

**THE WOBBLY STOOL: RETIREMENT  
(IN)SECURITY IN AMERICA**

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**HEARING**  
OF THE  
**COMMITTEE ON HEALTH, EDUCATION,  
LABOR, AND PENSIONS**  
**UNITED STATES SENATE**  
**ONE HUNDRED ELEVENTH CONGRESS**  
**SECOND SESSION**  
ON  
**EXAMINING RETIREMENT SECURITY IN AMERICA**

—————  
OCTOBER 7, 2010  
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## **THE WOBBLY STOOL: RETIREMENT (IN)SECURITY IN AMERICA**

**THURSDAY, OCTOBER 7, 2010**

U.S. SENATE,  
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 10:08 a.m., in Room SD-430, Dirksen Senate Office Building, Hon. Tom Harkin, chairman of the committee, presiding.

Present: Senators Harkin and Sanders.

### **OPENING STATEMENT OF SENATOR HARKIN**

The CHAIRMAN. The Committee on Health, Education, Labor, and Pensions will please come to order.

I want to welcome everyone to this hearing on retirement security, what is happening to retirement in America today and in the future. This is an issue that is of critical importance to every American family.

A recent survey found that 92 percent of adults age 44 to 75 believe there is a retirement crisis in America. Are they right? Is there a retirement crisis? Let us consider the following statistics that we will hear more about here at this hearing today.

Over a quarter of workers do not have any meaningful retirement savings at all, none—one out of four. Nearly half of the oldest baby boomers who will turn 65 next year are at risk of not having sufficient retirement resources to pay for basic retirement expenditures—food, fuel, housing, clothing, that type of thing—and uninsured healthcare costs.

We learn from the testimony that we will hear from the Employee Benefit Research Institute that the gap between what people need for retirement and what they actually have is estimated to be \$6.6 trillion. I think those numbers make it perfectly clear that the system is failing many Americans and that the three-legged stool of retirement security—private pensions, personal savings, and Social Security—those three legs have gotten pretty wobbly.

It used to be that many workers could rely on a defined benefit pension. Those plans are the best way to ensure that workers have a secure retirement because they provide a predictable, guaranteed source of income that workers can count on for the duration of their lives.

But, unfortunately, the traditional defined benefit pension is endangered. The number of employers offering these plans has fallen drastically over the past three decades. Now less than 20 percent

of workers in the private sector have the security of a defined benefit pension.

The vast majority of employees with any retirement plan at all have a 401(k), but those plans do not provide real retirement security. They leave workers exposed to the constant risk that the plan's investments will perform poorly, and we only have to look at what has happened in the last few years. Billions of dollars of retirement savings have just evaporated. Lots of people getting close to retirement saw any chance they had of retiring vanishing overnight.

Unlike the traditional defined benefit pension plans, 401(k)s also do not necessarily provide workers with guaranteed lifetime incomes. That means that workers and their families are forced to bear the risk that they will outlive their retirement savings. Plus, in these troubled economic times, families are facing unprecedented challenges, and saving for retirement is just not an option for many people.

Wages have been stagnant for years. People are working harder and longer than ever before. They still cannot seem to meet the cost of basic everyday needs like education, transportation, and housing, let alone setting aside some money for their old age.

For many Americans the only retirement security, the only solid retirement security they have is Social Security. But that, too, is under siege. There are those who want to privatize the system, cut back benefits, raise the retirement age. They say that everyone should just work longer, that somehow retirement is a luxury. Clearly, these people do not swing a hammer for a living, or string high-power lines, or work in our cornfields or oil rigs, or lay bricks, and drive trucks.

For Americans who work in these physically demanding jobs, working longer simply is not an option. A lifetime of hard work takes its toll, and at some point, a person just can't do it anymore. And we will hear about that at our hearing this morning.

We are facing a future where no one other than the rich will have the opportunity for a safe and secure retirement. People that work hard for their entire lives will find themselves teetering on the brink of poverty, unable to pay the basic costs of living. That is going to have drastic consequences for families and our country as a whole.

