to pay or are willing to pay. To use a subsidy kind of a program, as Wes described, you've got to get those premiums down a lot. You probably have to cut them in half, maybe even cut them more than that, to get people to buy. That's one challenge.

The second challenge is adverse selection. The problem in the insurance industry, is having voluntary program it's the people who buy insurance, or people who think they are going to need it, and they are often right, and that requires more claims, cost more money, drives up premiums.

There is another issue, that's a little more speculative, but it's important I think to acknowledge and that's about Dementia and Alzheimer's. Right now

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in the Alzheimer's research world there is a lot of talk about finding ways to identify people who are at risk for Alzheimer's long before they show symptoms. And there's some possible great, medical benefits to that.

But it raises a tremendous problem when it comes to voluntary insurance. If I take that test in my 40s and I realize that I am more susceptible to getting Alzheimer's than the norm, I'm going to want to run out and buy insurance. Tom is going to want to know what the results are of that test. Either way, if that information is readily available, premiums are going to rise dramatically, again, because of the adverse selection problem.

And the last issue with voluntary insurance is the problem with catastrophic coverage. I think many people, when they think about buying long-term care insurance they are thinking about insurance against that tail risk. That five year or more need. The problem is, the private long-term care insurance at the moment won't sell policies to cover that risk,

because they've been so badly burned.

So what do you do to design a program that covers that tail risk, that may require, in regards to Ben's question, and may require some government role, either through reinsurance of some form, as Wes talks about, or just a straight government program. A lot of challenges. It would be much -- analytically, much easier if we had a mandatory program, but that's not happening. We are going to have to confront though, these issues that come up with voluntary.

MR. HARRIS: So, Tom, between the tail risk and average selection that Howard just mentioned, do we need a bigger public sector role in this problem?

MR. McINERNEY: You know, I think that it's hard to imagine that in the end public programs, entitlement programs, probably are going to cover 50 or 60 percent of Americans who haven't saved enough, and ultimately need the care. And as Howard says, he's absolutely right, on the cost.

Today it's about 2,500 to 3,000 per year, and that's gives you five years of coverage and, you

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know, 30 years ago you could probably buy a policy for 1,500, and that is what people would like to pay, and we were charging 1,500 for lifetime of benefits. So today it's 2,500 to 3,000 for five years.

You could, however, buy less. So I think that 50 or 60 percent of Americans just aren't going to be able to afford private. But the issue is, if you look at, and we talked a little bit about this earlier today with the Secretary and Dr. Rivlin and others. You know, there's various numbers out there, but if you add up the projected present value of cost for Social Security, Medicare, Medicaid and the health insurance requirements for the Veterans Administration, you get various numbers, but it's around \$100 trillion.

And that \$100 trillion is, you know, that's the government's responsibility, but none of those are funded. So, who pays for it? The government, yes, but it's really future taxpayers. And that's going to fall, and Secretary Perez talked about this, on those very important millennial generation. I have three of

them, and so I hope that I treat them well so they take care of my long-term care needs in the future.

But I do think that at some point -- so if you are 50 or 60, then in the end probably don't have the capacity themselves to pay, but that means, perhaps 30 or 40 could, only 8 percent now own them. So I think there's a big incentive for the private sector and the public sector seems to me to work together on programs like Wes talks about, where we can have more people than 8 percent be willing to buy private insurance.

Through, whether it's subsidies or some other mechanism, having the private sector take the first loss position, and the government takes the tail risk, I think there's a lot of different ways that you could do it. I think the goal for Americans for our society, for the millennial generation so they don't pay, or what they earn in taxes to fund all these baby boomers who haven't saved enough and haven't bought a policy; there's got to be a mechanism so that we can at least contain the future cost of those liabilities.

And that's where I think, you know, I still think the majority of people will be covered by the public programs, but hopefully we can get more people who can afford to either put enough money aside so they can pay outright, or use the leverage with insurance to pay the premiums, and create some mechanisms to access some, or whatever it may be.

All of which he covered in his paper. I think are all good ideas to try to increase that percent, from 8 percent to a somewhat higher number. Whatever higher percentage that is, I think it takes some burden off the government, which takes some burden off future taxpayers.

MR. HARRIS: Wes, I want your reaction in one second, but I can't let a question about budget go by without asking Alice, who is a Former CBO Director, and OMB Director. Alice, when you look at the projections for Medicaid and Social Security, and for all the other major health programs, looking forward 20, 30, 40 years, do those projections mean that any sort of public solution to long-term care concern is

off the table?

MS. RIVLIN: No. I don't think so, but I do think we have to remember that we've already made huge commitments to older people, and what we are talking about here, and Wes' proposal, is a very ingenious proposal, and I like it, but it would be another commitment of public money to older people, in addition to the ones we've already made, which are going to require tax increases in the future.

I don't think they are impossible. I'm not one of those who thinks the sky is falling just because the population is getting older. We are in much better shape than many other countries. But it's -- there's sort of two decisions about whether we want to do something like Wes is proposing, one is do we want to add another commitment to a subsidy of older people.

And this one would largely serve to protect the assets of the middle class who would otherwise spend their assets and if they had to be covered by Medicaid. Protecting the assets of the middle class

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is a worthy objective, but that may -- this might not be the most advantageous way to do that. The next session is going to talk about increased savings and sort of thing, but you might want to do it in a more generalized form.

MR. HARRIS: Howard?

MR. GLECKMAN: So I think there's a couple of ways to think about this, one of them is, and Wes talked about in his paper. Can you get money out of Medicaid? Can you find people who otherwise would have had to go on to Medicaid, who instead you can put into insurance? And can you use that money to pay for some of those subsidies? How much money is there, how much can you get, we don't know, but I think it's an interesting question.

The second issue which I think has tremendous potential, and Wes mentions it, it's a kind of a second-level alternative, is this idea of somehow combining long-term supports and services with health care into a single insurance program. The theory, the expectation is if you could do that, if you could

provide very efficient care across the continuum, you could actually reduce Medicare cost.

And that would also get you some money. That's not proven, nobody knows that, nobody knows how much it's going to be, it's one of those things, it sounds like it makes sense. As we all know, in health care there are lots of things that sound like they make sense that don't work. But if it did, that would also get you some dollars which you can spend on your subsidies.

One of the very practical, political challenges, as Alice knows, is getting CBO to score that is not possible right now, but it's still out there, and it's still -- it's got real potential.

MR. HARRIS: So, on the question, Wes, of looking to Medicaid for budget resources for your proposal, you had a sentence in your paper that, I think, importantly captures the nature of this challenge. And you wrote, most policies in place appear to address the spend-down effect, but not the second-payer effect of Medicaid. So could you

elaborate what you mean by these effects, and why it's so important your proposal addresses these?

MR. YIN: Yeah. And this actually speaks to Alice's point too, and it really is a key point here. So it's just a bit of wonkiness first, and then we get to the issue, is that because of the value of long care policies typically count against Medicaid eligibility, if you actually buy this plan, buy a policy, it actually delays the onset of this free coverage, and that's, you know, not a great incentive to buy a policy.

So some programs like partnership programs actually address partially that issue, but there's an additional issue which is that, oftentimes when a person has a long-term care policy, at some point they actually will become eligible for Medicaid. And it turns out that the Medicare regulations -- Medicaid regulations say that the private plan has to pay out first, and then has to be exhausted before the Medicaid kicks in.

In which case, if there's any potential for

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that duplicate coverage it's also a disincentive to buy private insurance. So what this proposal does it's to say, okay, well we know that Medicaid is a critical safety net, the public benefit is a critical safety net. We are just reconfiguring that money not to be a backend design, but have to be a cost share.

So that it's very easy for any individual who wants to protect assets above Medicaid to do that by adding in, topping up, that public benefit. And so that's really the heart of this, is to encourage that private spending.

And that's speaks to Alice's point, which is that we do have this money on Medicaid, Medicaid is critical, but if we are going to spend any more money, let that money be private money, and so people have that incentive to top up, and pay in addition for the extra coverage, to cover their assets above the Medicaid eligibility levels. So that's really the heart of the additional spending, is the private spending, we are just creating a path for that public spending to allow for that.

MR. HARRIS: And Tom had mentioned at the beginning, that 8 percent of elderly Americans or all Americans carry long-term care insurance?

MR. McINERNEY: Eight percent of all Americans.

MR. HARRIS: Eight percent of all Americans, elderly Americans, are more like 12 percent?

MR. McINERNEY: Correct.

MR. HARRIS: When we think about the tradeoff between people who are covered by Medicaid and people who need -- some insurance marker, who can't self-insure on the top end, what's the magic number here? How many people should be carrying long-term care insurance? Is that 20 percent, is it 15, is it 30? How far away from the optimal given our current setup?

MR. McINERNEY: Let's put the percentages aside and say there are -- you know, the way I look at it, there are 115 million Americans today, between 40 and 75, that's the broad universe of, you know, who should be considering it. Most people if they buy,

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buy between 50 and 60, and so -- and today, if you are 51 and 60 now, and you are the baby boomer, so you are 78 million, plus or minus, of those.

