Testimony of Nari Rhee, PhD

Director, Retirement Security Program

Center for Labor Research and Education

University of California at Berkeley

"Modernizing Retirement Policy for Today's Workforce"

U.S. House Subcommittee on Health, Employment, Labor, and Pensions

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Good morning, Chairman Allen, Ranking Member DeSaulnier, and members of the Subcommittee. I am Nari Rhee, Director of the Retirement Security Program at the UC Berkeley Center for Labor Research and Education (Labor Center). Thank you for this opportunity to appear before you.

I would like to highlight the challenges that most American workers face in the existing retirement system and offer some considerations for integrating lifetime income products into 401(k) plans.

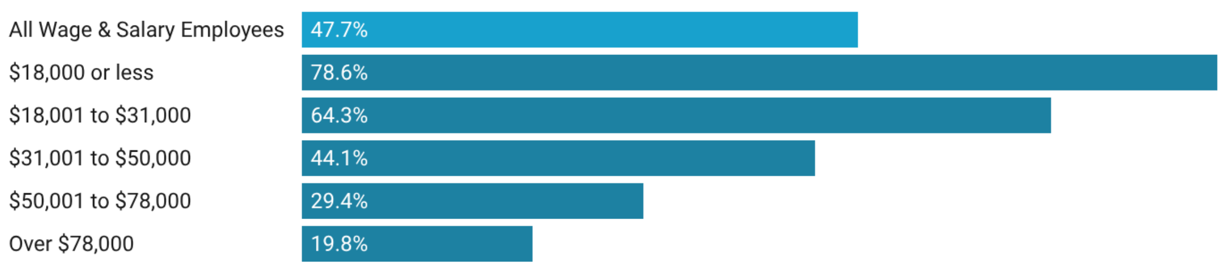
- Despite record assets held in 401(k)s and IRAs, the reality is that almost half of workers are not covered by a job-based retirement plan, and a large majority of working-age households in the U.S. face a significant retirement savings shortfall.
- In this context, it is critical to safeguard Social Security, which is the primary defense against poverty for American workers, and to continue to protect their hard-earned retirement savings from being eroded by excessive 401(k) fees.
- The need to generate predictable income from 401(k)s is a legitimate, longstanding concern for plan sponsors and policymakers — but given the complexity of annuity products, workers need robust guardrails against unnecessary costs and risks.

1. The Current Retirement System Is Leaving the Majority of Workers Behind

The U.S. retirement system is failing to provide a path to security for a large segment of the workforce. Employer-sponsored retirement plan coverage varies widely by industry, occupation, firm size, and full-time/part-time status, effectively excluding most low-wage workers.[1] **Nearly half of all U.S. workers employed in wage and salary jobs—including 79% of workers in**

the bottom 20% of the earnings distribution and 64% of those in the next 20%--are not covered by a workplace retirement plan (**Figure 1**).

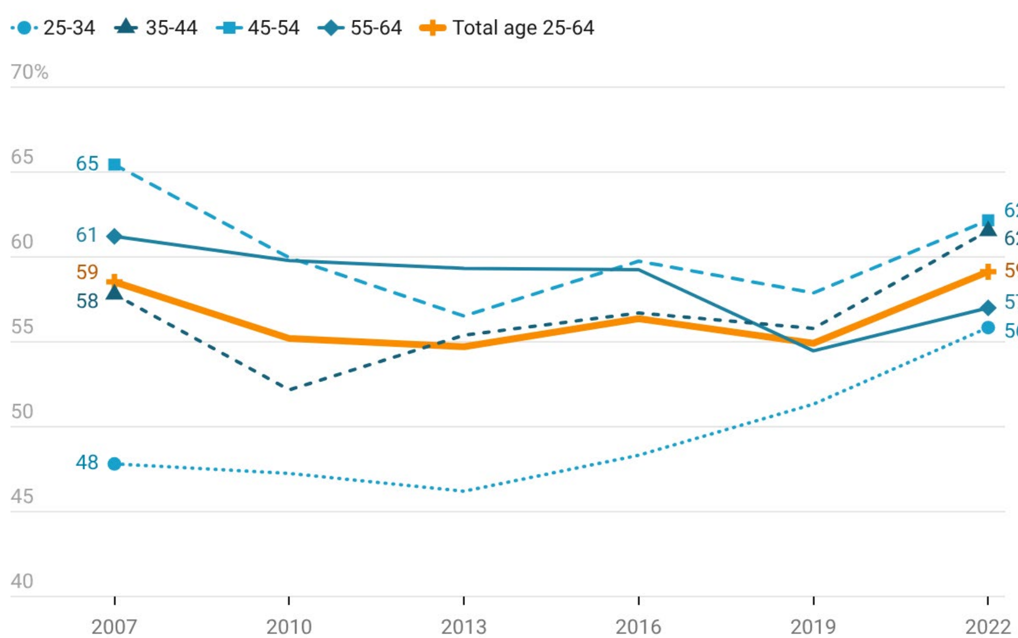
Figure 1: Share of Employees NOT Covered by a Workplace Retirement Plan, by Earnings Quintile, 2018-2020



