Testimony of Dave Gray

On behalf of Fidelity Investments

Before the U.S. Senate Committee on Health, Education, Labor and Pensions

Hearing on "Retirement Security: Building A Better Future"

May 13, 2021

Introduction

Chairman Murray, Ranking Member Burr, and Members of the Committee, thank you for the opportunity to speak with you today on retirement security and how we can work together to build a better future for working Americans. I am even more honored to testify today given Fidelity's significant presence in many of the states represented by the Committee here, including major campuses in North Carolina, Colorado, Kentucky, New Hampshire, and New Mexico. My name is Dave Gray, and I am Head of Workplace Retirement Product and Platforms for Fidelity Investments.

Fidelity is the nation's largest provider of workplace savings plans, including defined contribution (DC), defined benefit (DB), health and welfare and stock plan services to 22,000+ employers with 33.5 million workplace participant accounts. Fidelity provides recordkeeping, investment management, brokerage and custodial/trustee services to thousands of Code section 401(k), 403(b) and other retirement plans.

Employer-sponsored DC and DB retirement plans are an indispensable foundation to the U.S. retirement system. Retirement plans, like those Fidelity sponsors and administers, successfully assist tens of millions of families in accumulating retirement savings and will provide trillions of dollars in retirement income, helping our nation's workers achieve a more financially secure retirement.

Congress has enacted legislation in recent years to build upon and expand the private retirement system, including encouraging more employers to voluntarily offer a DC retirement plan, facilitating higher participation and savings rates with auto-enrollment and other auto-solutions, promoting prudent investing, streamlining plan administration and expense, and safeguarding participant interests. Fidelity supported the landmark legislation, Setting Every Community Up for Retirement Enhancement (SECURE) Act, that became law in late 2019 and brought meaningful enhancements to the private retirement system, such as modernizing the age at which retirees must begin taking required minimum distributions (RMDs), providing employers new tax credits as incentives to begin offering their employees a retirement plan, and creating open multiple employer plans (open MEPs) -- a move that is allowing small businesses a simpler, more affordable way to offer their workers a retirement savings plan for the first time and ultimately helping reduce the retirement savings plan coverage gap.

Today, I plan to cover the ways in which Fidelity helps families and individuals navigate the road to retirement. We believe in a holistic approach to help workers achieve success, including the importance of starting financial education early, saving for emergencies and healthcare, balancing student loan payments with long-term savings goals, and reducing burdens on both employers and employees. Notably, the retirement system in the United States is already helping tens of millions of savers prepare for retirement and I will also address what is working and how we can build upon those successes.

Building a Better Future

Workplace retirement plans play a vital role in ensuring workers have access to easy and affordable savings vehicles throughout their careers. After decades of education and experience, the system is working well for those who have access and can optimize its features – such as maximizing an employer match, defaulting into investment options with appropriate asset allocation, and auto-escalating contributions. Along with Social Security, which serves as the foundation of retirement income for most Americans, private retirement savings help families successfully plan and prepare for their long-term financial needs.

For many families however, the road to retirement security can be rocky. At Fidelity, our customers constantly remind us that healthcare expenses, unforeseen emergencies, caregiving, and paying down student loan debt are among the more immediate needs that drive their financial decisions and prevent them from consistently saving for retirement. To address these challenges, workplace savings plans have proven to be one of the most effective means of providing financial help, through 1-on-1 assistance, workshops, online tools, and methods to support financial literacy. We take that responsibility seriously understanding that financial education, starting much earlier, is the gateway to higher financial confidence and decision making.

Financial Literacy

Research shows that only 27% of young adults know basic financial concepts such as interest rates, inflation and risk diversification. Simultaneously, households or individuals who are less financially literate have been found to be more likely to take "payday" loans, pay only the minimum balance on a credit card, take on high-cost mortgages, and have higher debt levels. Having a low level of financial literacy can make young adults less financially secure, less able to make financial decisions, and more vulnerable to financial issues. Financial tools and institutions can help, but access to these resources has historically been unequal. The lack of access for certain communities, especially low-income communities and communities of color, can prevent people from building wealth and achieving a number of financial goals including saving for retirement.