And so it's a lot of people, and there are only 7.5 million Americans of whether it's the 115, or the 78 that have policies. And so there is a big number that are not protected, and my view is, well, we ultimately need Medicaid as a social safety net. Let's say it's going to have be there for 50 or 60, and we can talk about, is it a second payer, or a co-payer. But I think the more of that 115 million or the 78, there's some number, 30 or 40 percent of those, who I think could afford the policies, they just don't.

And they don't for a lot of reasons. Well, some think, well, I'm never going to have a problem, even though, you know, HHS would say 70 percent of Americans who reach 65 will have a long-term care need. Now, there may be a small one that's easily, but it could be a long one.

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claims in four years, a little over 10 billion. The longest claim is \$1.5 million, the eldest person in claim, it was 109. The youngest person in claim was 27. And so I do -- and the other thing about Medicaid that I worry about is, so it's an unfunded entitlement, it's funded by payroll taxes, and today, and this is before the -- the oldest baby boomer is 69, you are going to have long-term care claim at anytime, but usually when you hit around 80. The average claim is 79, but let's say, let's round to 80.

So we are 11 years away from baby boomers turning 80. There are 10,000 baby boomers turning 65 everyday till 2030, and in 11 years, there will some number, that I think 7 or 8,000 baby boomers who will be turning 80 every day, and that will last for 18 years.

And today with the baby boomers, the oldest is 69, and 11 years away from 80, 25 to 50 percent of the State Medicaid budgets got to long-term care, and the program is -- it's really a welfare program designed for the poor, so you already have -- and

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let's take the average, it's a third of Medicaid already goes to long-term care, and as before all these baby boomers who haven't saved enough, most of them don't have policies, and so I just don't know how Medicaid survives without enormous tax increases.

And unfortunately, I think, those tax increases will fall on the workers. I mean, I have a little -- well, I think the Hamilton Project so probably perhaps better than mine. Secretary Rubin said there's four workers who are retiree, those of us from the private sector, our numbers, and I don't know why they are different, we say it's 2.9 to 1 today.

But by 2030, when the baby boomers are sort of all over 65, it's going to be closer to 2 to 1, or maybe your number is 3 to 1. That's not good. And how you cover -- and those workers, so let's say, we'll use your number and say, in 20 years it will be 3 to 1, which I think it is today.

They have -- those 3 to 1, they have to cover Social Security, they have to cover Medicare, they have to cover Medicaid, and they have to cover

the Veterans Administration, and whatever else we spend on Defense, or any of those other things. So, I just don't see, mathematically, how it's going to work.

And that's why I give a lot of credit to Brookings and the Hamilton Project, because one of my frustrations, and I've been working on a lot of these programs, entitlement programs in long-term care and health insurance for a long time, but it is -- You know, we've been able to avoid the big problem, and it may not, you know, hey, miracles happen, and it may not be that big of a deal, but I think in 10 or so years, I think it's going to be very, very hard to manage all these programs.

And so, again, coming back to my point, and I think a generous point, maybe the private sector is -- we can't, we are not going to cover everybody, we don't have enough capital or enough players in the market, but the more we can cover, it will at least take some burden off these public programs.

MR. HARRIS: Alice, did you have a response?

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MS. RIVLIN: Not really a response exactly. But we talk about Medicaid as if it were a program. It's not. It's 50 programs, and they are very different. And another way of going at this is to think about what to do about Medicaid, and whether, perhaps, the long-term care part of Medicaid should be federalized, and some way merged with Medicare.

MR. HARRIS: Okay. One other -- if you look at CBO's estimates, and this is a question for all four of you, to answer; if you look at CBO's estimate of the economic resources devoted to long-term care, for elderly people they say it's roughly about \$400 billion, but that's split roughly half and half between formal care and informal care. So there's enormous informal care cost.

People who -- service caretakers, perhaps in the middle part of their peak earning years, perhaps not for -- maybe they are taking a wage cut because they see some sort of benefit to taking care of their parents. Does the fact that we have such a high informal care cost, bolster the case that this needs

to be a government-run intervention?

MR. GLECKMAN: Well, it bolsters the case that people should be purchasing some sort of insurance, this is one of these classic pay-me-now or pay-me-later stories. As Ben said, the vast majority of long-term support and services are provided by family members. Probably 85 percent of people receiving long-term support and services, as Alice was saying, are getting it at home, and probably 85 percent of them are getting their care only from family members.

So, who are those family members, occasionally spouses, but they are most often adult children, usual adult daughters, who are taking time out of work. There's research out there that suggests that a 50-something woman who leaves her job to care for an adult -- for an aging parent will lose \$300,000 in lifetime income.

So, you think about that cost, versus the cost of insurance, or frankly the cost of paying more taxes for public program, and either way it might be a

more cost-effective solution to insure against this risk. But that's not the way people think, and one of the challenges that I think everyone involved in this talks about, it's how to improve public education so people understand those kinds of tradeoffs.

And frankly, the insurance industry has been trying for 40 years to get people to understand and to figure it out. But that's a huge challenge, these are real tradeoffs, it's real money that eventually comes out of people's pockets.

MR. McINERNEY: I totally agree with what Howard said. And also there are lot of women in this audience, and I have three daughters and three sisters, so I'm very -- I come from families that are very women-oriented, but there's something that maybe is a -- something for you all to think about, is 51 percent of our paid claims go to dementia-related diseases.

And those tend to be -- it's only about a quarter of the claims, but 51 percent of the claim payments, because those tend to be longer and more

severe. It is in many cases in the past people bought couples policies, and it is another, it's a fact that of those caregivers, it's either the daughters or a female spouse, because it's typically, you know, men get sick, or sicker or not as healthy, we do bad things, I guess, when we are living. But we tend to have the dementia or the long-term care need first.

And so it's usually the spouse or female daughters, because they are the ones who are giving up the jobs to take care of it. And if they do have a policy a lot of times, if it's a dementia policy the whole policy goes towards the male spouse. And then 71 percent of the claims are claimed for women, and they usually are much later, really into the 90s, so again, it is -- it's also beyond just a general issue, it's an issue for: who are the caregivers?

They are giving up their jobs, and they are also going to be asked to pay the taxes to fund these programs. And then I think you put as -- particularly the -- you know, we've -- as they said, half of our claim payments go to dementia and Alzheimer's, and we

understand and see day-to-day, beyond the economic give up, the spouses and daughters or the children are also dealing with these dementia type diseases that are very emotionally heartbreaking, so it takes a huge personal strain on them.

And so, again, I think there's a lot of issues around that, but I think it's, we are going to have ultimately solve that problem too. It's how do we give these family care givers, we sort of want them to continue to do it, because it's free, it saves the government a lot of money, Medicaid a lot of money, but at some point we are putting an extra burden on them that is both financially an issue as well as an emotional issue. No, I think. I think that's also a tough part that doesn't -- the human element of that doesn't always get seen as we tend to look more of it as a pure economic problem.

MR. HARRIS: So, Wes, your paper, everyone up here has complimented it. I think it was an incredibly ingenious way to look but -- so I've -- The Hamilton Project has put out maybe 50 papers or so,

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and I've read them all. This is probably the most complex one that I've read. And so I suspect what happened is as you were drafting it, this is my assumption is that you start off with a simpler concept, and then got a lot of yeah-buts. And so you had to address the yeah-buts, this is why it's so complex.

MR. YIN: That's right.

MR. HARRIS: What is the central -- you know, what was the central motivation behind the solution you came up with, which was really two -- essentially the third basket was a whole bunch of other things which might help, but essentially you had the risk-sharing between the government and insurance programs, and then the LTC Advantage Program, which was the cost-sharing subsidy.

MR. YIN: Yeah.

MR. HARRIS: So if you were going to describe the essential challenge that you were trying to solve, what is it?

MR. YIN: You know, it's the point that

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Howard raised earlier. It's this issue of voluntary or not. And I view this issue as, if you don't have a mandate for the financing participation, right, you have a voluntary program, and it's all the issues that Howard raises, and what it comes up with is, I always view this as -- I had it up in the slides. You are dealing with, like a water balloon, you are like squeezing a water balloon.

You squeeze one -- you know, there's issues of adverse selection, in order to control adverse selection you needed to limit coverage. Perhaps the people who needed care the most. And where people don't want to contribute, you need them to contribute so you need to give them incentives, and subsidies to contribute. And so that raises the cost. So it turns out that if you have a voluntary program, you have to trade off market stability, coverage objectives and spending objectives.

Once you push on one, you push at the other, and once you push on the other, it pushes up the other place. So, the idea is to come up with a way to try

to make this a voluntary program that's not a big budget spender, but also allows people to take money that we currently have that we are spending on direct cost. Meaning if I need long-term care support and services, you know, public and I'm paying privately, there's public spending.