Note: Estimates are from Sabelhaus, 2022, "The Current State of U.S. Workplace Retirement Plan Coverage," Pension Research Council Working Paper WP2022-07, p. 25, Table 3.

Consequently, **two out of five working-age households have no 401(k) or IRA assets** (**Figure 2**). Among households aged 25-64, the rate of retirement account ownership—i.e., ownership of assets in 401(k)-type accounts or IRAs—declined after the 2007 financial crisis and only recently recovered in 2022 at 59%. On the bright side, retirement account ownership steadily increased for younger households aged 25-34, from 46% in 2013 to 56% in 2022. However, mid- and late-career households (aged 45-54 and 55-64) in 2022 were significantly less likely to have 401(k) or IRA assets in than their counterparts in 2007.

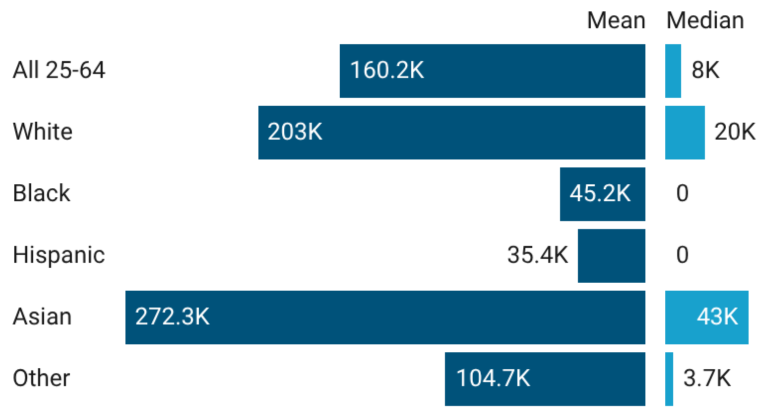
Figure 2: Percentage of Households with Retirement Accounts, by Age Group, 2007-2022



Note: Author's analysis of Survey of Consumer Finances.

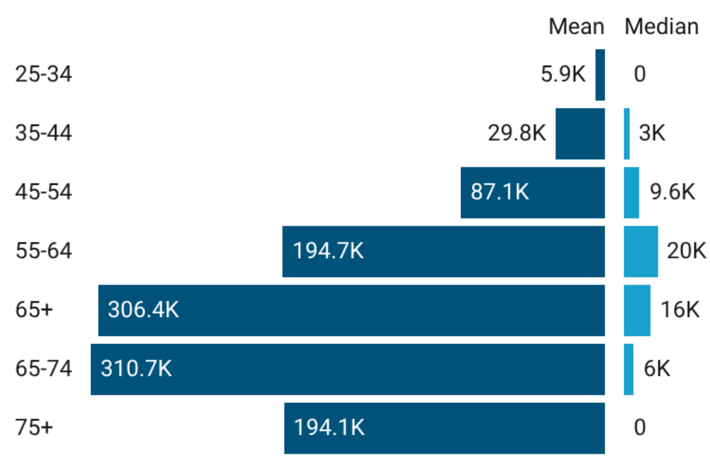
Given the large share of households with no retirement account, the typical (median) retirement account balances among working-age households aged 25-64 was just $8,000 in 2022, with wide inequality between white and Asian households on one hand and Black and Latino households on the other (**Figure 3**). **For those near retirement (aged 55-64), the typical (median) account balance was just $20,000**, a small fraction of the "average" balance of $195,000 for this group (**Figure 4**.)