It is time for our Nation to face the retirement crisis head-on. That is why, as the chairman of the Committee on Health, Education, Labor, and Pensions, I am going to make retirement security a priority.

Over the coming year, I plan to hold a series of hearings examining the crisis in retirement security from a number of different angles, and I look forward to working with my colleagues on comprehensive reforms to help workers save for retirement and ensure that they have a source of retirement income that they cannot outlive.

Fortunately, retirement issues have always been an area where we have been able to reach across the aisle and work together, and I hope that we can continue to do that. I thank you all for being here today to discuss this important issue.

I will yield to my good friend, who has been heavily involved in this from his days in the House to here in the Senate. And I am going to count on Senator Sanders to be one of our lead persons in our hearings going into next year to examine all the aspects of retirement security.

With that, I would yield to my good friend, Senator Sanders.

#### **STATEMENT OF SENATOR SANDERS**

Senator SANDERS. Thank you very much, Mr. Chairman.

And thank you for stepping up to the plate and getting involved in an issue that is of concern to tens and tens of millions of Americans, but an issue we do not discuss enough. I am glad that we are going to jump into some hearings on this issue.

I don't have to tell you, but all over this country there is a feeling of deep anxiety. Something is happening in our country, and people are not quite sure what it is. What they do know is that in this great country of ours, the middle class today is disappearing. People know that. They may not be Ph.D.s in economics, but they know that.

They are worried that their kids are going to have a lower standard of living than they are, despite all of the increases in productivity we have seen in recent years. They understand that our manufacturing base, which has supplied so many good jobs for working people, has been eviscerated in recent years.

They understand that median family income, just during the 8 years of the Bush administration, went down by over \$2,000. Millions of people left the middle class, went into poverty. They understand that we have the highest rate of childhood poverty in the industrialized world.

They also understand something else very profoundly, and that is while the middle class is collapsing and poverty is increasing, virtually all of the income, new income created in recent years has gone to the people on top. So that today we have the top 1 percent, top 1 percent, earning 23.5 percent of all income in America, top 1 percent earning more income than the bottom 50 percent, top 1 percent owning more wealth than the bottom 90 percent. And that disparity is growing wider, and it is the widest in the industrialized world.

And in the midst of all of that, as you have just indicated, there are now attacks, often from billionaire-type operators, Wall Street people, who are going after the one area where people have had security for the last 75 years.

The truth of the matter is that Social Security has been the most successful Federal program in our history during all economic times. Whether we were in prosperity or in severe recession, Social Security has paid out every nickel owed to every eligible American.

We take that for granted. But during the last Wall Street collapse, when people were losing their 401(k)s, people were losing their pensions, not one American did not receive 100 cents on the dollar of what he or she was owed in Social Security benefits. That is a pretty good record.

And while all of us must be concerned about the \$13.4 trillion national debt that we have and the very large Federal deficit, it is imperative that we be honest about the causes of that national

debt. I get a little bit tired of people saying, “Well, we have to privatize Social Security. We have to cut back on Social Security benefits. We have to raise the retirement age because we have a \$13 trillion national debt.”

Well, you know what? Social Security has not added one penny to the national debt—quite the contrary. You want to know why we have a national debt? We are fighting two wars, which we forgot to fund. We have given hundreds of billions of dollars in tax breaks to the top 1 percent—no one worried about that—Medicare Part D unfunded, bailout of Wall Street unfunded.

Social Security has a \$2.6 trillion surplus—hasn’t added a nickel to our national debt. So if there are people who, for ideological reasons, people who don’t like Government, people who want workers to invest in Wall Street for their retirement programs, that is fine. That is a good ideological position—not mine.

But let us get the facts right. And the facts are that Social Security is not responsible in any way for our deficit or our national debt. Let us also understand that, according to the CBO, Congressional Budget Office, Social Security can pay out every nickel owed to every eligible American for the next 29 years.

