Breathe Easy: How Guaranteed Retirement Accounts could change your life

Frequently asked questions about GRAs

We need a retirement system that meets the needs of a 21st century workforce. American workers switch jobs more frequently than those in most high-income countries, and most are living longer than they did in decades before. Half of all American workers have nothing saved for retirement.[1] Thus it is no surprise that running out of money in retirement is a major source of anxiety for Americans of all ages. The good news is that we have a proposal to ensure that all workers can easily save and, when they retire, receive a monthly paycheck for life. It's called a Guaranteed Retirement Account.

1. What is the Guaranteed Retirement Account (GRA) plan?

The GRA is a retirement plan for all employees who are not participating in an equal or better retirement plan through their employer. Self-employed workers would also participate.

2. How would the GRA plan work?

Employees would contribute 1.5 percent of every paycheck into the account. Employers would contribute another 1.5 percent. (Self-employed workers would contribute both the employee and employer portion, for a total of 3.0 percent.) Employers and employees (and self-employed workers) could contribute more if they wanted to.

3. If I already struggle to pay my bills, how can I afford to save for retirement?

The GRA plan provides a tax credit equal to 1.5 percent of pay up to $600 a year to all participants. If you make under $40,000 a year, nothing would be taken out of your paycheck.

4. Is there a cap?

Yes, neither employees nor employers have to contribute on any earnings that exceed $200,000 a year.

5. How would my contributions be invested?

You would be able to choose from a list of fund managers, with well-diversified investment choices that are pooled, professionally managed, and offer low fees.

6. When would I start saving?

You would start saving in your GRA as soon as you start working, which is what people should be doing to ensure a secure retirement. With a GRA, your first day of work would also be the first day you contribute to your own retirement account!

7. What would happen to my GRA when I get a new job?

Your GRA will travel with you wherever you go. If your new job does not offer a retirement plan that is equivalent to or better than the GRA plan, you would keep contributing to your GRA at your new job. However, if the new job offers a retirement plan that is equivalent to or better than your GRA, you could join that plan instead. Meanwhile, the money in your GRA account would continue to earn investment income.

8. What would happen when I retire?

At age 62 or later—whenever you choose to retire—you would be eligible to receive a guaranteed monthly check for the rest of your life. The amount of your monthly check would be determined based on the amount you have in your GRA at retirement, and it would gradually increase over time to keep up with inflation. GRA benefits would be similar to a lifetime pension.

9. How much would a GRA increase my retirement income?

If an employee, who is an average earner, and employer kept to the 3.0 percent contribution, the employee would increase his or her Social Security benefit by roughly a third.[2]

10. Has a plan like the GRA ever been implemented outside of the United States?

The GRA is a tried and tested idea. Similar plans have worked well in several countries, including Australia.

11. Why do policymakers need to ensure workers are prepared for retirement?

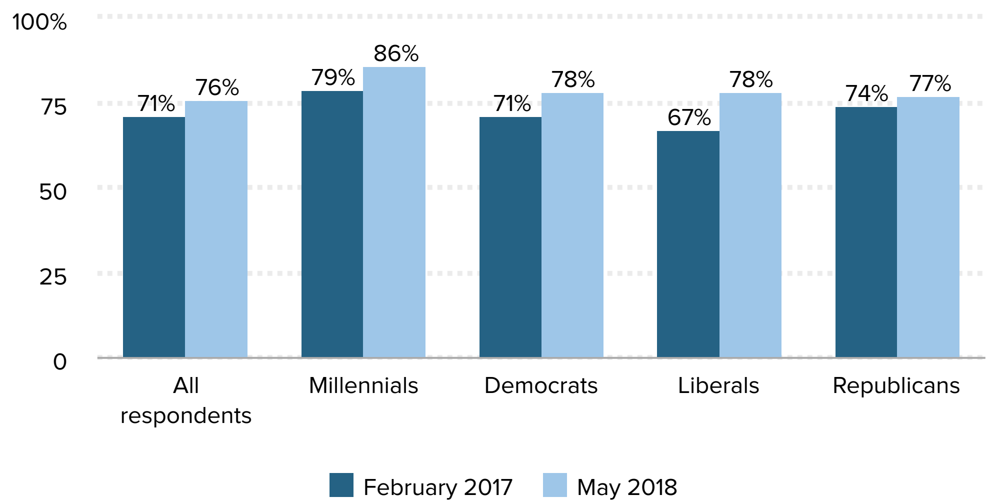
Half of working Americans have no retirement savings.

One reason for this is that some small businesses owners do not feel they have the

Figure A

A majority of Americans—including young people, Democrats, and Republicans—support the GRA plan

Shares of poll respondents who expressed support for the plan, by group, 2017 and 2018



Notes: Results are based on a survey of 3,000 people conducted in February 2017 and 1,000 people conducted in May 2018. "Millennials" are ages 18–34.

Source: American Federation of Teachers, "Retirement Savings Plan Research" (unpublished presentation), 2018

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expertise to set up a retirement plan for their employees. The GRA plan would level the playing field so that all workers have the opportunity to save for retirement, regardless of who their employer is. Policymakers have a moral obligation to provide people with the opportunity to build a secure financial future for themselves.

12. What do people think of the Guaranteed Retirement Account plan?

In a nationwide poll, the vast majority of respondents—including 78 percent of Democrats, 77 percent of Republicans, and 86 percent of millennials in 2018—supported this plan, as shown in **Figure A**.

13. How does this program work with Social Security?

Social Security benefits will replace roughly 40 percent of earnings in retirement for an average worker. This is less than in the past—and it isn't enough. Social Security should be expanded and strengthened for all Americans.

The GRA plan would replace an additional 14 percent of earnings for an average earner who participates in the plan for his or her entire career.[3] It is designed to bridge the gap for workers whose employers don't currently contribute to their retirement through a pension or 401(k)-style plan. Unlike Social Security expansion, the GRA plan would not directly affect workers who already receive good employer benefits. Instead, it would lift the floor for the roughly half of workers who currently receive meager or no retirement benefit from their employers, while ensuring that steady contributions are made on behalf of all workers throughout their working lives.

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1. Jennifer Brown, Joelle Saad-Lessler, and Diane Oakley, *Retirement in America: Out of Reach for Working Americans?*, National Institute on Retirement Security, September 2018.

2. Source: EPI estimate based on Social Security Administration's "scaled medium earner" for a worker age 21 in 2019 (Michael Clingman, Kyle Burkhalter, and Chris Chaplain, *Replacement Rates for Hypothetical Retired Workers*, Social Security Administration Actuarial Note no. 2018.9, June 2018). The worker is assumed to retire at Social Security's normal retirement age (67 for workers in this age cohort), with earnings at ages 66 and 67 assumed to equal earnings at age 65 in nominal terms. Price inflation (2.6 percent), wage inflation (3.8 percent), and life expectancy (23 years at age 65) assumptions are based on Social Security Administration, *Single-Year Tables Consistent with 2018 OASDI Trustees Report*, (Tables V.A5 and V.B1). Outcomes will depend on investment returns, which may be less than the assumed 6 percent (3.4 percent adjusted for inflation). Amounts are expressed in 2019 dollars. Benefits increase over time to keep up with inflation.

3. Replacement rates are based on wage-indexed average earnings, similar to the methodology used by Social Security Administration actuaries. Assumptions are the same as in note 2.