Figure 3: Mean vs. Median (Typical) Retirement Account Balance Among Households Aged 25-64, by Race, 2022



Note: Author's analysis of Survey of Consumer Finances

Figure 4: Mean vs. Median (Typical) Household Retirement Account Balance, by Age Group, 2022

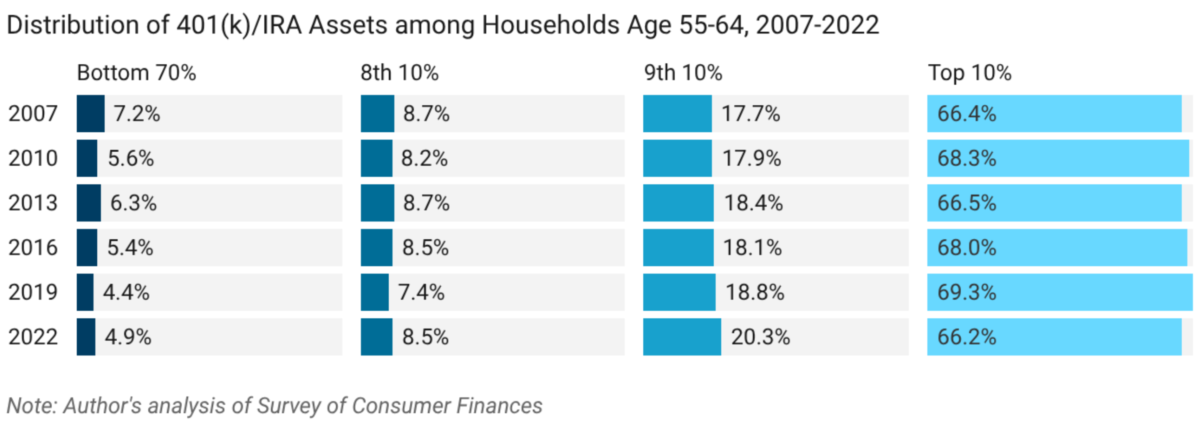


Note: Author's analysis of Survey of Consumer Finances

While total retirement assets have reached record highs, this growth masks a profound and widening inequality. As **Figure 5** shows, 401(k) and IRA assets are increasingly concentrated at the top. Among near-retirement households (ages 55-64), the share of 401(k)/IRA assets held by the bottom 70% was a mere 4.9% in 2022, reflecting a substantial decrease from 7.2% in 2007. Conversely, the top 20% of households in this age group held 86.5% of 401(k)/IRA assets in 2022, up from 84.1% in 2007.

According to studies by Federal Reserve economists, the decline of defined benefit pensions and the rise of 401(k)s have contributed to growing wealth inequality in the U.S.[2] Conversely, Social Security and defined-benefit pensions play a significant role in modulating retirement inequality.[3]

Figure 4: 401(k)/IRA Asset Inequality Among Older Adults Has Worsened since 2007



Insufficient Wage Growth

Wages and income are neglected in retirement savings discussions, and here I want to briefly touch on two important factors: slow wage growth and increased income volatility, both of which make it difficult for workers to save.

While low-wage workers saw gains during the pandemic, these gains were a break from a 40-year pattern of wage stagnation. Real median wage growth has lagged far behind economic growth: between 1979 and 2024, U.S. productivity increased by over 100%, while real median wages grew by less than one-third that amount.[4] (**See Figure 5.**)