Additionally, research shows that children begin developing attitudes and behaviors about money as young as age six or seven, and according to additional research by the FINRA Foundation, more rigorous financial instruction leads to positive behavioral formation and better outcomes such as improved credit scores and lower credit delinquency.[1] Fidelity collaborates with a wide variety of both national and community partners to provide access to these resources for under-represented students in under-served communities.

[1] FINRA, "State Financial Education Mandates: It's All in the Implementation," 2015. Found at: https://www.finra.org/media-center/news-releases/2015/finra-foundation-funded-study-documents-effectiveness-state-financial

Just as we provide our customers with guidance and financial tools to navigate through their life stages and decisions to reach their financial goals, we use a similar approach for the communities where our employees work and live. We connect our Fidelity associates with our partners to create and deliver financial education programs and experiences, both for school-age children to teach financial concepts and teachers to ensure they have the resources available to educate their classes. Through our programs, we have reached over 400,000 students and 3,500 teachers to date.

Emergency Savings

Over the past year, the COVID-19 pandemic has highlighted the challenges many American workers and their families face every day to cover immediate costs, while saving for the future. We saw millions of workers have taken an early withdrawal from their plan for an unexpected expense, and 58% of participants do not have enough short-term savings to cover a financial emergency.[2] The current pandemic has caused 1 in 5 people to consider taking a loan or withdrawal from their retirement savings plan.[3] During the pandemic, withdrawals increased as participants took advantage of expanded distribution options and favorable tax treatment for up to $100,000 of coronavirus-related distributions under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020. From March 2020 to the end of the year, 1.6 million Fidelity customers had taken a CARES Act distribution from their retirement account, which represents 6.3% of eligible employees on our workplace savings platform. The majority of individuals (59%) took one withdrawal in 2020 and the overall average amount per withdrawal was $9,400 (the median amount per withdrawal was $2,500). The substantial number of withdrawals last year demonstrates the need for an emergency savings accounts.

While the pandemic has put a spotlight on this problem, families have been struggling with savings for emergencies well before last year. Families need emergency savings accounts to be more prepared for addressing the unplanned, but unavoidable challenges of life, not only during a pandemic. Fidelity believes that employers can play a key role in helping workers accumulate short-term savings, and we have seen compelling innovation in this space across employers and financial services providers.

Today, Fidelity enables thousands of employees to save for short-term goals including emergencies. Our “Goal Booster” program provides savers with a path to a liquid savings option, tracking tools and motivational insights to help them stay on track. While this is a good start to getting participants on track to cover immediate and short-term needs, we are exploring additional innovations that can be offered through the workplace and complement retirement plans—many of these ideas require legislative changes. For example, some employers are seeking an option where a participant can

[2] Based on 384.6k completed response of the Financial Wellness Assessment from 04/01/2019-03/31/2020.

[3] Fidelity Investments Market Uncertainty Study, April 2020, a nationwide survey of 1.6k adults 18 years of age or older with at least one investment account. This analysis is based on 716 working adults with a workplace retirement savings plan. The study was fielded from April 1-8, 2020 by ENGINE INSIGHTS, an independent research firm not affiliated with Fidelity Investments. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.

earn a "match" to their retirement plan by way of contributing to an emergency savings account, therefore facilitating long-term savings for individuals who may otherwise be unable to do so.

Student Debt

Additionally, employees are increasingly turning to their employers to help with all areas of financial wellness, including tackling student loan debt and managing healthcare expenses now and in retirement. Student loan debt is a serious problem in the country, with over 44 million Americans owing a combined total of $1.67 trillion in outstanding student debt.[4] Student loan debt can impact individuals many years after they graduate college. Though typically associated with only millennials, student debt impacts all age groups. In fact, 34% of Gen-Xers and 29% of baby boomers currently hold student debt and interest rates are actually highest among Boomers.[5]

At Fidelity, we see how student debt manifests as both a financial and emotional burden on savers. Our data shows that it is a barrier to moving forward with momentous life events, such as buying a home, getting married, or helping to pay for a child's higher education. We know that 79% of those with student debt say that student debt impacts their ability to save for retirement, and 69% report that they reduced their retirement deferrals by stopping contributions entirely or took loans or hardship withdrawals. On average, participants with student debt contribute 6% less to their retirement accounts than individuals without student debt.[6]

Fidelity applauds the steps Congress has recently taken to reduce the burden of paying down student debt. In particular, we supported a provision in the CARES Act that temporarily allowed employers to contribute up to $5,250 annually toward an employee's student loans tax free (for both the employer and employee). Last December, Congress authorized an extension of this provision through 2025, which gives employers the certainty they need to offer student debt assistance as an employee benefit for years to come.