Now, we have a lot of problems in this country. We have 25 percent of our kids on food stamps. We have an infrastructure that is collapsing. We have two wars. We have a national debt, worried about healthcare. We have a lot of problems out there. But you know what? Social Security happens not to be one of the major ones.

Is it an issue that we should address so that our grandchildren and great-grandchildren will have the benefits they are entitled to? Yes. But for 29 years—29 years—every beneficiary in this country will get 100 cents on the dollar that they are owed. That is pretty good.

So let us address it. I have some ideas. I think you have some ideas. But let us not go forward either in privatization, let us not go forward in raising the retirement age to 70. As you have just indicated, a lot of these billionaire guys on Wall Street who think raising the retirement age to 70, they are not out laying bricks. They are not out plowing snow in Vermont at 3 a.m. They are not out lifting patients in a nursing home. They are not out doing the physical labor.

To ask American workers today to be working to the age of 68, 69, or 70 is reprehensible. It is not what this country is about. It is wrong. Not only is it wrong for those working people, force them to work to 70 before they get their benefits, you know what else it does? It tells the young people who want to get into the labor market, you can’t get in because we have older people doing the work. Meanwhile, unemployment for our young people is very, very high.

The reason that there is so much opposition to Social Security from some of these billionaire guys is because Social Security has worked. It has done exactly what it is supposed to do not only for the elderly, but for the disabled, for widows and orphans. And this Senator is not going to allow some Wall Street people, who have helped destroy this economy, move toward privatization or raising the retirement age.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Sanders.

We have two panels. On our first panel we have Phyllis Borzi, Assistant Secretary for the Employee Benefits Security Administration at the Department of Labor, which oversees private sector retirement and health plans that provide benefits to approximately 150 million Americans.

Previously, Ms. Borzi was a research professor in the Department of Health Policy at George Washington University and counsel with the Washington, DC, law firm of O'Donoghue & O'Donoghue, specializing in ERISA and other legal issues affecting employee benefit plans.

Ms. Borzi will give us a sense of the problems facing the U.S. retirement system and the department's regulatory initiatives aimed at improving retirement security.

Ms. Borzi, welcome back. You have been before us before. Welcome back. Your statement will be made part of the record in its entirety, and please proceed as you so desire.

**STATEMENT OF PHYLLIS C. BORZI, ASSISTANT SECRETARY OF LABOR, EMPLOYEE BENEFITS SECURITY ADMINISTRATION, WASHINGTON, DC**

Ms. BORZI. Thank you so much. Good morning Chairman Harkin, Senator Sanders. Thank you so much for inviting me to discuss this morning how the Department of Labor is working to ensure that Americans have a secure and safe retirement through their private retirement systems.

I am Phyllis Borzi, the Assistant Secretary of Labor for the Employee Benefits Security Administration.

As you know, EBSA is responsible for the administration, regulation, and enforcement of Title I of ERISA. We oversee about 708,000 private sector retirement plans, 2.6 million health plans, a similar number of other kinds of welfare benefit plans. And these plans provide benefits to approximately 150 million Americans and along, of course, with Social Security and individual savings provide workers and their families with income during their retirement.

As both Senator Sanders and Chairman Harkin said, many Americans are worried today that they may not have saved enough for a secure retirement. With fewer employers offering defined benefit plans and a dramatic increase in the offering of 401(k)-type plans, the risks of preparing and investing for retirement have shifted onto the shoulders of American workers.

In the Administration's 2011 budget and the department's regulatory agenda, initiatives are included to improve the transparency and adequacy of these 401(k)-type plans, which workers are relying on more and more. We are also working to preserve defined benefit plans, which provide workers with a steady stream of income in retirement.

One of the department's highest priorities has been to improve the transparency of 401(k) fees, to help workers and plan sponsors make sure they are getting the services at a fair price. Senator Harkin, in particular, I want to thank you for your long leadership in this area.

We are in the final stages of a rule that will ensure that workers have access to the information that they need to make informed investment decisions. For the first time, participants will receive core investment information in a format that enables them to easily compare fees and performance of their plan investment options.