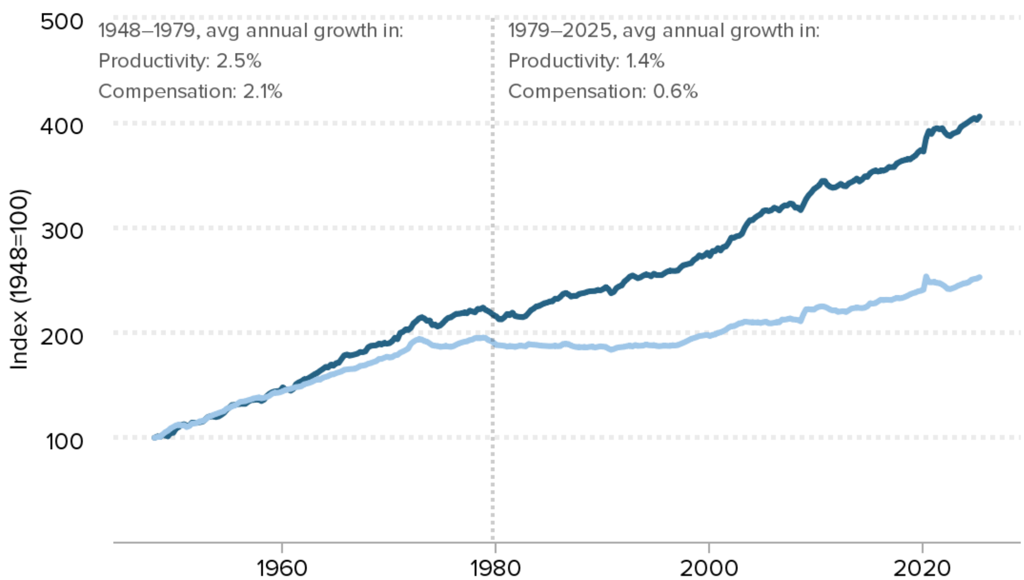
Low wages and incomes suppress retirement plan participation and savings rates. While auto-enrollment and auto-escalation of contributions in 401(k)s and state-sponsored auto-IRA programs are a step forward, low-wage workers are still much more likely to opt out than high-wage workers. Significantly, research has shown that chronic financial stress impedes people's ability to plan ahead, including retirement planning.[5]

In addition to low income level, an additional barrier to retirement saving is income volatility, especially among hourly wage employees and gig and self-employed workers. When I talk to unions representing low-wage workers—for instance, childcare and homecare workers—about auto-enrollment, I often hear that they're worried about having enough saved to retire but are also wary of committing to a fixed contribution rate because some months they might not have enough of a paycheck.

Figure 5

The gap between productivity and a typical worker's compensation has increased dramatically since 1979

Productivity growth and hourly compensation growth, 1948–2025



Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

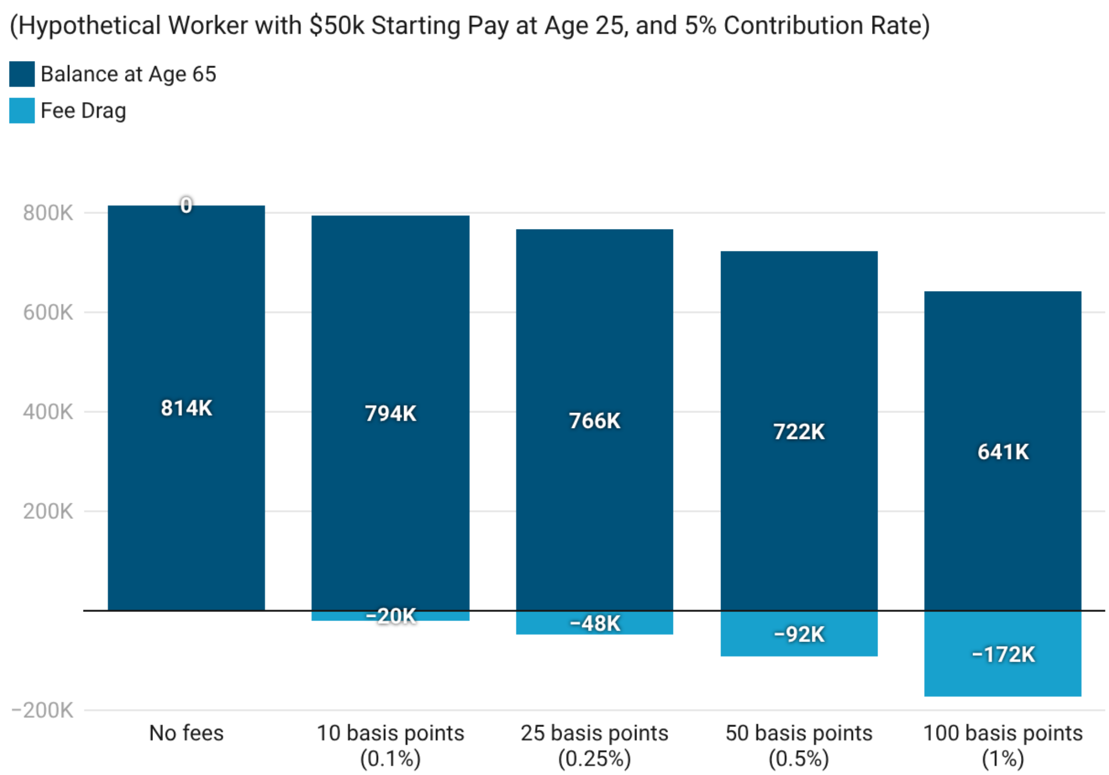
Source: EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics (BLS) Labor Productivity and Costs program, wage data from the BLS Current Employment Statistics, BLS Employment Cost Trends, BLS Consumer Price Index, and Bureau of Economic Analysis National Income and Product Accounts.

