

# COVID-19 and Retirement

Economic Impact and Policy Response

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# Preview

- How has the pandemic affected retirement?
  - Macroeconomic outlook
  - Impact on older workers and vulnerable groups
- What policies are being proposed?
  - Addressing challenges related to pandemic
  - Addressing longstanding problems

# Pandemic differs from previous recessions

- Caused by COVID restrictions
  - *Not* burst asset bubble > collapse in demand
- Service sector most affected
  - Leisure/travel... but also healthcare
- Women more affected, at least initially
- Older workers worse hit than usual
- Layoffs, but also voluntary quits
  - Caregiving
  - Health and safety
  - Generous UI blamed, not likely a major factor

# Policy response also differs

- Robust response->quicker recovery
  - Lessons learned from Great Recession
  - Change in Fed orthodoxy on monetary policy
- \$2.2 trillion CARES Act
  - Signed by Trump with Democratic support
- \$1.9 trillion American Rescue Plan
  - Signed by Biden without Republican support
- \$2.3 trillion (over a decade) American Jobs Plan
  - Includes \$400 billion for home & community based svcs
  - Could help sustain recovery despite pay-fors
  - American Families Plan in the pipeline...

# Pandemic and retirement outlook: worsening inequality

- Upper-income households largely unscathed
  - Able to work remotely
  - Stock market rebounded after brief dip
  - Home prices also elevated
  - No evidence more people are tapping 401(k)s early
  - Government employers making pension contributions
- Pandemic shutdown made bad situation worse for low and moderate-income households
  - Bore brunt of job losses
  - Quick recovery should help
    - ...if we get COVID under control

# Policy options for a Democratic Administration & Congress

- Bold
  - Popular among voters (not just Democrats)
  - Pass via reconciliation or filibuster reform
  - Directly address issues of concern
- Incremental
  - Bipartisan
  - Supported by (most) employers
  - Supported by (most) financial industry
  - Solutions in search of a problem?

# Policy options for a Democratic Administration & Congress (cont.)

- Bold
  - Mandatory or automatic
  - Affordable: low overhead, lifetime contributions
  - Pooled (pensions or social insurance)
- Incremental
  - Voluntary
  - Tax incentivized
  - Individual accounts->choice

# Shifting Overton Window

- More moderates willing to consider employer mandate, low-cost Thrift Savings Plan model, etc.
  - Strong support among Dems for Social Security expansion
  - States leading the way with Secure Choice, other plans
  - Heightened awareness of wealth inequality, racial gaps
  - Underwhelming impact of auto enrollment, other tweaks
  - Financial industry stranglehold on policy weakening?



# Policy proposals with employer mandates:

- Sens. Coons and Klobuchar's Saving for the Future Act would mandate 50 cent/hour employer contribution
- Gary Koenig (AARP), Jason Fichtner (BPC), William Gale (Brookings) START plan would mandate 1% each from employers and employees into individual accounts, with funds used to defer Social Security take-up

# Policy Areas

- Retirement-specific
  - Social Security
  - Employer Plans
  - IRAs (including state Auto IRAs)
- Related issues:
  - Precarious, low-paid work
  - Wealth inequality
  - Disability
  - Healthcare
  - Long-Term Care

# Retirement legislation

## Social Security

- Social Security 2100 Act (Larson)
- WEP/GPO, wage indexing & other fixes

## Employer-based plans

- Multiemployer crisis resolved!
- SECURE Act 2.0 (Neal)
- Auto IRAs (Neal)

# Social Security 2100 Act

- Gradual increase in payroll tax rate
- Lifts taxable earnings cap (with “donut hole”)
- Extends solvency
- Increases first benefit factor from 90 to 93%
- CPI-E
- Higher special minimum benefit
- Raises threshold for taxation of benefits

# SECURE Act 2.0

- Employer match on student loans
- Auto enrollment
- Credit offset up to \$1,000 of employer contributions for “small” businesses (5-yr phase out)
- Further relax RMD requirement
- Increase catch-up contributions
- Expand eligibility and simplify Saver’s Credit
- Increase in qualified charitable distributions
- Lost and found database

# **Regulatory, administrative fixes**

## **Social Security**

- Worrisome decline in SSDI/SSI applications
- Repeal of no-match letters

## **Employer-based plans**

- Fiduciary standard

# What else might be on the agenda?

## **Social Security**

- Caregiver credit (Biden/Sanders task force)

## **Employer plans**

- Equalize retirement saving tax breaks (Biden/Sanders)

## **Miscellaneous**

- Long-Term Care
  - WA Cares
- Postal banking, Fed “wallet”
- Stop Wall Street Looting Act (private equity)