A person who doesn't have it -- incurring these spending, pays nothing. Well we want to take that same money and just contribute it to everyone having insurance. And so that's really the idea here.

MR. McINERNEY: You know, I'd just add, Ben, that the whole concept of any insurance, there is leverage in insurance. So if you don't have insurance and you need a dollar to pay a dollar of claim in insurance, it's usually about, for long-term care it's usually about 6 to \$7; \$1 of premium usually pays for 6 or \$7 of benefit, so you do get the leverage if you have a policy.

MR. HARRIS: So, Alice, Tom, Howard, just sort of building off of Wes' answer. Let's say the President, or the Vice President asked you, says, look

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we are going to hold spending constant, and how can we better support this market? And as it's Wes' approach, which was, basically, the public cost-sharing subsidy, and shared risk between the government and insurance companies. Is that a right approach? Is that the way we need to take, if we are going to hold public spending constant?

MS. RIVLIN: Well, this doesn't hold spending absolutely constant. It's not very expensive because it reduces Medicaid costs, but if you are going to subsidize people to buy insurance, it's going to cost something. And so I think the question is, is this where we would put the marginal dollar? And I think it's an attractive proposal, but I wouldn't buy it instantly.

MR. HARRIS: Okay. Howard, and then Tom?

MR. GLECKMAN: I think it's probably part of the story. I suspect that a real proposal would require more incentives, not just subsidy.

MR. HARRIS: Yeah. Sure.

MR. GLECKMAN: But other incentives to

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encourage people to purchase. I've been working on a project where we've been looking at some of these other incentives, and each of them kind of get you a little bit of additional reduction in premium, but it's probably going to take quite a lot of these incentives and disincentives in combination to really get people, to get enough people to participate to make this a policy solution.

MR. YIN: And one thing that was in the paper that we didn't chat about here, employers offer like a great platform for offering insurance. I mean, I think we -- you know, if we didn't employers-sponsored insurance, I'm sure that health insurance coverage would be also be lower because of that too, because people just -- and we'll talk about that in the next Panel also, you know, defaults in just having that platform right there, and just signing up for benefits at your job, offers a nice way to have these products in front of you, and educated about the risks and so on and so forth.

That's an additional incentive that could be
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integrated into this proposal. I kind of paint some broad strokes here about that, but if that were to be fleshed out in detail with specific incentives, how to get employers to both offer -- encourage individuals to take up that insurance to the employer setting, I think that could really go a long a long way here too.

MR. McINERNEY: Yeah, I would say, Ben, if I was advising the President or the HHS Secretary, it would be, look, the Federal Government or the states are the payer of last resort. They are going to pay for most of these baby boomers, for a lot of different reasons. The more you can do, and I think Wes's program does this, to encourage more people to buy insurance, to use those leverage dollars or insurance, \$1 for 6 to 7 of leverage of coverage.

The more people you have with private coverage, or setting aside private funds and, you know, Secretary Perez has the Vanguard accounts, that's also fine too. But I do think that we've got to have -- for those, and its less than majority of baby boomers, for those who can afford to pay either

some or all the premium, to give them incentives so they actually buy a private policy.

So at least for them, whether it's 20, 30, 40 percent of the population, they are privately covered, it takes that burden off the government. So I'm a supporter of Wes' program, because I think it would increase the amount of private coverage, and I think there's no way that that isn't good for everybody.

MR. HARRIS: So, we have just a few minutes left, and we have a few questions in the audience we'll try to get to as many as we can. The first question, and I'll paraphrase here: is part of the problem just that people are demanding the wrong structure of insurance, and are they just buying it too late? So, could we solve this problem by -- the adverse selection problem by having people buy the long-term care insurance earlier in their lives? Not the 50 or 60, Tom, that you talked about, but in their 30s and 40s? That's question one.

And are these demanding a type of insurance

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which is just too expensive. Should we just be looking at catastrophic care with much longer elimination period? So, that's the question. Are people just demanding the wrong type of insurance?

MR. McINERNEY: You know, I think the earlier you buy it, the cheaper it is, because you -- the way I look at it, the insurance companies are billing a pool based on the premiums and the investment income, that they collect over 25 or 30 years to be paid to a certain number of policyholders. So, by coming in earlier, then you are going to pay the premiums for a lot longer, and it's going to be a lot less so you can spread the cost out more.

I do think that, you know, in the good old days, probably before about 2005, you could buy an unlimited benefit, so the insurance companies were taking the total risk and it turned out to be a lot of -- problematic, because a lot more people were needing those large amounts of coverage. So I think you can make it more affordable by having -- and this is maybe a little bit different than Wes' program, where you

have the private insurers will take the first loss position.

Where you buy a low amount of insurance, that's cheaper, if you buy it younger it will be cheaper even more, and then it will cover you up to 150,000 which will cover most individuals, and then any amount over that goes to Medicaid. So there are different ways to do it. I think that we do need to look at the insurance mechanism.

The one other thing we need is, let's not try to predict interest rate for 30 years. It's pretty hard to do that. Secretary Rubin, may be able to do that, I can't. And you can't predict lapse rates, or inflation costs, so if we could re-rate more often so if we do have to raise premiums down the road, we do it with smaller amounts versus having larger. That could help as well.

MR. HARRIS: One minute. Let's go Howard, and then Wes, you'll give the last word.

MR. GLECKMAN: So, I think it delusional to think that people are going to buy this insurance in

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their 20s or 30s or even 40s. They are going to spend their money on paying off their college loans, and buying a house. And buying life insurance, and buying health insurance is the last thing on their mind. They are not going to do it.

I think in terms of the structure that the idea that intrigues me the most, is this idea of fully integrating, as I said before, long-term care and health care, in a single risk-based policy. It's got enormous potential, it changes, totally changes the model of long-term care insurance from a life product to a health product, but I think it's got tremendous potential.

MR. HARRIS: Final thought, Wes.

MR. YIN: Well, Howard, my final thoughts were the same as your final thoughts. Which is, going back to your earlier question, you know, it turns out that the cost of a one-year nursing home is the same for someone who is wealthy as it is for someone who is poor. And it turns out that, you know, we can restructure these products as much as we can, but it's

going to be unaffordable for some people, and it will be affordable for some others.

And so what do we do -- so this has been a middle class -- most of this proposal has been about middle-class risk protection, but let's not forget about Medicaid. And seniors who have low income, low assets, low wealth, who, Medicaid is facing these fiscal pressures, one way to approach this is to try to better integrate this health insurance and long-term support and services delivery. And that could be a way to make the program much more efficient, and that suggestion would maybe go to make Medicaid stronger.

MR. HARRIS: Thank you. And thank you, all, for a terrific Panel. (Applause) -- to a break and then we'll have the second Panel. Thank you.

(Recess)

MS. KEARNEY: Okay, all right. So, thank you for being with us this afternoon. We just had a great discussion on the challenges of risk protection in retirement, and we're going to turn the discussion

focus on this panel more squarely to retirement savings and what individuals are doing and can be doing to save for their retirement, and in particular we're going to focus on the policy landscape of retirement savings accounts.

So, the conversation on this panel is going to focus on a paper that the Hamilton Project commissioned from John Friedman of Brown University. We're delighted he agreed to write this paper for us, and what John proposes doing is reforming the landscape of retirement savings accounts to make it easier for Americans to save and ultimately to increase the amount of retirement savings that people accumulate.

I'll first introduce John, and then I'll introduce the rest of our panel before I call John up to describe, in more detail, his proposal.

So, John is an associate professor of economics and public policy at Brown University. He previously was on the faculty of the Kennedy School of Government at Harvard and served as special assistant

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to the President for economic policy within the National Economic Counsel at the White House.

And we are privileged to be joined by two very expert panelists to talk about John's proposal and the broader landscape of challenges. Frankly, I can't think of two individuals better suited to comment on this set of issues and this proposal.

So, Debra Whitman is AARP's chief public policy officer, and AARP of course is our nation's leading advocacy organization for individuals 50 and over. Debra leads policy development analysis and research for the organization. She's an authority on aging issues, and she has extensive experience in national policymaking and the political process.

To my left is Jim Poterba, Mitsui Professor of Economics at MIT and the president of the National Bureau of Economic Research. Jim is among the leading academic scholars in the nation if not the leading academic scholar in the nation on retirement issues and, more broadly, on issues of taxation and public finance. Jim is also a trustee of the College

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Retirement Equity Fund, the TIA Kraft Mutual Fund, and the Alfred P. Sloan Foundation.

And so I thank our panelists for being with us this afternoon. I look forward to a great conversation about these issues.

So, now I'll invite John up to the podium to give us an opening overview of his proposal, and then we'll move into the roundtable discussion.

MR. FRIEDMAN: Great. Well, thanks, Melissa. It's a pleasure to be here.

I thank all of you for taking the time to share in this conversation with us today.