Economic Policy Institute

2. Private Right of Action Under ERISA Is Critical to Keeping 401(k) Fees Low

Fees have an outsized impact on retirement account balances. Their full cost includes not just the dollars paid to the plan administrator and deducted as investment expenses, but the resulting loss in long-term compound investment returns. Thus, a quarter percentage point (0.25%) difference in fees can mean a 4-5% difference in a worker's retirement account. **Figure 6** illustrates the erosion in retirement savings over a 40-year career resulting from different fee levels ranging from 0 to 100 basis points (0% to 1%). For this scenario with $50,000 starting pay, 5% contribution rate, and 7% investment returns, the worker loses $172,000 due to a 1% annual fee, compared to just $20,000 with a fee of 0.1% (10 basis points). In other words, an annual fee of 1% reduces funds available at retirement age by almost 20% compared to a fee of 0.1%.

Figure 6: Impact of Fees on 401(k) Balance at Retirement

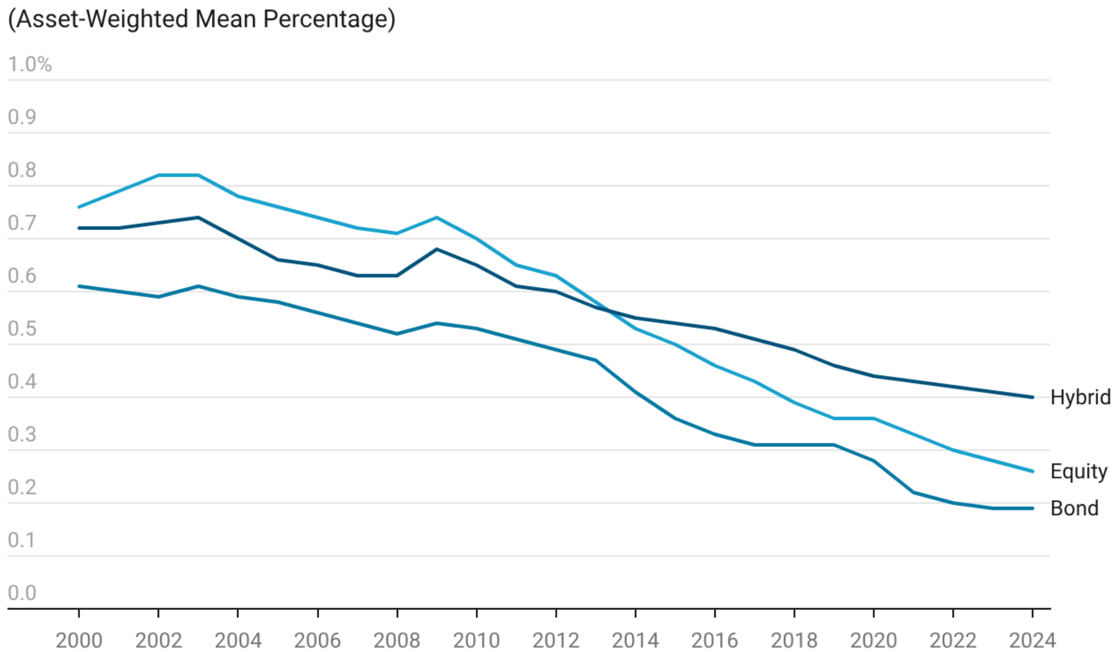


Note: Author's calculations based on $50k starting annual pay at age 25, 5% contribution rate, 3.5% annual salary growth, and 7% annual investment return.