We have also published an interim final rule that will help plan fiduciaries request and obtain the information they need about fees from service providers. This rule will help plan fiduciaries to assess the reasonableness of the fees they are paying for services, as well as whether potential conflicts of interest exist with respect to investment services.

We believe this rule will particularly benefit small- and medium-sized employers, who sometimes lack the staffing and the leverage to obtain this information from the service providers.

We are also taking steps to make sure that unbiased investment advice is more accessible to workers. Through unbiased investment advice, we can help workers avoid common investment mistakes, while also providing strong protections against recommendations about investments tainted by conflicts of interest.

But not only do we need to support Americans in saving for retirement, we also need to make sure that good options are available for them for managing their savings to last a lifetime. The department is exploring proposals that promote the availability of lifetime income streams for workers who want access to these products.

We also want to improve plan reporting reliability. The ERISA-required annual financial report and plan audits perform a critical function in ensuring that plan assets exist and are fairly valued, and that participant accounts properly reflect the benefits.

But, unfortunately, many of these annual reports that are filed contain substandard audit reports prepared by auditors with little or no benefit experience. The Department is seeking legislative correction to allow the Secretary to define standards for plan auditors, as well as to provide accountability for accountants and others responsible for the integrity of this annual financial report.

We also devote significant enforcement resources to protect workers' employee benefit plans. For fiscal year 2009, our enforcement program achieved monetary results of \$1.3 billion and closed 287 criminal cases. EBSA's criminal investigations led to the indictment of 115 individuals and guilty pleas or convictions of 121 individuals.

Lastly, the department believes it is important that workers have access to information and education they need to make sound decisions for retirement. To that end, EBSA has established a dedicated Saving Matters Retirement Savings Education Campaign.

This campaign uses publications, online tools, videos, public service announcements, and outreach to provide information to workers and employers. The campaign helps workers understand the importance of saving, as well as their rights under ERISA. And most of the materials are available both in English and Spanish.

Together, these regulatory initiatives, education, and outreach will help provide the tools that workers need to retire with confidence.

So thank you again for this opportunity to testify at this important hearing. Private sector retirement plans, together with Social

Security and individual savings, are important components of assuring a dignified retirement. But more clearly needs to be done to strengthen the private sector retirement system.

Chairman Harkin, I know that your committee is starting this process of thinking about how these goals can best be met over the long term, and we will look forward to working with you and other members of the committee to achieve this goal.

Thank you so much.

[The prepared statement of Ms. Borzi follows:]

PREPARED STATEMENT OF PHYLLIS C. BORZI

INTRODUCTORY REMARKS

Good afternoon Chairman Harkin, Ranking Member Enzi, and members of the committee. Thank you for inviting me to discuss retirement security issues. I am Phyllis C. Borzi, the Assistant Secretary of Labor for the Employee Benefits Security Administration (EBSA). I am proud to represent the Department, EBSA, and its employees, who work to protect the security of retirement and other employee benefits for America's workers, retirees and their families and to support the growth of our private benefits system. Secretary Solis' overarching vision for the Department is to advance good jobs for everyone, and a good job, among other things, is one that provides a secure retirement. This Administration is committed to promoting opportunities and helping Americans to save for a secure retirement.

EBSA is responsible for the administration, regulation, and enforcement of Title I of the Employee Retirement Income Security Act of 1974 (ERISA) and oversees approximately 708,000 private sector retirement plans, approximately 2.6 million health plans, and a similar number of other welfare benefits plans that provide benefits to approximately 150 million Americans. These plans hold over \$5 trillion in assets.

BACKGROUND

The Department is committed to promoting policies that encourage retirement savings and protect employer-sponsored benefits. Many Americans are worried their retirement funds may not be sufficient, and young and old alike are concerned about their overall retirement security. Social Security was not meant to be the only source of retirement income and many Americans are not saving enough for a dignified retirement. In addition, many families have seen their individual retirement accounts (IRAs) and 401(k)-type plan accounts lose value during the recent economic downturn. Twenty-seven percent of workers report they have virtually no savings or investments (or less than \$1,000 in savings) and 54 percent of workers report the total value of their household saving is less than \$25,000.<sup>1</sup> Even those workers who have saved are likely to find their savings, whether through their employer plan or personal savings, to be inadequate.