So, Secretary Perez opening the day I think gave a great overview of why retirement savings is such a critical challenge for us in our nation today. Workers are living longer than they ever were before. They're leading not just longer but costlier lives in retirement, and the traditional sources of retirement income, such as Security Security and defined benefit pension plans, have been receding over time. So, all of that places more emphasis on individuals themselves

to be responsible for savings than ever in the past.

Now, where I'll expand on -- what Secretary Perez said this morning -- is that I think that leads to two particular challenges that I've tried to think about in this proposal. The first one is that in order to let people save, you have to give them a savings account to save in, and too many people don't have easy access. So, of course, anyone can go open an IRA, but the most convenient way to save is through a workplace savings account, and only about 40 percent of people have access to a workplace savings account with all the convenience and benefits like payroll deduction that it affords. And that is a problem that is especially bad for employees that are at smaller firms where it's just harder for them to mount this service for their workers, you know, even if they think it would be something as valuable.

The second thing is that we primarily try to encourage people to save by giving them tax incentives to do so. It's a great deal to contribute to your retirement fund as opposed to saving in a taxable

account. But those tax incentives are misaligned in two QAs. The first thing is research suggests that they're not that effective at encouraging people to save; and second of all, they end up providing the most benefit for the people who in fact least need it at the end of the day, which is those people who are already saving quite a bit for retirement.

So, what this proposal is aiming to do is to reshift this to provide, especially for the middle class who can't rely solely on Social Security when they retire, a better way to have access to retirement savings and to accumulate the wealth that they need in order to live financially secure lives in retirement.

So, my proposal has two key elements to it. The first is a simplification proposal that we should take all the various different types of retirement accounts and consolidate them into a single universal retirement savings account that would follow a worker throughout his or her life. It could accept contributions from any source and would feature protections very much like those in 401(k)s today.

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And as part of that, the idea is to relocate some of those planned costs away from the firms that currently bear them to account managing firms or financial firms that are kind of designed to deal with this type of thing.

Second, the idea is to offer firms large tax credits so it's about a thousand dollars a worker for small firms, and that adds up to something like \$22 billion a year -- so this is quite a bit of money -- in order to help their workers save for retirement. It's very simple credit where you get an amount for every worker in the firm that's saving, and I pay for that by taking a little bit off the top of the existing retirement savings incentives through the tax code with the idea that we're replacing a system that's less effective in encouraging retirement savings with one that's more effective in encouraging retirement savings.

So, these two proposals when combined would result in a number of benefits for workers. First, there would be a large increase in participation, so

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I'd project that participation would increase from about 40 percent, which is what it is today, up to somewhere in the 60s -- maybe even 70 percent if you're a little bit more optimistic. And those effects are the largest for workers at small firms where coverage rates can be -- I think it's, like 13 percent for firms with fewer than 10 workers right now.

Simplification is also a major benefit. This is not only about reducing hassle, but it's about improving decision-making. Evidence suggests that when you're trying to make decisions about how you save in your retirement and your savings are spread across ten different accounts, that is not an environment that fosters good decision-making. Consolidating will help people make better decisions about their retirement savings. And it also will help reduce pre-retirement leakage, which is an increasing problem in the U.S. People may get money into their savings accounts, but it comes out before they retire and it's not there for when they need it in their

retirement.

Tax incentives also provide more benefits to the middle class, so there's an increase from about a third to maybe 43, 45 percent of benefit from the tax expenditure that goes to the middle class as opposed to the top 20 percent. I think this proposal will also have a number of benefits for employers, which play a critical role in the savings system today and would continue to do so under my proposal.

First, we'd benefit firms directly from helping their workers save, so it would take something that sometimes just -- we understand a small business owner has a lot of things to worry about. This might not be the first item on their list, but it kind of raises the profile and makes it really something to pay attention to. The tax credit is something is large enough to overcome the startup costs and to have any not just actual but perceived startup costs and to really make it something that small businesses couldn't afford to not take up.

Second, it reduces the cost of providing

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access for workers for firms even aside from the tax credit. So, instead of having to take on, for instance, the fiduciary responsibility that the Secretary talked about earlier today, I'd relocate that to the financial firms, which I think is just a more sensible place to put it. It's important that we have those protections, but we don't ask employers to help workers find the right mortgage or get the right credit card. I think in the same way, we shouldn't ask firms to make sure workers are invested sensibly for retirement.

And, third, employers play a key role in helping to tailor the offerings for workers in their particularly situations. So, this is an advantage of having the employer as opposed to just having this as a blanket national program. The national parameters write bounds, but firms can help figure out which workers should be saving more, which workers can be saving less and help make sure the policy is best suited to each worker.

With that, let me turn to the panel. I'm

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excited to hear the discussion.

MS. KEARNEY: Thank you, John.

So, I'm going to open this up with just opening questions to both of you, Jim and Debra.

So, Jim, what do you think should be the main goal of reform in the retirement savings space, and how would you go about achieving it?

MR. POTERBA: Well, you know, I think Melissa there is much to be applauded in the way John has focused on expansion of coverage in this proposal. I think we have a lot of evidence that employer-sponsored plans make it easier for workers to save. We've had great experience with the use of defaults in some of those plans in the last 15 years as a device for increasing participation, increasing the amount that's saved -- unfortunately, probably at levels that are too low. A typical default is still 3 percent of salary, and that -- especially in a low interest rate environment -- that's just not enough to be able to deliver meaningful retirement saving for many workers, given the available length of their careers.

But as John noted, the coverage rates of retirement plans, DC plans, drop off as you move down the size distribution of firms so, you know, we're very high participation rates and very high availability rates at the largest firms, you know, in the range of 85 to 90 percent for firms, say, that are 500 or a thousand workers or more. But this is much lower numbers -- half that -- and sometimes lower when you get down to less than 50 employees.

So, I think trying to figure out ways to push the employer-sponsored plan further down in the size distribution of firms is very much something we should be thinking about. At the same time, we should be trying to make these plans simpler both for the employer as well as for the worker. We should be facilitating portability to move from one employer to other, and we should be trying to bottle up the leakage that comes out of the system before retirement. That's a tricky issue, because if you make it harder to get the money out, people may not put it in in the first place. But thinking about ways

to keep that money around and support retirement as opposed to earlier consumption seems important.

The place where I think it gets trickier is on the financing side of what John lays out. I fear that the new set of credits for firms may actually be viewed as a new complexity by many small employers, that the experiences firms have had with other ACA-type mandates or with new sick leave mandates in some states -- small employers find these quite burdensome to comply with. So, I can't really speak to the question of whether this kind of a plan will be more of a burden than a benefit. But I think it's something that's very important to try to think through. I think that trying to clarify issues around fiduciary responsibility for small employers and the simplification issues are much easier to see.

The last thing, frankly, that I'm a little bit -- well, a lot less -- enthusiastic than John is, is bottling up the existing set of employer-sponsored incentives and the existing tax deductibility of contributions. Part of this -- I come at this from a

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public finance -- should we begin with an income tax or a consumption tax framework. And in a consumption tax framework, the natural benchmark to begin with is you don't tax the returns on capital, and that was, for example, in the Mirrlees in the UK on tax reform, the notion that one should be operating, for most households at least, trying to allow tax-free accumulation as a benchmark was very much the starting point there.

So, that pushes toward allowing either full deductibility on the front end or full deductibility on the back end with a Ross-type account. You could do it either way and come to the same place. I think that when you go to something hybrid -- and hear me, I'm more favorable to the savings, to the net savings effect of the current system than I think John is. I think the notion that we've got \$12 trillion in DC plans and IRAs and that that wall would have basically been saved were it not for these employer plans is -- it doesn't quite work for me, and I think the fact that we, in many cases, believe that nudges and

defaults tend to get people to save. We know that fact. We know that many households have virtually no financial assets other than their employer-provided plans, right?, seems to me somehow that the notion that they would have had the savings but for this is - - you have to work hard to put all those things together.

There is very interesting evidence, and John's one of the co-authors of this very well-known paper, that looks at a Danish tax reform and finds in that case very little effect on total saving by households, and the question of course is: How do we put that work into the broader tapestry of other research that we have, much of which suggests, I think, some larger effects.

But I think the issue that worries me about making the system more complicated in terms of the tax rules is: I look back to the 1986 experience with IRAs. Pre-1986 we had universal deductible IRAs. In '86 we decided we would limit the availability of those for higher income households. On just the

argument that's made here, which is if those households are saving a lot, this is inframarginal so we're probably just giving away revenue, might as well collect that revenue back and we'll still get the same savings outcome.

The numbers on IRA contributors and on dollars contributed surprised everyone. We went from something on the order of 15 million contributors in 1986 when we were still in the pre-availability to everybody to about 6½ million contributor by 1988. Contributions went from about 38 billion to 12 billion. Now, this was not just the folks who were limited, getting out of the business of contributing to the IRAs. It was actually much broader than that. So, whether -- and I don't think we know the full explanation of what happened, whether it was confusion -- some people thought that they were no longer eligible for a fully deductible IRA even though they were; whether the financial institutions did less work to push the IRA saving vehicle. But it had a bigger effect than anybody expected.

