THE NEW ENGLAND COUNCIL

Committee Update

June 27, 2014

New Retirement Savings Report, Sponsored by the New England Council and Others, Released

Saving is the source of investment that fuels an economy's long-term growth, with rising living standards and a more stable economic environment being the key benefits. And so, by raising household savings, we can enhance America's ability to finance its future, lift potential growth rates, and contribute multiple trillions of dollars in added output over coming decades. The question is, in terms of encouraging increased saving, where do we need to go from here, and how do we get there?

Recently, the New England Council partnered with nearly a dozen financial services, non-profit and policy-analysis organizations – including Council members AARP, Bank of America Merrill Lynch, John Hancock Financial, LPL Financial, Natixis Global Asset Management, and Putnam Investments – to produce a report on retirement savings in the United States. Our group of organizations worked with Oxford Economics to produce this report, titled *Another Penny Saved: The Economic Benefits of Higher US Household Saving*. The study demonstrates that the goal of raising America's household savings should be a policy imperative. Some of the key findings include
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- **Americans are saving less.** From 1950 to 1985, personal saving averaged 11.1%. Now, according to the Bureau of Economic Analysis, the household saving rate, which fell to low single digits in the run-up to the 2007–08 financial crisis, is just 3.8%.
- **That trend is unlikely to change without action.** Projecting the current rate forward, and adjusting only for the aging of the population, the saving rate will likely fall to an extremely low 3% in the 2030s.
- **The saving gap is large for many households –** especially lower-income individuals and families – and filling it will be a struggle. Those in the bottom quartile must save roughly 21% more of their pre-tax income than they presently do to support an adequate lifestyle in retirement.
- **The optimal range for the household saving rate is between 5% and 9% of GDP.** And investment should fall within a range of 20% to 25% of GDP.
- **There are added benefits to saving.** A boost in saving would make the US less dependent on foreign capital, make households more secure, and strengthen long-term economic growth.

- **Existing savings incentives and vehicles should be preserved, simplified, and restructured to maximize saving.** In particular, employers should consider nudges and passive incentives – such as opt-out and auto-escalation – for broader adoption in their workplace payroll savings plans.

You can find all of the report's resources, including the white paper, an executive summary, various infographics, and video of the June 24th unveiling event in Washington, D.C., at http://www.anotherpennysaved.com. A copy of the report is attached to this email for your convenience as well.

Additionally, below is the press release that was sent out on behalf of the organizations involved in sponsoring this report.

New Research Highlights Economic Benefits of Increased US Household Saving

June 24, 2014 (Washington, DC) New research released today from Oxford Economics, a leading economy consultancy, shows that increasing the US household saving rate would lead to higher economic growth in the long run, decrease dependence on foreign capital, and improve households' preparedness for retirement—and that failure to address the growing saving gap poses significant long-term risks to the US economy.

The report, *Another Penny Saved: The Economic Benefits of Higher US Household Saving [embed hyperlink to the report]*, paints a startling picture of the impact of continued low household saving rates on the nation. If these are left unaddressed over the coming decades, millions of Americans—especially those earning low to moderate incomes—will face tremendous difficulties funding retirement and other life events.

Another Penny Saved was sponsored by a diverse group of retirement associations, financial-service firms, civic groups, and business leaders representing more than 80 million Americans. They are AARP, the American Society of Pension Professionals & Actuaries, the Aspen Institute, Bank of America Merrill Lynch, the Financial Services Roundtable, John Hancock Financial, LPL Financial, Natixis Global Asset Management, the New England Council, Putnam Investments, and the US Chamber of Commerce.

Oxford Economics used its highly respected macroeconomic model to analyze and project the level of national and household savings over the next 25 years, and to estimate what would be needed to drive healthy and sustainable economic growth.

Left on the current path, the saving rate will fall to an extremely low 3% in the next two decades, according to the analysis, whereas 5%–9% is needed for healthy growth. Increasing the saving rate to the middle of that range would enable higher investment without an unsustainable rise in net foreign borrowing.

Oxford Economics finds that higher household savings would lead to a GDP per capita by 2040 that is $3,500 higher (in today's prices) than it would otherwise be. Driving this gain would be a higher investment rate without an unsustainable rise in net foreign borrowing. This would speed the the pace of investment and growth significantly: the economy as a whole would gain a discounted $7 trillion cumulatively over the next 25 years, equivalent to roughly half of US GDP today.

"This report should be a wake-up call to policy-makers," said Adrian Cooper, CEO of Oxford Economics. "There is a clear link between US household saving and economic prosperity. The national saving rate has been steadily declining for decades, and if the trend is not reversed, it will have far-reaching consequences for future prosperity."

The single most important way to reverse the downward saving trend, the report concludes, is to facilitate workplace payroll saving plans. The report identifies key actions employers and policy-makers should take to encourage greater saving, including:

- Requiring workers to opt out rather than sign up for workplace payroll saving plans.

- Encouraging employers to provide a plan for their employees through tax law and regulation, as much of the workforce is still not covered by workplace plans.

- Preserving and improving existing saving vehicles, and extending them to maximize saving, both in aggregate and among the groups currently least able to save. Matching contributions and other tools to support saving by low-income Americans, such as refundable tax credits, would help.

The research findings and recommendations on steps policy-makers and business leaders can take to improve the household saving rate in the US are being discussed at the *US Saving Forum*, held today in Washington, DC. To see the full report, learn more, and follow the debate, please visit our website: www.AnotherPennySaved.com.

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