While many workers are able to achieve a certain level of retirement security through their employer-sponsored pension plans, low- and middle-income workers often lack access to workplace plans. In 2009, 61 percent of private-sector workers had access to defined contribution plans and of these 70 percent participated; 21 percent of private-sector workers had access to defined benefit and of these, 93 percent participated.<sup>2</sup> In 2007, 54 percent of all households had a retirement account and their median account balance was \$45,000.<sup>3</sup>

Those workers who do have access to employer-sponsored defined contribution plans tend to save too little or do not participate in the plan at all. Further, with the trend away from sponsorship of defined benefit plans and a dramatic increase in the offering of 401(k)-type plans, a number of investment and other risks have also been shifted onto the shoulders of American workers. As a result, workers assume most of the risk for their retirement security, have limited access to a guaran-

<sup>1</sup> Source: Ruth Helman, Craig Copeland, & Jack VanDerhei, *The 2010 Retirement Confidence Survey: Confidence Stabilizing, But Preparations Continue to Erode*, Employee Benefit Research Institute, Issue Brief No. 340 (Mar. 2010), at [http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content\\_id=4488](http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=4488).

<sup>2</sup> Bureau of Labor Statistics, *National Compensation Survey*: March 2009.

<sup>3</sup> Source: Patrick Purcell, *Retirement Savings and Household Wealth in 2007*, Congressional Research Services (2009), Table 5. Household Retirement Account Balances by Age of Householder, on page 11, at [http://assets.opencrs.com/rpts/RL30922\\_20090408.pdf](http://assets.opencrs.com/rpts/RL30922_20090408.pdf).

teed benefit stream, and experience greater uncertainty about the adequacy of their account balance. These trends, combined with increasing life expectancies, significantly increase the need for policies that promote the employer-sponsored retirement system.

#### INITIATIVES TO IMPROVE RETIREMENT SECURITY

Many American workers rely on 401(k)-type plans to finance their retirements, making it critical that the 401(k) system be safe, transparent, and well-regulated. The Administration's fiscal year 2011 budget and the Department's regulatory agenda include a number of initiatives to improve the transparency and adequacy of 401(k) retirement savings plans. We need to work to make sure that workers have good options to save for retirement and the information that they need to make the best choices about their retirement savings. Specifically, the Budget states that the Department will undertake regulatory efforts to reduce barriers to annuitization of 401(k) plan assets; increase the transparency of pension fees; improve transparency of target date and other default retirement investments; and reduce conflicts of interest between pension advisers and fiduciaries.

##### *Improved Fee Disclosure*

The retirement security of workers can be seriously eroded by high fees and expenses.<sup>4</sup> One of the Department's highest priorities has been to improve the transparency of 401(k) fees to help workers and plan sponsors make sure they are getting investment, recordkeeping, and other services at a fair price. Improving fee transparency is not only important, it is critical in an environment where the plan administration and investment-related expenses are borne by the plans' participants and beneficiaries. On July 7, 2010, the Department submitted a final rule to OMB that would require the disclosure of certain plan and investment-related fee and expense information to participants and beneficiaries in participant-directed and individual account plans. This proposal is intended to ensure that participants and beneficiaries have access to basic plan and investment information they need to make informed decisions about the management of their individual accounts and the investment of their retirement savings.

On July 16, 2010, the Department published an interim final rule setting forth the standards applicable to ERISA § 408(b)(2) which provides relief from prohibited transaction rules for service contracts or arrangements between a plan and a party in interest as long as, among other things, the compensation is reasonable. The rule would require service providers to disclose to plan fiduciaries all fees, compensation, and conflicts of interest they have when a contract is signed. The guidance would allow plan fiduciaries and plan sponsors to make informed decisions regarding plan services, the cost of those services, and any potential conflicts of interest. The interim final rule will be effective for covered contracts and arrangements in place as of July 16, 2011.