I have a hunch that within the workplace saving environment, a big part of the demand for these plans within the firm comes from those in the upper income ranks. And, by the way, this is not something which is the very highest income ranks, right? I mean, for the CEOs and the really high-paid executives, this stuff is inframarginal and we know that. But it's the higher income but within the ranks of the firm that may be pushing for this is a valuable benefit for us. So, I think there's a chance that if you start to take down the top end of that distribution and make it less attractive there, you may erode the support within the workplace for these plans, all of which to suggest that this is a more complicated problem than we might otherwise think. And it strikes me that in thinking through where do we go once we try to make the system more efficient and to bring in greater participation? I would probably look for less expensive channels to adopt and at the same time try to preserve more of the existing structure that we have.

MS. KEARNEY: So, I want to follow up on two points that are are really critical I think to the position you're taking. The first, just to be clear, John lays out as one of the challenges -- he thinks we're essentially wasting close to a hundred billion dollars in tax expenditures on these accounts. It sounds like you don't take that premise as a major challenge.

MR. POTERBA: I think the case is much less clear than that suggests, and there's certainly some evidence -- and I wouldn't point only to the work, for example, that I did with Steve Venti and David Wise in the 1980s as 401(k)s were getting going, but that evidence seemed to suggest that people who had eligibility for 401(k)s compared with those who did not, the savings in the 401(k) accounts was rising; the savings outside the 401(k) accounts were basically similar across the two groups. Now, there are many reasons to debate that type of evidence, right? It's not a controlled experiment. You might have different groups in the two kinds of firms, but at least that

evidence -- some work that Alex Gelber has done in the US looking at workers who become eligible for 401(k)s in their firms because they met the service requirement. It looks as though those workers tend to start contributing to the 401(k). As best he can tell, there's not much evidence of a decline in their other saving, and the one thing he finds is they seem to drive older cars. So, I hope there are no automobile industry representatives here, but this would be consistent with a pullback a bit on some of their consumption, and they tend to move toward the saving channel at that point.

So, this is -- as you well know, this is a very hard problem to crack, because the data on savings are difficult. That's why the Danish information that John and his coauthors have used is so valuable. But tracking savings is difficult, and figuring out whether we really are comparing like with like as we look at these different policy changes has been very hard. But I guess I'd be a little bit less eager to, based on the evidence we have, announce that

the existing system really wasn't working very well.

MS. KEARNEY: Okay, and one follow-up on the second part of what he's proposing then. So, given that you don't think that the individual tax credit system or tax deduction system is as bad, how do you feel about shifting or maintaining an employment-based system for retirement savings?

MR. POTERBA: I think the employment-based system has served us relatively well. I think that there are lots of reasons for thinking that payroll deduction in particular is an attractive way to go. There are ways to do payroll deduction that gets away from the employer side, which essentially would use something like the FICA tax collection mechanism and then have a national system. That's a bigger debate than we're having today. But as long as we are stopping short of that, I think ways in which the employer can be used as the conduit to try to support this is very constructive, and I think that's -- you know, so I think philosophically the way John is approaching this, which is trying to work within our

structure and find ways to improve it, resonates very well with me.

MS. KEARNEY: Great, thank you.

Okay, Debra, do you agree with John that the current landscape of retirement savings accounts needs to be reformed?

MS. WHITMAN: Yes.

MS. KEARNEY: Okay, good.

MS. WHITMAN: How about that?

MS. KEARNEY: And then what's your reaction to the way he's proposing to reform it?

MS. WHITMAN: Well, before I begin I first have to thank the Hamilton Project and Brookings for having this important event, because retirement security is something so many of our members, including Bob Urban -- I thank you for holding up our AARP card earlier -- care a great deal about, and we don't have answers for so many of these challenges -- the challenges of long-term care on our last panel, the challenge of not enough people having enough to live on in retirement. So, I just wanted to get my

plug for the goals of this event.

I also wanted to agree with the goals of the paper, which are we need big and bold solutions to address these challenges and that we need more people to say it. Right now -- and you heard the statistics earlier and many of us have repeated them too many times -- most people reaching retirement don't have enough that is going to last them for 20, 30, 40 years. Most people don't have anything. But even those that have saved really don't have enough to cover what they're going to need.

And I also think that it relies on what we know about our automatic features in order to make the system easier for people. So, auto-enrollment; auto-escalation; payroll deduction -- how can we make a set-it and forget it? And and I think that's been a huge move in retirement savings, and it really ups the amount saved by so many people. So, using those features is going to be key to any reformat we do.

I also applaud the ideal of simplification. Right now there are lots of accounts. I don't know if

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having just one is the right definition, but what we have to do is make it easier for employers to offer plans. We have to make it easier for workers to understand if I have five different plans spread out over the last five different jobs, what is the easiest way to combine those hopefully to get lower fees?

I like the ideas around leakage. In my previous time on Capitol Hill, we helped sponsor a bill called the SEAL Act, which was Savings Enhancement by Alleviating Leakage. (Laughter) *Time Magazine* called it a tortured acronym. (Laughter) And the best part was it was reintroduced also as the SEAL Act, but it was no longer Savings Enhancement by Alleviating Leakage; it was now Shrinking Emergency Account Losses Act. (Laughter). That, too, has not passed.

But we do need to think about ways in which people are taking out their money from the system and how can we -- and not lose accounts, which is happening in real time where people put money aside and may have forgotten about it from a job several

times ago. So, all of those things can be really helpful to our system, so I think the paper addresses those.

I also agree that the tax incentives are poorly targeted. Low-income savers get no real time incentive to save for their retirements, and things like the Saver's Credit, which is nonrefundable, really don't help the lowest-income saver. So, we should be thinking about incentives so that people can build up real value in their accounts.

So, all of those I think are good goals. I do have some concerns, a little bit, and one is really moving from our employer-based system into a great unknown, and I survived the ACA and the fights over why don't we have a single payer. So, the idea of starting from scratch with a whole new system rather than looking at the system we have always just brings me back to those days when people were screaming at me on a daily basis of why can't we have a system that is different from the one it has.

And I think we have the employer-based

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system, and it's because the employer-based system has ERISA and some other fiduciary responsibilities by employers because it has nondiscrimination rules that help make sure that many employers provide matches to get their workers to save. We really need to think of what are the features that are good about the current system and make sure that any new idea doesn't undermine some of those things. The employer match, to me, is one of the most important things. And then I worry about, with this proposal, what will happen under those conditions.

I also think that the proposal itself eliminated participation for people under \$20,000 a year. And I think regardless of whatever system we put in place, we need to at least make it an opportunity for all people to save. Now, we can have people opt out if money is too tight and their bills are too high. But we shouldn't make that decision for them. We should make sure that the system is created for all people and that we create incentives in particular that help the low-income savers.

So, I'm go ahead and stop there.

MS. KEARNEY: But I want to ask you, because you mentioned time on the Hill -- and you do have a lot of experience on the Hill, so I'm going to ask you: What's your view on the political feasibility of any of this?

MS. WHITMAN: Again, I have some hole-in-the-dyke pieces of legislation that were trying to make modest improvements to the system, and even those were hard to pass. I think proposals -- and, again, I'm sorry, I went back to my traumatized years on the ACA. (Laughter) But going back to where we're going to totally reform a system is very, very difficult and creates a system where on, you know, a certain date everybody would have to look for their own plan and employers would no longer have that fiduciary responsibility. I think a transition path to that would have to be well designed. And I do think a lot of employers are in the business, as Jim said, because their workers are demanding this type of help with preparing for their future. And I think that's a good

thing. I do agree for small businesses it's really complicated to set up the plan, and so we need things like -- and there are bills in Congress that look at pooling across employers, and there are things in states that look at pooling across employers. We can talk more about that as well.

MS. KEARNEY: So, John, I'm going to ask you to weigh in -- and both Jim and Debra have emphasized that they think your framework of keeping the employer-based systems is a good one. But it's a little bit hard to sort of get my head around, because in your paper you have, on the one hand, part of the problem is that retirement accounts are attached to jobs. And so as workers leave jobs, right?, they have to set up new accounts and all that and you try to get around that. But then fundamentally at the core of your proposal is we're maintaining the employer as the conduit to these accounts, right? So, there's a bit of a tension there in terms of leveraging the employer but also realizing that the fact that retirement accounts are attached to workers is part of the

problem?

MR. FRIEDMAN: I agree, and I think that's a reflection of the fact that employers are not a monolithic force in retirement savings. There are some things that they do for their workers that they're very good at and we want to try to preserve. And there are other things that they do for their workers that, frankly, they're not that good at, and part of the goal of this proposal was to try to figure out at least a suggestion about how we might try to pull those pieces apart and let firms focus on the parts of this that they're good at and kind of give them a break on some of the aspects that they're not good at.