We have also advocated rule changes to allow for an employee repaying student loans, in lieu of saving for retirement, to also benefit from an employer contribution to their workplace retirement plan. In essence, an employer "match" on their student loan payment. This allows employees to take responsibility in reducing debt while resting assured that they are able to get started saving for retirement. A provision to enable this feature is currently being considered as part of the next round of retirement reform legislation and we would strongly encourage you to include it in any final legislative package.

[4] Nerd Wallet, 2021 Student Loan Debt Statistics
[5] Fidelity Investments Student Debt Tool as of December 30, 2020.
[6] Workplace Investing Plan Participant Student Loan 2016 Study, responses from 496 members (10/27/16 – 11/7/16)

Complexity

Finally, complexity remains a persistent barrier to plan formation and participation. There are a few areas where simplification for both employers maintaining a plan, and employees saving for retirement, could improve the process. Currently, there is a patchwork of different rules relating to 401(k), 403(b), and 457 plans, which all have different rules for contributions, hardship withdrawals, loans, and distributions. Complexity discourages participation, and harmonization could help ease the burden on employers and employees. Congress should also simplify the process by making permanent the provision in the CARES Act that allows participants to self-certify when applying for hardships and loans. Absent participant self-certification, the administrative burden and liability falls on the plan sponsors and service providers, adding another barrier and layer of complexity to the retirement system.

What's Working

Automatic Features

Even with the challenges facing Americans today, the retirement system in the United States is working for tens of millions of savers. Together with Social Security, workplace plans and individual accounts, families have a wide range of savings plans and planning tools to meet their needs. Many employers offer automatic enrollment and automatic escalation, tax deferred payroll deductions, and matching contributions. In fact, automatic features are a proven method of increasing participation and savings rates. At Fidelity, plans that utilize automatic enrollment have an 87.2% participation rate, versus a 51.9% participation rate among those employees at plans without the feature.[7] These automatic features and tax incentives to save are critical to ensuring Americans are prepared for retirement.

Retirement Income

The benefits of saving in a workplace plan are also recognized into retirement years. There is a growing population of individuals who choose to keep their savings in a previous employer's retirement plan, and 55% of retirees on Fidelity's platform keep their savings in a plan past the first year of retirement.[8] This shift has created the need for in-plan retirement solutions to help retirees draw down their savings. Employers are increasingly comfortable having workers keep their savings within the company's savings plan when they retire and are interested in offering a comprehensive in-plan retirement income solution for those individuals.

---

[7] Based on Fidelity analysis of 23,300 corporate DC plans (including advisor-sold DC) and 19 million participants as of 12/31/2020."

[8] Fidelity Investments; stay-in-plan rates as of December 2018

Flexibility

Furthermore, there is no one-size-fits-all solution for every saver, and the private marketplace has evolved to meet the needs of every individual. In addition to the traditional 401(k) plan, employers may offer a 403(b) plan, Roth options, SEP or SIMPLE plans, and now, open MEPs. This wide variety of workplace savings plans allows employers large and small to find a plan that fits their needs and the needs of their employees. The flexibility in the current system along with innovation for the future will allow companies like Fidelity to continue to provide services for every saver.

Open MEPs, also called Pooled Employer Plans (PEPs), are an excellent step toward filling the retirement coverage gap by making it easier for small businesses and independent workers to access retirement savings plans. Nearly 50% of private sector workers in the U.S lack access to a workplace retirement plan.[9] Many small businesses do not have the resources to offer their employees a workplace plan due to the costs and complexity involved in administering a plan. The SECURE Act of 2019 permitted the formation of PEPs, eliminating barriers for smaller employers to band together in a multiple employer plan. The PEP structure allows small business owners to focus on running their business, rather than the complexity that comes with administering a plan. According to the Department of Labor, 63 entities have registered to act as Pooled Plan Providers in the PEP space as of today. This growing interest could go a long way to closing the retirement coverage gap.