##### *Investment Advice*

Many workers need help in managing their plan investments. By encouraging plan sponsors to make unbiased investment advice available to workers, we can help workers avoid common errors that undermine retirement security, while providing strong protections against conflicts of interest. On March 2, 2010, the Department published a proposed rule providing guidance on the Pension Protection Act exemption from ERISA's prohibited transaction provisions to allow plan fiduciaries to give investment advice to 401(k) plan participants in two ways: (1) through the use of a computer model certified as unbiased; or (2) through an adviser compensated on a level-fee basis (i.e. fees that do not vary based on investments selected by the participant.) We are currently reviewing and analyzing the resulting comments while crafting the final rule.

##### *Lifetime Income Options*

The Administration is interested in helping Americans manage their retirement savings to last a lifetime. The Department is exploring the steps to take, by regulation or otherwise, to enhance the retirement security of American workers by facilitating voluntary access to and utilization of products designed to assure a stream

<sup>4</sup>A difference of just 1 percentage point in fees (1.5 percent as compared with 0.5 percent) over 35 years dramatically affects overall returns. If a worker with a 401(k) account balance of \$25,000 averages a 7 percent return the worker will have \$227,000 at retirement with the lower fee and \$163,000 with the higher fee, assuming no further contributions. U.S. Department of Labor, Employee Benefits Security Administration, *A Look At 401(k) Plan Fees*, at [http://www.dol.gov/ebsa/publications/401k\\_employee.html](http://www.dol.gov/ebsa/publications/401k_employee.html).

of income. We are exploring proposals that promote the availability of forms of lifetime income for workers who want access to these products. These products transform savings into future income, reducing the risks that retirees will outlive their savings or that their living standards will be eroded by investment losses or inflation.

On February 2, 2010, the Department and the Treasury published a request for information (RFI) to start a discussion of the issues and solutions involving the offering and selection of lifetime income products. The RFI asked whether, and, if so, how, the Agencies could or should enhance, by regulation or otherwise, the retirement security of participants in employer-sponsored retirement plans and in individual retirement arrangements (IRAs) by facilitating access to, and use of, lifetime income or other arrangements designed to provide a lifetime stream of income through retirement. After receiving and analyzing over 700 comments in response to the RFI, on September 14 and 15, 2010, EBSA held jointly with the Treasury a hearing to elicit comments on a discrete set of issues. We are currently reviewing the testimony.

#### *Target Date Funds*

Target date funds automatically change their mix of investments to become more conservative as the fund's target date approaches. While this concept is straightforward, there can be significant differences among target date funds in how they invest and how they reallocate assets between equity and fixed-income investments. At the end of 2008, an estimated 75 percent of 401(k) plans offered target date funds as an investment option.<sup>5</sup> These plans offered target date funds to 72 percent of participants in section 401(k) plans. Among participants offered target date funds, 42 percent held at least some portion of their plan account in them at year-end 2008.

Target-date funds have been under increased scrutiny over the past couple of years for exposing investors and plan participants to the market downturn. Accordingly, these funds should be closely reviewed to help ensure that employers that offer them as part of 401(k) plans can better evaluate their suitability for their workforce and that workers have access to good choices in saving for retirement and receive clear disclosures about the risk of loss.

After holding a joint hearing with the Securities and Exchange Commission (SEC) to determine whether guidance was needed, on May 6, 2010, the Department and the SEC issued guidance entitled "Investor Bulletin: Target Date Funds." The guidance provides a simplified discussion of target date funds, including ways to evaluate target date funds. In addition, we are currently in the process of formulating plan fiduciary-oriented guidance on target date funds.

#### PROMOTING COMPLIANCE AND INTEGRITY

The Department's initiatives include proposals to promote compliance with ERISA and to protect plan participants and beneficiaries from suffering losses. Losses can occur when persons giving investment advice to plans are not held accountable and when there are lapses by accountants and others responsible for the integrity of the annual report, the Form 5500.