So, for instance, I think that payroll deduction is a very important thing. I think that when we talk about default and auto-enrollment, I think firms are the best place for that type of thing to happen. But, on the other hand, I think that firms should not be the only way that workers can get access to what are clearly the best savings accounts, right?

I don't understand -- you know, I have a 401(k) -- I should say 403(b) with an NBER. It's a great account. I don't understand why that account can only be for monies that are paid as a part of my NBER compensation. Like, why can't I just contribute \$2,000 to it? Why do I have to go get some wholly different thing in order to do that?

Similarly, if you think about a lot of small businesses, you know, it's not that they don't care about their workers, it's just that trying to figure out how to guide their workers through the complexities of retirement savings is not something that they're very good at, and, frankly, it's not something that they should be good at, right? If you're an entrepreneur, you're trying to start up a firm, you are thinking about so many things and this need not be on the menu when there are so many other places in the world that workers can receive this advice. The point is not that we want to shrink the fiduciary responsibility, we just want to locate it in some place where if we're asking for fiduciary

responsibility for financial decisions, we should locate it in a place where firms are expert in financial decisions.

MS. KEARNEY: So, what about -- can about the distributional aspects of your proposal? So, you're proposing shifting our system of individual tax breaks to the firms. How is that going to work out for workers?

MR. FRIEDMAN: So, I think the firm incentives have a couple of very nice features, which is why I tried to emphasize them.

So, the first thing is that I think that there's a long literature on the extent to which individual incentives work versus firm incentives. I think the important point is not whether individual incentives are totally useless or not -- I'm sure that they do some good -- but, rather, where they're on the margin this money is better spent on individual incentives or on firm incentives. And I think there's a lot of literature about how firms are just way more aware and responsive to this type of thing than

individuals are.

Now, that is not without bound, and so I've taken very seriously a bunch of the feedback that has come in both from the policy community and more in formal research -- for instance following the credits for participation of small businesses in the ACA shop, right?, so that was a quite complicated tax credit that had to do with a lot of different parameters. It was temporary. It was only available for small businesses.

Taking that lesson, I've tried to make this as simple as possible. So, there's just one credit. You can take it forever. It gets smaller for larger firms per worker, but there are no cliffs, there is no anything like that, and all you have to do is you default your workers into saving. Like, that's it. And so I agree that in order to get firms to do this requires a little bit of attention, but hopefully this is designed in a way that minimizes the cost for them.

And then, finally, I think what we've learned from other credits -- we obviously don't have

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a ton of experience of credit like this; there are some ones -- but other credits that are worker-based credits for firms seem to flow through and benefit primarily workers at the end of the day. And so what that means is that if I pay a small a thousand dollars for helping that worker save, something like \$800 of that is going to be passed back to the worker in higher compensation. It could be additional contributions to the retirement account. It could higher wages.

But I think this takes a tax incentive, which is currently a per-dollar saved incentive, and so of course the richer individuals at your households that save more both get more tax incentives because they're saving more and also they have a higher tax rate to deduct it from, and it reshapes it on really just a constant amount per worker, which is going to redistribute a bunch of that from the upper-income households to more middle-class households.

MS. KEARNEY: Okay, I'm going to run with that and take a step back, and I'll throw this out to

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any of you.

So, if we want to shift the marginal dollar we're spending as -- you know, the government spending -- to try to increase savings, why not scrap the tax deductibility of this and use that hundred billion dollars to shore up Social Security instead? You know, given the redistribution that takes place in Social Security, that's a pretty direct way of helping low-income workers.

MR. FRIEDMAN: Let me start for that.

MS. KEARNEY: Sure.

MR. FRIEDMAN: So, I think that if you want to continue to cut the hundred billion, I think that's not a bad place to put it. I think that Social Security and private savings are solving different problems.

I think Social Security, as the Secretary mentioned, is especially important for lower-income households, and for the more middle-class households it provides kind of the bedrock of financial support but it doesn't provide all that they need. I think

private savings are about filling that gap between what Social Security provides -- which is maybe, for the middle-class household, something like 40 percent of their working life annual income and brings it up to something more like 70 or 75 percent, which is what we think they need to maintain a standard of living. And so I don't think that that's necessarily a bad idea; it's just kind of attacking a different piece of the problem.

MR. POTERBA: Let me just jump in, because it's very important that you raise Social Security in this discussion, because I think that in looking at retirement savings and public policy toward retirement savings, it's actually important to integrate over all of the programs that deliver potential benefits for retirees. And that matters both for thinking about the levels of resources available, as John just said. It's not just the "lower-income tail" that benefits from Social Security. I mean, it's up toward close to the median of the distribution. Retirees are relying overwhelmingly on their Social Security income in

retirement. So, one cannot think about retirement security in the US without focusing absolutely centrally on the role that Social Security plays, and I think injecting into the discussion what is the appropriate level and the appropriate progressivity of Social Security is something that we really do have to have on the table as we think about this.

I think of the Social Security system as partly a complement to what we do on the private side in terms of retirement savings incentives, right? The Social Security system is progressive enough that for those at the upper trench of the wage distribution, their lifetime taxes to the system are likely to be larger than the lifetime benefits they receive. And partly, when you marry that with a tax incentive structure where the tax benefit is larger for those who are higher on the distribution, you know, these two things taken together have a distributional profile than if you look at either one by itself. So, I think it is important to do that integration.

Second point is, I think that Social

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Security and the private savings -- in many ways, they do solve related problems, but there's an important distinction between the two. Social Security is an annuity. It's a wonderful annuity. It's a real annuity. It's an indexed annuity, right?

So, it's providing a floor of consumption that is really important longevity insurance. And anyone who's looked at the annuity market and tried to understand why there isn't more demand for annuities in the US, the first key fact that jumps out at you is when you start out with a floor like Social Security, even though it may not be the floor that anyone in this room would like to be living on, it does bound the lower level of your consumption well away from zero. And that's important, and it reduces the demand for the private annuity markets significantly, because we have that market operating.

The one thing it doesn't provide is a sort of financial resilience in the event that you have an immediate need. And of course this is the connection between this panel and the previous one about long-

term care needs, because you can't borrow against your future Social Security, and you can't meet an immediate medical bill or a need for a short-term spell of long-term -- of care if you have only the Social Security annuity. So, the role that the various private saving instruments may provide is to build up the nest egg, which can be used in the event of one of those kinds of financial calamities, which of course we know from the discussion of insurance markets the calamities are rare, but they happen surprisingly frequently when you look over an entire life span for someone.

So, you know, some of the work done on drawdown of retirement assets has suggested -- and I think there was often a great concern in the defined contributions base -- that those who had no savings accounts would reach retirement and they'd immediately run for the exits and pull the money out and spend it all.

And, by the way, whether we can generalize the experience of today's retirees with DC plans to

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what it's going to look like in 20 years when those plans are going affect a much larger part of the population is unclear. But at least from the evidence we've got so far, it doesn't look as though people race for the exits. In fact, their financial assets often are drawn down very slowly during their late 60s into their 70s, and it's when you get to the 80s that we heard about on the last panel when all of a sudden death of a spouse or a major illness or a need for some long-term care kicks in, then you start to discover that the asset profile takes almost a shift downward and you start to see people running down their assets.

So, I think that a lot of the research on the life cycle model and understanding the accumulation and drawdown of assets has moved from thinking that we're in a world of smooth labor income and smooth consumption while you're working and also while you're retired to thinking that we've got the variable labor income up front and you're trying to build up a nest egg that both insures against

fluctuations there but then gets you a balance which once you go into retirement you're day-to-day needs may not be that great but there might be times when you need a lot of assets to cover some short-term need.

If you're not going to rely on the public social insurance system, which in the case of medical care would mean Medicare plus Medicaid, if you want to cover some of that yourself to be able to purchase care, which is more expensive than what those programs might provide in various ways, then you need to begin to think about the accumulation of retirement assets, and that's of course where the private system starts to kick in.

MS. KEARNEY: Debra, do you want to jump in?

MS. WHITMAN: Sure, because nobody loves Social Security more than AARP. (Laughter) And so we would take your money and make it sustainable. I think it's -- you know, we have to make that program work. For the vast majority of the population, this is their major source of retirement security and we

can't do #retirementsecurity without it. So, we need to address the long-term budget issues within the program and do it sooner than later.

That said, Social Security is not enough. I completely agree with Jim that whether it's for those really big expenses, like long-term care or somebody getting dementia, or the small expenses, like your car breaks down. The average benefit of \$13,000 a year is not enough to live on, and so people are going to need to save for their future, and that's why we need to be working on both sides of the income scale, and that's why I applaud these types of proposals, because I think it brings attention to the fact that the current system is not working for a lot of people. Half of the people don't have a way to save through their paycheck. That's the easiest way to do it. And we need to make sure that more and more people have that opportunity.