Fortunately, 401(k) fees have decreased dramatically over the past two decades. As **Figure 7** shows, there was a significant and steady decline in average expense ratios among 401(k) mutual funds from the early 2000s to 2024. Equity fund expense ratios decreased by two-thirds, from 0.76% in 2000 to just 0.26% in 2024. Bond fund expense ratios followed a similar trajectory, dropping from 0.61% to a historic low of 0.19% during the same period. Hybrid funds also experienced a notable, though slightly less steep, decline from 0.72% to 0.40%. Participants in the largest plans often enjoy investment expense ratios in the single digits (less than one-tenth of a percent) for hybrid funds.

It is widely acknowledged that employees' private right of action—that is, their right to enforce their rights under ERISA in court—has played a significant role in lowering fees. Large plan sponsors have been incentivized to switch from retail shares to institutional shares and opt for low-cost index funds over costly actively managed funds. Private right of action under ERISA offsets the fact that normal market forces are not fully present in 401(k) fee setting: employees form a captive market, obligated to pay for plan fees and investment expenses that plan sponsors negotiate.

Figure 7: 401(k) Mutual Fund Fees, by Asset Class, 2000-2024



Data Source: Investment Company Institute, "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2024" - Supplemental Data Tables, Figure 6, July 2025.

3. Integrating Annuities into 401(k) Plans Requires Robust Safeguards

As an increasing share of workers retire with a 401(k)—rather than a traditional pension—as their primary employer-sponsored plan, there is legitimate interest in how to use these accounts for effective lifetime income. However, given the complexity and cost of annuity products, it would be ill-advised to simply open the doors to defaulting employees into insurance annuities by weakening protections for plan participants. Instead, any legislation or regulation to further include annuities in 401(k)s must incorporate robust safeguards to protect workers' hard-earned savings.

The term "annuity" can be confusing because it encompasses a wide range of products that vary in cost, benefit structure, and complexity.[6] At one end, fixed Single Premium Income Annuities (fixed SPIAs) offer guaranteed, fixed monthly income for life, with or without an annual increase rate to protect against inflation, in exchange for a large up-front payment. At the other end, a group of products widely referred to as variable annuities are invested similarly to mutual funds but guarantee a minimum return; they offer greater liquidity than SPIAs but can be costly for participants.

Prudent Standards for Defaulting Participants into Annuity Products

Defaulting participants into complex, long-term contracts with restricted liquidity and/or high costs requires a higher level of fiduciary care than conventional target-date funds and other mutual funds. To minimize potential harm to participants, we need further study of the circumstances under which it is appropriate to default an employee into an annuity product. In addition, policymakers must set careful standards for the kinds of annuities that are allowable as default investment vehicles, not only in terms of product features, but also the financial health of the insurers. Apropos of the latter, policymakers should evaluate the adequacy of benefit protection by state guaranty associations, should an insurance company fail.

Cost Minimization, Pricing Transparency, and Actuarial Fairness

Insurance annuity cost structures are notoriously opaque, both in terms of the underlying actuarial assumptions and, for many products, complex and hidden costs. **Policies must explicitly rein in hidden fees, surrender charges, and the "undisclosed spreads"**--the difference between what the insurer earns on investments and what it credits to the worker—that insurance companies often use to generate profit at the expense of the worker's monthly benefit.[7] In the same vein, **policies must ensure that lifetime income annuities in 401(k) plans are actuarially fair to workers**. That is, the value of the expected lifetime payments should be commensurate with the amount paid in, without being excessively diminished by insurer profit margins. A key efficiency of traditional defined benefit pensions is that they provide an annuity priced appropriately for the specific risk pool, through regular actuarial assessments of a plan's mortality assumptions, and with zero profit for the guarantor.[8] In contrast, commercial annuities in 401(k)s risk being actuarially unfair to the workforce.