#### *Definition of Fiduciary*

The Department wants to help make sure that when plans are given advice that the information is reliable and provided with the interests of the plan participants and beneficiaries in mind. On July 8, 2010, the Department submitted a proposed rule to OMB that would amend the regulatory definition of the term "fiduciary" to more broadly define as employee benefit plan fiduciaries persons who render investment advice to plans for a fee. The revision would simplify and expand the circumstances when someone providing investment advice is accountable as a fiduciary under ERISA by focusing on the person's conduct in providing the advice to a plan or its participants and beneficiaries. The amendment would take into account practices of investment advisers and the expectations of plan officials and participants who receive investment advice.

#### *Reporting Reliability*

In light of the challenges facing retirement plan fiduciaries and investors, such as Ponzi schemes and hard-to-value assets, participants need protection from potential losses due to individuals responsible for the integrity of the annual report (Form 5500). ERISA requires that employee benefit plans file an annual report. Plans with

<sup>5</sup> See e.g., Jack VanDerhei et al., 401(k) Asset Allocation, Account Balances, and Loan Activity in 2008, Employee Benefit Research Institute Issue Brief No. 335 (Oct. 2009).

100 or more participants generally must engage an independent qualified public accountant (IQPA) to prepare an audit report in accordance with generally accepted auditing standards. In addition, certain insurance issuers, banks, and other organizations that provide benefits under the plans or hold plan assets and plan sponsors that maintain information must transmit information to the plan administrator.

These requirements were included in ERISA to help ensure the integrity of the annual report. The quality of the plan audit and the information provided by banks and insurers is critical to accomplishing this purpose.

Many of the annual reports filed contain substandard audit reports. This is in part because under ERISA, any State-licensed accountant may serve as an IQPA regardless of benefit plan expertise or training. It also occurs because accountants and others providing information are not held accountable. Under ERISA, enforcement of the filing requirements is limited to measures against the plan administrator, who often has no control over lapses by the auditor and other entities. The Department believes that the integrity of the annual report would be improved and congressional intent better served if the Secretary were permitted to set certain qualification standards for IQPAs who seek to audit employee benefit plans as well as provide accountability for accountants and others responsible for the integrity of the annual report. The Department would be happy to work with the committee on this technical proposal.

#### PRESERVING DEFINED BENEFIT PLANS

The Administration and the Department are currently looking at issues facing defined benefit plans and proposals to help these plans keep their commitments to workers and retirees. Defined benefit plans play a critical role in the retirement security of millions of Americans by providing workers the ability to have a secure and dignified retirement. In 2007, there were an estimated 49,000 defined benefit plans covering approximately 42.3 million participants and approximately 19.4 million active participants.<sup>6</sup> These plans held approximately \$2.65 trillion in assets and paid out approximately \$159 billion in benefits.<sup>7</sup>

Recent investment losses across all asset classes and low interest rates impacted the funding status of many defined benefit plans. The aggregate funding status of pension plans sponsored by S&P 1500 companies at year-end 2009 was 84 percent, increasing from 75 percent at year-end 2008.<sup>8</sup>

Some plans and employers wanted temporary help to improve their funding status and the Administration supported the short-term funding relief recently enacted. In May, I testified before this committee about problems facing a small number of multiemployer plans. Multiemployer plans, like single-employer defined benefit plans, provide workers and their families with a steady and reliable stream of income at retirement. They are unique in that they enable workers who switch employers frequently within the same industry to earn meaningful benefits under a defined benefit plan. Some multiemployer plans facing severe long-term financial problems may need more than just short-term funding relief. We are continuing to examine proposals to help these plans and the impact of the proposals on workers and retirees.

#### EBSA'S ENFORCEMENT PROGRAM

EBSA has devoted significant enforcement resources to protect workers' employee benefit plans. In carrying out its enforcement responsibilities, EBSA conducts civil and criminal investigations to determine whether the provisions of ERISA or other Federal laws related to employee benefit plans have been violated. EBSA also pursues voluntary compliance as a means to correct violations and restore losses to plans.