Fidelity has created a PEP, the Fidelity Advantage 401(k), to help close the coverage gap and help those small employers who are looking to start a plan for the first time. While we know there are others in the industry that are choosing to offer PEPs to employers who already offer a plan, Fidelity's initial offering is deliberately focused on helping address the coverage gap by crafting a solution built for the needs of small businesses who do not yet offer a retirement savings plan today. The plan is targeted toward employers with between 5-50 employees. We have seen significant organic demand since its launch earlier this year. For example, we are proud to have enrolled a small grocery store in California, a women-owned publisher of children's books in Spanish and English, and a managed security services provider founded by two disabled veterans. We believe entering a PEP can allow businesses to capitalize on the economies of scale of a larger plan, simplify administration, and provide their employees the coverage they need.

Digitization

Critical to the continued success of the retirement system is innovation and preparing for the future of savings. Fidelity supports recent regulatory efforts to expand electronic delivery (e-delivery) as the primary distribution method for retirement plan disclosures. According to a 2015 study, 84% of retirement plan participants find it acceptable to make e-delivery the default option (with the option to

[9] "Small Business Profile," U.S. Small Business Administration Office of Advocacy, 2017.

request paper at no cost to the participant).[10] Preference for digital disclosures is clear; in fact, less than 1% of participants change their delivery preference to paper where plan sponsors use workplace emails for e-delivery under the current regulations. E-delivery also encourages participants to engage with their investments, which results in better outcomes, including higher deferral rates and improved retirement preparedness. The SPARK Institute's data indicates that savers with e-delivery contribute 72% more and are three times as likely to be saving a sufficient amount for retirement than savers who receive paper disclosures.[11]

In addition to investor preference, e-delivery is more environmentally conscious and less costly. Reducing our use of paper reduces our carbon footprint.[12] In addition, the process of manufacturing paper contributes to pollution, paper waste, and deforestation.[13,14] Default e-delivery for retirement plan documents is supported by a number of leading union pension funds who noted specific costs savings for their participants, as well as being supported by the U.S. Chamber of Commerce and countless other groups. Further, e-delivery is more accessible than paper, allowing retirement savers with disabilities to access information in a format that meets their unique needs. Nearly 70% of disabilities are related to age; those experiencing vision loss later in life now have the assistance of new technological advances such as screen readers (e.g., Voice Over on iPhones, Talk Back on Android phones, and Narrator on Windows 7 machines) to audibly receive the same information contained in a written disclosure.

Moreover, because 85% of special requests for disclosures are for large print, having an electronic format for disclosure delivery allows participants with moderate vision impairment to easily enlarge the font on a computer or smart phone screen. Delivering plan information electronically is a faster, more efficient and effective way for participants to get the plan information they need. Electronic accessibility enables participants to receive communications in the digital manner they now expect. Communications can be sent and received instantly, without delay, and without the risk of getting lost or misplaced in the daily shuffle of paper mailings. With a digital-first approach, Fidelity supports the delivery of plan related materials in a manner requested by plan participants.

Similarly, with the shift toward digitization and online access, Fidelity supports efforts to make permanent the ability for plan participants to obtain spousal consent through remote notarization and

---

[10] See the full report at https://www.sparkinstitute.org/contentfiles/improving_outcomes_with_electronic_delivery_of_retirement_plan_documents.pdf

[11] *Improving Outcomes with Electronic Delivery of Retirement Plan Documents*, SPARK Institute (2015).

[12] See U.S. Environmental Protection Agency, Paper Products (Oct. 28, 2010), available at http://www3.epa.gov/climatechange/wycd/waste/downloads/paper-products10-28-10.pdf.

[13] See U.S. Environmental Protection Agency, National Emission Standards for Hazardous Air Pollutants for Source Category: Pulp and Paper Production; Effluent Limitations Guidelines, Pretreatment Standards, and New Source Performance Standards: Pulp, Paper, and Paperboard Category, 63 Fed. Reg. Vol. 18504 (Apr. 15, 1998), available at https://www.gpo.gov/fdsys/pkg/FR-1998-04-15/pdf/98-9613.pdf ("EPA Guidelines").