Informed Employee Decision-Making

Both annuity products in 401(k) and their **disclosure requirements should be designed to ensure that employees can easily understand the true costs and risks of products**. This should include standardized disclosure requirements that allow workers to compare annuity products on an "apples-to-apples" basis with their existing investment options. In addition, workers must know who is liable and what protections exist to secure their income and savings if an insurance company backing a 401(k) annuity becomes insolvent.

Conclusion

As this Committee considers potential steps to further include complex lifetime income products to 401(k) plans, I urge you to prioritize the majority of our workforce that is being failed by our retirement system, not just through lack of access to employer sponsored retirement plans, but through low wages that make it difficult to save, especially when housing, food, and healthcare

are increasingly unaffordable. The number of workers who lack access to an employer-sponsored retirement plan, or who have barely anything saved in a 401(k), far outstrips the number of workers who have sufficient balances to receive substantial income from purchasing an annuity.

Finally, Social Security is the primary annuity for American workers — it is universal, it covers workers across jobs, it covers spouses, it protects seniors against inflation, and it is the single most important program in keeping retirees out of poverty. The single most impactful thing that Congress can do to improve the retirement security of Americans is to bolster program financing now rather than wait until seniors face a 23% benefit cut and protect its benefits for future retirees.[9]

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[1] See U.S. Bureau of Labor Statistics, "Employee Benefits in the United States News Release: EMPLOYEE BENEFITS IN THE UNITED STATES - MARCH 2024", September 19, 2024, https://www.bls.gov/news.release/archives/ebs2_09192024.htm.

[2] John Sabelhaus and Alice H. Volz, February 1, 2019, "Are Disappearing Employer Pensions Contributing to Rising Wealth Inequality?" FEDS Notes, Board of Governors of the Federal Reserve System.

[3] Lindsay Jacobs, Elizabeth Llanes, Kevin Moore, Jeffrey Thompson, and Alice H. Volz, 2021, "Wealth Concentration in the United States Using an Expanded Measure of Net Worth," Federal Reserve Bank of Boston Working Paper No. 21-6, https://doi.org/10.29412/res.wp.2021.06; Sabelhaus & Volz, op cit. For an analysis of the distinct impacts of public and private sector pensions on the racial wealth gap, see Nari Rhee, 2023, "Closing the Gap: The Role of Public Pensions in Reducing Retirement Inequality," National Institute for Retirement Security & UC Berkeley Center for Labor Research and Education.

[4] Hilary Wething and Joe Fast, "The widening productivity-pay gap," Economic Policy Institute Working Economics Blog, https://www.epi.org/blog/the-widening-productivity-pay-gap/. See also Washington Center for Equitable Growth, "Slow wage growth and U.S. inequality in the 21st century" (July 2025).

[5] Andrea Hasler, Annamaria Lusardi, and Olivia Valdes. "Financial Anxiety and Stress among U.S. Households: New Evidence from the National Financial Capability Study and Focus Groups." April 28, 2021. FINRA Investor Education Foundation & Global Financial Literacy Excellence Center.

[6] For further detail on annuity products, see American Academic of Actuaries, "What Are the Various Types of Insured Annuities," Issue Brief, August 2022, https://www.actuary.org/sites/default/files/2022-08/IB.Annuities.8.22.pdf.

[7] These "junk fees", alongside insurance agent incentives for annuity sales, were targeted by the now-suspended Retirement Security Rule. 89 FR 32122, April 25, 2024.

[8] Social Security uses a broad set of mortality assumptions but significantly offsets racial inequality in life expectancy through a progressive benefit formula. See Steuerle, C. Eugene, Damir Cosic, and C. Quakenbush. 2019, "How Do Lifetime Social Security Benefits and Taxes Differ by Earnings? Projections from Urban Institute's DYNASIM Model," Urban Institute.

[9] The 2025 OASDI Trustees Report projects that when the Social Security Trust Fund is projected to be depleted in 2034, projected OASDI tax revenue will only cover 77% of projected benefits. See *The 2025 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, https://www.ssa.gov/oact/TR/2025/index.html. There are a number of proposals for shoring up Social Security financing without cutting benefits; for an example, see "Key Principles for Strengthening Social Security: Testimony of Kathleen Romig, Director of Social Security and Disability Policy, Center on Budget and Policy Priorities, Before the Senate Budget Committee," https://www.cbpp.org/research/social-security/key-principles-for-strengthening-social-security.