MS. KEARNEY: So, I'm going to -- you know, you mention the car breaking down, which of course makes me think of precautionary savings, like how hard

it is for an average American or a lower-income American to come up with \$2,000, right? We know these statistics and they're frightening. But that leads me to think that for low-income folks maybe many of them shouldn't be saving for retirement. They're going to be relying on Social Security. They're going to be relying on Medicaid. There would be a real benefit to them and their families for stretching a bit to move to a safer neighborhood, to buy healthier foods, to maybe have some extracurricular activities for their kids. I mean, I know this is heretical in, like, this retirement crowd. (Laughter) But maybe we don't want everyone saving more for retirement. Is there anything like -- so, I don't think saving for retirement should be the only thing you save for. Let me just be clear. I think there are lots of things to save for. I'm putting money aside every month for my two kids' future college, and my son is 10. You know, I also put money aside in case my car breaks down in a given week. We should make all types of saving easier, and we don't. And I think we can build on a

system we have, especially with, you know, movements in the financial markets that make it more easy to add to different account structures. And we should be building up a saving society.

That said, retirement is a special time in which you are less likely to be physically able to work and to make up any needs that you can by picking up an extra job. So, we -- and it's probably going to be a longer span, and so we need to build up for that in the same way I'm building for my 10-year-old's future time at MIT working with Dr. Poterba.

(Laughter)

MR. POTERBA: I will join you in walking out on the heresy plank here.

I think that if you say we are all trying to encourage saving by the lower and lower middle class, it sounds like a laudable goal. If you describe it as we'd like to reduce the consumption by the already stretched middle class that has seen very slow growth in living standards over the last few decades, it sounds like a less attractive thing to be doing. So,

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I think we do have to trade off these issues of how to think about providing a life cycle's worth of consumption support with the available levels of resources. Some of this invariably, if we're trying to bolster the lower and the middle class folks, may involve more redistribution on a lifetime basis, and of course that happens to a significant degree within Social Security at the moment. So, thinking about not just the level of funding but also the shape of that benefits versus tax profile is something that needs to be on the agenda.

I think the other thing, with respect to the financial security -- not just the retirees but the broader American households -- you know, you mentioned how many people can find \$2,000 on short notice. At least if the -- my family's experience with how many times we need \$2,000 to fix our cars generalizes to the population. If as many people say they couldn't find the \$2,000 -- really couldn't -- there would be cars abandoned on the roads everywhere. (Laughter)

So, I'm not sure what the answer is, and then again if

my experience generalizes, if the intrafamily transfers that may go on, and when the actual moment comes along it turns out that there are informal capital market devices that provide some support for these folks that they may not be thinking of when the answer financial availability question: Yes, I don't have \$2,000 in the bank but, you know, there are family members of mine who don't but if they needed \$2,000 I know somebody they might come to, and the \$2,000 would materialize when they needed it.

So, I think, to be honest as a research matter, I'm not sure that we fully understand the financial circumstances of those who are in the lower -- maybe it's the lower third or something like that, but I think that there are informal networks that may work more than we think. Now, if the answer is that these folks go to extortionary lenders and do it, then in some sense we really do want to try to solve this problem, because that's not a great place. But if the answer is that there is a short-term lending market that operates at very low interest rates they can draw

into, it may be a different story.

MS. WHITMAN: And I think the payday lenders, which are taking trillions away from low-income people, is an example of where not everybody has friends or relatives with capital, so we can do that better.

MR. POTERBA: I think that this discussion about whether all people should be saving is a great example of where I think firms can play a really important role here. So, for instance, in my proposal, right?, it's not that low-income people can't save, it's just that we're not going to hit firms on the head to make them save exactly because we think that there's a greater chance that they're going to need that money today. But I think that there are all sorts of different circumstances that you can imagine firms having a really great sense of parts of their labor force that really used to be saving a lot more and firms -- workers in the labor force might not need to be saving enough.

So, just to give you kind of two examples on

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the extremes. I work with a graduate students at Brown University. They get paid as teaching fellows. They would make enough so that in the population as a whole we should think they should be saving, but we know that they're in school, and they are working hard to support their families in advance of leaving school and, we hope, making quite a bit more money, so that's a population where, you know, maybe you exactly want Brown University there to say, hey, like maybe these individuals don't have to be saving.

On the other hand, I saw a wonderful interview on TV with a man that ran an oil services firm in North Dakota, and he has a bunch of employers, employees that make hundreds of thousands of dollars a year in a business that everybody knows is cyclical. And he talked about how he worked so hard to get his employees to save, because he knows that maybe it's two years, maybe it's five years, but at some point kind of the carrousel's going to come to an end, and that's an example where even, you know, comparing to other people you'd want your employees to say --

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employers to say even more, and I think that's exactly the type of flexibility that keeping firms kind of in the game really facilitates.

MS. KEARNEY: Okay, I want to talk about the broader shift away from defined benefit plans to define contribution plans and the consequence that this means individuals have to make more of these decisions, complicated decisions -- not just how much should I save in any given year but where should I save, and what kind of savings products should I be putting my money into.

So, what do we know from the research based on this in terms of how prepared people are to make these decisions and effective ways of guiding individuals into what appear to be the sort of best types of savings accounts for them? I think the literature on defaults working shows that having a clear runway is probably the best thing.

MS. KEARNEY: In some sense that takes the decision away from them.

MS. WHITMAN: Which takes the decision away

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from them. And you mentioned, you know, what to save -- you know, what amount to save, where to save it by the -- who's the provider, and that's one piece I didn't understand from yours. If the individual has to choose their provider, then it's now the busboy that has to figure out if it's Fidelity versus TI Craft, and that's a whole other level of complication that we don't have today.

But workers, you know, have to decide if they're going to increase it every year and how much to save over time. And we've sort of automated some of those, and I think there are really good ideas within this proposal to make that more universal. The really tough decisions come when you retire, and we've pretty much not talked about that at all in public policy, because then people have to say, okay, I've done everything right, I've saved all this money; how much can I take out each month. And in order to do that calculation -- and Jim may be able to do it -- you need to know future interest rates, and actually Bob might know that (laughter) -- future rates of

inflation, how long you are going to live, as well as how long your spouse is going to live, and if you can calculate all of those things then you know how much to take out each month. And that's the piece where we haven't automated and we haven't really developed as many products beyond annuities -- that, as we know, most people aren't buying -- in order to make those decisions easier.

So, on the how to save, get an employer to auto-enroll you into a program and to higher than 3 percent with auto-escalation into a QTIA, and we've got a lot of those types of decisions made, but we haven't really talked about what TB helped you with was that paycheck every month and we're not doing that at all with DC.

MR. POTERBA: Yes, I just want to second that general theme. You know, I think that we know that many workers really don't have the tools or the desire to try to work through these problems, right? In an audience like this, I won't ask for a show of hands, but my guess is many people have done should I

do a Roth versus a regular IRA calculation and even enjoyed doing it (laughter) to see what the answer was, right? That is not representative of the US population. Most people are terrified of doing arithmetic leave alone compound interest and exponential growth.

So, fundamentally -- and the example of this which Debra's point makes is the difference in what you should be saving to ensure retirement in today's low long-term interest rate environment versus the higher long-term interest rate environment 10 years ago or even 6 years ago is dramatic. But you don't see people focusing on that as a first-order problem to think about, and you don't see lots of responses to people.

Second thing to know is I think when we have defaults and we have something which either the government has provided or the employer has provided, I think a lot of the plan participants assume that the default has been designed to be optimal for them, and they assume that they don't really have to think about

this once the default is in place. And that's why, for example, the 3 percent default as a contribution level is something that disturbs me, because I think once it's there you get a tendency for people to say, well, somebody who understands this all has figured out and made this the default. And, in fact, if the default emerged from the employer deciding that this wasn't going to cause much pushback from the workers or raise much risk on the fiduciary standard or whatever, you may not have the "right answer" for many of the workers. And of course that's why we saw money market funds as the default for a long time in 401(k) plans even though very few financial planners would have said that that was the right solution for anybody to be investing their retirement assets in.

So, I think that when we are in a world where we tend to rely on the default, it does put a lot of pressure on the policymakers and the regulation writers to come up with safe harbors that are -- I mean, they're going to have to be one-size-fits-all to some degree but that are pretty good sizes as we do

it. And it also puts burdens on the employers to come up with things which are going to work for a large fraction of the group.

MS. KEARNEY: Great. So, before I start asking some of these questions from the audience, I just -- I want to know if there are lessons we can learn from innovative things either the states are doing or other countries.

Yes. I'm so glad you asked. (Laughter)
Like Tom Perez, I am thrilled and so excited about what's going on in the states, because this is real progress.

You know, many of the people in this room who I am looking at -- at my friends that have been toiling in the states for years and decades -- have not seen the type of progress that we're seeing in the last 12 months, over the last 20 years. And for those of you who didn't catch what Secretary Perez was talking about, it's that 21 states are really thinking about this issue of coverage and how can they make sure that all of their workers who don't have access

to retirement accounts have access. And it's sort of filling the gap. They're not going to muck with the current system, but for employers and workers in those businesses who can't save through their paycheck, they're coming up with different ways. And this is true. Laboratories of democracy-type stuff that gets all of us so excited.