[14] U.S. Environmental Protection Agency, Causes of Climate Change, available at http://www3.epa.gov/climatechange/science/causes.html.

the modernization of processes related to retirement plan administration. Temporary relief is due to expire on June 30, 2021, although the experience of the past year has shown that remote notarization has broad acceptance across much of the nation, and has proven to be a commonsense method of authentication while maintaining important protections and reliability. In fact, 33 states have enacted laws and dozens of other states' governors have issued executive orders permitting remote notarization. Remote notarization has been successful and beneficial for plan participants and plan sponsors during the continuing pandemic. It has proven to be more secure and convenient, particularly given that executing interactions and transactions digitally is consistent with the way plan sponsors and plan participants prefer to conduct business. Plan participants have found that it provides an expedient and secure alternative to conventional notarization in the presence of a notary. Moreover, Fidelity is aware of no incidents of fraud related to remote notarizations obtained by participants in the thousands of plans that Fidelity services.

Healthcare in Retirement

Lastly, savers are looking for ways to prepare for retirement expenses beyond the every day, and for millions of Americans that means preparing for increased healthcare expenses. It is estimated that a couple retiring today will need $300,000 to cover medical expenses throughout retirement, an 88% increase since 2002, based on the annual Fidelity Retiree Health Care Cost Estimate. As one of the leading service providers for Health Savings Accounts (HSAs), Fidelity is committed to helping workers and their families save for current and future health care expenses. As health care costs continue to rise, both American families and their employers agree health care is a top concern, particularly during retirement. Almost 90% of employers consider the rising cost of health care to be a critical concern, and 26% of working Americans actually rank health care as the most critical issue facing us today.[15] Employers are moving toward HSA-eligible health plans and today, 90% of large employers offer at least one consumer directed health plan, which helps reduce employers' costs, but these plans also offer individuals and families the benefit of an HSA.

Saving through an HSA allows individuals and families to set aside money on a tax-advantaged basis to pay for current and future health expenses in retirement. HSAs are also becoming more popular for U.S. workers across all income levels. More than 50% of HSA holders with household incomes between $20,000 and $50,000 per year are enrolled in an HSA-eligible health plan and enrolled in an HSA.[16] HSA holders in the lower income bracket benefit disproportionately by participating in an HSA through the employer contribution. While the employer contribution funding amount varies by plan, the vast majority of Fidelity's plan sponsor clients pre-seed the HSA account with a specific amount rather than matching on a 1:1 basis. This means that HSA holders who may not be able to contribute much to their account, will still reap the full benefits of the employer contribution. The long-term value of an HSA can position a family for greater financial security, and Fidelity supports legislation that would

[15] The 2018 EBRI/Greenwald & Associates Health and Workplace Benefits Survey.
[16] Based on Fidelity recordkept health and welfare data for 21 workplace investing clients as of May 2018.

expand access to these savings vehicles and allow for additional contributions so that families can save for the long-term.

Conclusion

Finally, I would like to express Fidelity's support for the latest retirement legislation under consideration, the Securing a Strong Retirement Act, or SECURE 2.0 as it has been dubbed. Several of the reforms are also included in the comprehensive bipartisan legislation from Senators Cardin and Portman, the Retirement Security and Savings Act, and we look forward to working with Members of Congress to advance these important initiatives. These bills build upon the strong foundation of their predecessor legislation and include many provisions that would address the challenges raised above.

Notably, SECURE 2.0 takes an important step to help individuals who are paying down student debt by allowing employers to make matching contributions to a 401(k) plan while their employees make student loan repayments. The legislation also includes a meaningful enhancement to open MEPs and would allow 403(b) plans to participate in MEPs and pooled employer plans (PEPs). We believe open MEPs and PEPs will go a long way to closing the coverage gap for millions of Americans who do not yet have access to a workplace retirement plan.

We also support the provisions to modernize retirement plan disclosures, including directing the Department of Labor, Treasury, and Pension Benefits Guarantee Corporation to study ways to consolidate, simplify and standardize the disclosures. Eliminating the requirement to send unnecessary plan disclosures to employees who are not enrolled in the plan is a helpful step in this direction. While we do have concerns about certain aspects of the electronic delivery provision, we look forward to working further with policymakers so that we can ensure participant demand for electronic delivery is met, and individuals are receiving up-to-date information conveniently in a cost-effective and environmentally-conscious manner.

On behalf of Fidelity and the millions of Americans we serve, we appreciate the invitation to share our views and contribute to this important dialog to build a better future through retirement security. We forward to continuing to work with the Committee to further American workers' retirement security now and for the future.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917
979881.1.0