FMR LLC Public Affairs and Policy Group

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WRITTEN SUBMISSION TO THE SAVINGS AND INVESTMENT WORKING GROUP OF THE SENATE FINANCE COMMITTEE
April 15, 2015

We applaud the Senate Finance Committee for developing working groups to examine different aspects of the Internal Revenue Code, with the goal of submitting proposals for comprehensive tax reform. We share your goal of developing a simpler, fairer and more efficient tax code that promotes savings and investment. We appreciate the opportunity to submit proposals for the working group's consideration. We believe these proposals would simplify the private retirement system, enhance retirement security by increasing savings, improve the effectiveness of the information received by plan participants, and drive down costs for plans and participants.

AUTO SOLUTIONS

- **We support auto-enrollment for all full-time employees and recommend educating employers and employees about the benefits of auto features**.
  - Our data and analysis reveal that participation rates in plans with automatic enrollment are on average 86%. Currently 55% of those defined contribution (DC) plans that offer automatic enrollment have elected the safe harbor default deferral of three percent. An additional safe harbor with a higher minimum default rate, such as six percent and/or allowing an automatic annual increase up to a cap of 15% or higher, may result in more participants saving at higher rates sooner.

SIMPLIFICATION

- **Targeted changes to the SIMPLE 401(k) plan and SIMPLE IRAs** could make these plans more attractive to small businesses and help create a lower cost option for small businesses. Such changes could include removing the employee contribution limits, requiring enrollment for all full-time employees, removing testing requirements, and exchanging the employer match requirement with tax incentives for employer contributions.

ELECTRONIC DELIVERY

- **eDelivery should be the default means of communication.** The DoL should expand its current safe harbor to allow for electronic means as the standard form of delivery of all required and recurring participant communications and documents, including the use of the "notice and access" approach where participants, beneficiaries and other investors must be provided notice of, and access to, documents via a website or other platform. This approach should apply to both retirement and health and welfare plan communications.
  - Our data show that participants who receive electronic statements and notices are more likely to take actions than participants who receive paper statements and communications.

LOAN RESTRICTIONS

- **Restrictions on loans.** Repeated use of loans has deteriorated the long-term retirement effectiveness of DC plans. Restricting the ability of plan participants to withdraw funds and limiting the number of loans available would streamline plan administration and enhance benefit security. Loans could be limited to one per year.

QUALIFIED CHARITABLE DISTRIBUTIONS

- **Eliminating the requirement that qualified charitable distributions must be a direct transfer from the IRA custodian to the qualified charity** would simplify the provision and reduce burdens**.** Eliminating this requirement would:
    - be more equitable to taxpayers when the provision is extended retroactively, as it has been for the past few years;
    - simplify administration for both the financial institution and the individual; and
    - does not impact fraud and abuse since the taxpayer will direct the payments to the respective charities and the financial institutions will report the gross distributions to the IRS.

Thank you for the opportunity to submit our recommendations. If you have additional questions, please feel free to contact Shahira Knight [redacted] or Jessica Duhamel [redacted]