Because there's no one plan, every state is sort of taking its own flavor. Washington state has a marketplace approach where they're going to have potential providers that can offer low-cost plans to their workers. We have studies of different plans. And we see Kathleen Kennedy Townsend, so I want to give a shout out to my home state of Maryland who's considering this. California is looking at it. We even have West Virginia considering these types of plans. And then we have places like Illinois, who said we're going to set up a 529-type plan, because we already have one of those, where we are going to collect the funds and have it privately managed.

So, what's exciting to me is that this will

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create mostly for people in small businesses that ease of where they don't have to decide what's best but they have a place to go. I went through the state and some of the states were to a preset marketplace. The system designs are not ideal, because the states are trying to avoid ERISA and all of those responsibilities. Many are at contribution levels of about 3 percent with caps. They're using IRA structures. There are questions about fiduciary responsibility that need to be addressed. There are efficiencies that need to be addressed. So, I think it's a very important step forward of the governors.

MS. TOWNSEND: (Inaudible) Maryland would like to (inaudible).

MS. KEARNEY: That is true, I must say for Kathleen's sake. She wants to be under ERISA. Many of the other states are trying to avoid it like the plague.

But I think this is a major step where governors are saying -- and they're looking at that last conversation that we just had -- what's going to

happen to my future Medicaid costs and long-term care needs, and how can I help my workers prepare for those? And governors or treasurers are taking this on as a piece of their responsibility. I would love to see, again, a federal response, and there are bills by the administration. They're a shout out to Brookings Mark Iwry and David John, who have auto-IRA proposals and that the administration has adopted. These are the types of things that we need to think about, but the states are actually moving. They're passing bills. They're actually going into enactment. They are really studying it. And I think that that's thrilling.

MS. KEARNEY: This is about the sixth event in a row at Hamilton where we were talking about things the federal government isn't doing, and so the states are moving. We just had infrastructure, and this came up last month, too.

MR. POTERBA: Let me just say -- you asked about international evidence, and I think that there, again, we can learn, although sometimes the countries

seem to be moving in different direction. The US seems to be making it easier for people to annuitize within a confined contribution setting. The UK has just removed the requirement for annuitization in their DC plan. But that, of course, gives you the variation, a little bit of the laboratory's democracy.

One thing that some recent work by David Labeson and Adrienne, and James Choy and James Bashirs has pointed to is the leakage issues and the degree to which people are able to get at the plan assets across countries. And they are -- the US is actually, I believe, relatively far toward the easy access to retirement account end of the distribution. Other countries tend to make it much more difficult to do preretirement tapping of these accounts, and I think that's something where, frankly, we ought to be thinking a bit, because once you've managed to surmount the hurdle that John is trying to tackle in this project and his proposal, which is to get the money into the accounts, if you then lose it before you get to the point when it supports retirement,

obviously there could be financial hardships along the way that would make it, just as your earlier comment suggested, quite appropriate to take the funds out. But if you can keep it in there, it seems like you've fought most of the battle by getting the contributions in the first place and you'd like to try to push as much forward as you can reasonably do toward retirement.

MS. KEARNEY: Great. Okay, John, here is a very specific question for you. What is the rationale for moving the regulatory authority from ERISA to the Treasury Department?

MR. FRIEDMAN: Sure. So, I -- you know, I think that -- I'm trying -- what I tried to do is think about this, how we would set this up if we were starting from scratch and then work backwards to what's feasible from the current position. And I think that the fiduciary responsibility that would be provided is -- again, it's primarily a financial responsibility. It's, again, very similar to what we require in some other settings. It's a higher bar,

but it's a similar set of questions to what we ask of mortgage interest, contracts, or credit cards or bank accounts or debit cards or things like that. And it just seemed natural that for a primarily financial question like that, we could locate it with other people, places that are making financial decisions.

The point is not that the Labor Department is currently doing a bad job of it. I think they're doing a great job of it, and as we saw today they're continuing to kind of press this forward. But as one moves the locus of the fiduciary responsibility itself away from firms and towards financial account managers, it seemed -- again, it seemed more natural to kind of move the regulatory authority along with it.

MS. KEARNEY: Great. Satisfied? I'm not seeing anyone arguing, so I think that's good.

Okay, so someone --

SPEAKER: (off mic) (Laughter)

MS. KEARNEY: Oh, no, this is not democracy.

(Laughter)

Okay, so someone wants to bring it back to Social Security. Why is lifting the cap on Social Security contributions so politically difficult?

MR. POTERBA: One of us has worked on the Hill.

MS. WHITMAN: Oh, did you mean the panel?

MS. KEARNEY: I did.

MS. WHITMAN: Oh. (Laughter)

MR. POTERBA: You shouldn't be taking votes.

MS. WHITMAN: Okay. Well, I don't think it's that one proposal. I think Social Security -- you can't just do one thing for Social Security. I think it has to be a broader discussion, and Congress has not wanted to have that broader discussion about ways to make it solvent and, quite frankly, modern for the future. You know, it was designed 80 years ago. We're about to celebrate the anniversary. Lots of candles. And I think it was designed for a different population. So, we need to have the conversation about what's the right Social Security for the future.

And just one change to it: Changing the

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coverage of what income is taxable isn't going to be the only debate that Congress will want to have. And so I think it's going to be a broad battle and discussion about that program as a foundation of retirement security. And, you know, as I said, we couldn't get small, little pieces that deal with leakage passed in Congress. I think we need to have the laboratories show the way and show ways to improve the system that will push not just retirement savings but, hopefully, a long-term, sustainable, solid Social Security program that's designed for the future needs of our population.

MR. POTERBA: You know, I think one thing that is important -- and I hardly want to handicap the politics of this, but I think that many people still operate with the view that we have a three-legged stool of retirement support that relies partly on Social Security, partly on private saving, and partly on the employer-provided pension structure. And when you look at the reality for retirees, what you discover is that for close to half of them, this is

really a one-and-a-half legged stool where the half is that they have home equity built up in their houses and they may or may not ever tap into that as they go through the retirement years. But, you know, close to half of them are not going to be provided for, in the current structure, by an employer-provided pension account of some sort or by much in the way of private savings, because they just haven't built up much financial assets outside their home equity.

So, to me, once you recognize that fact, it really is transformative in terms of the way you have to think about Social Security, because it's telling you that for close to half of the population what you're doing with this program is largely determining what retirement consumption will be like for that group. And then as you work your way up the distribution, the three-legged stool in fact becomes a four-legged stool, because you have both retirement savings through an employer plan and you have private savings and you have home equity and you have Social Security. And then, you know, it gets much more

complicated. But the simple reality of retirement support for this bottom trench is really that it's about Social Security at this point.

MS. KEARNEY: Right. So, our focus of the discussion really has been about individual security, and this question takes a bigger macro view and asks, would there be important macroeconomic consequences if households saved more, and what would they be?

MR. FRIEDMAN: Well, I think there would be some, so in the projections that I did I got something like another \$50 billion a year of savings as a result of the increased savings from this plan. So, that is a lot from the perspective of providing retirement security for middle-class households but from, like, the grand perspective of the amount of capital we have in the country, it's not an enormous amount, and so I think of this as certainly pushing in the right direction in terms of macro growth, but I don't think that it by itself would solve our macro growth problems.

MS. KEARNEY: (off mic)

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MR. POTERBA: Yes, you know, I think there are two pieces. I mean, where I suspect the questioner is headed is wouldn't increase saving, meaning less aggregate demand in the short run and a very simple Keynesian-style analysis saying, wouldn't that weaken the economy if we had more savings? And to some degree, I suspect there is an effect along those lines. The countervailing forces that over the longer haul, you do as a result of getting more saving. You get favorable effects on capital accumulation, potentially lower interest rates. In a global capital market, of course, those things are rather diffused, but you are providing for more consumption later at the cost of a little bit less now.

I think the other thing, frankly, and this came up in the last panel as well, strengthening the private side of support for retirement, although not in the way that you could count the numbers right now as you think about any budgetary sense, but providing a stronger private side probably in fact allows you to

spend less government money in the future in providing retirement security or long-term health security. So, while you wouldn't -- no one would score that for you in one of these proposals, I do think that if we had a more robust private sector savings where you didn't see that the private sector savings started above the median, you might be able to do different things in public policy down the road, which might be attractive.

MS. WHITMAN: And I will point out CBO would score additional savings as a cost of decreased revenue. So, because of the 10-year budget window. They're not going to catch the additional revenue that would come later, and so that's why Congress has been using a lot of Roth conversions as a way to fund transportation and do all kinds of other things.

MS. KEARNEY: Great.

Well, this has been a wonderfully thoughtful conversation, so thank you to all our panelists and our author. (Applause)

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