EBSA achieved \$1.36 billion in total monetary results for fiscal year 2009 and closed 287 criminal investigations. EBSA's criminal investigations led to the indictment of 115 individuals and guilty pleas or convictions of 121 individuals—including

<sup>6</sup>U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin Abstract of 2007 Form 5500 Annual Reports* (Mar. 2010), Table A6. Collective Bargaining Status of Pension Plans, Total Participants, and Assets by type of Plan 2007, on page 10, at <http://www.dol.gov/ebsa/PDF/2007pensionplanbulletin.PDF>.

<sup>7</sup>U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin Abstract of 2007 Form 5500 Annual Reports* (Mar. 2010), Table A4. Income Statement of Pension Plans by type of Plan, 2007, on page 8, at <http://www.dol.gov/ebsa/PDF/2007pensionplanbulletin.PDF>.

<sup>8</sup>Mercer, *Funded status of pension plans remains stable* (March 8, 2010), at [http://www.mercer.com/summary.htm;jsessionid=M1mqs9FChrKTEWGZL73HWg\\*.merc04?idContent=1374775](http://www.mercer.com/summary.htm;jsessionid=M1mqs9FChrKTEWGZL73HWg*.merc04?idContent=1374775).

plan officials, corporate officers, and service providers—for offenses related to employee benefit plans.

#### EDUCATION AND OUTREACH

The Department believes it is important to educate participants about saving for a secure retirement and has a dedicated education campaign that uses publications, online tools, videos, public service announcements, and outreach as methods to provide the information to both workers and employers. The Department's Saving Matters Retirement Savings Education Campaign helps workers to understand the importance of saving for retirement as well as their rights under ERISA. A workplace retirement plan is one of the easiest ways for workers to save so our campaign highlights the advantages of saving and how defined benefit and defined contribution plans work. The Campaign includes a focus on women, minorities and small businesses.

While the Saving Matters Campaign reaches workers of all ages to help them see how they can save for a secure retirement among all of life's other expenses, the Campaign focuses on two particular critical life stages. One focus is on new entrants to the workforce. We know that retirement is far off for them—so we educate them how time is on their side—starting small can lead to big things at retirement. The other focus is participants nearing retirement. Our educational materials and outreach highlight the importance of not only saving but having a strategy for ensuring that retirement savings last throughout a potentially long retirement. In particular, our publication, "Taking the Mystery Out of Retirement Planning," addresses not only saving for retirement, but also includes a discussion of the decumulation phase and how to make savings last. The online version of this publication includes interactive worksheets to assist with the calculations on savings, expenses, determining any gap in saving for a secure retirement. In this way, participants can take steps while there is time before they retire.

As part of all of the Campaign's efforts, we focus on the issues that women face in saving for retirement to create awareness and information on how to save and their rights under the law that can impact their retirement security. We have also developed materials to help the Latino community understand the importance of saving for retirement. We have culturally and linguistically relevant versions of the Campaign's two major publications, "Savings Fitness" and "Taking the Mystery Out of Retirement Planning," and have the other publications available in Spanish as well.

Our Campaign assists small businesses through two efforts—"Choosing a Retirement Solution for Your Small Business" and "Getting It Right . . . Know Your Fiduciary Responsibilities." The Choosing campaign helps small businesses that do not have a retirement plan understand the many options available, determine which options might be appropriate for them, and provides more detailed information on how to establish and operate the various plan options. The Getting It Right campaign helps small businesses who have a retirement plan understand the basics of ERISA.

The Saving Matters Campaign works with many partners both to reach our target audiences as well as to provide additional expertise to provide comprehensive information to assist workers and small businesses. We continue to keep our information current, using new ways to reach our audiences and working with partners to provide comprehensive information.

Together, the Department's regulatory initiatives combined with its education and outreach will help improve the quality of the information workers and employers receive about retirement plans and savings. In particular, they will help to provide the tools that workers in retirement plans need to save and retire with confidence.

#### CONCLUSION

Thank you for the opportunity to testify at this important hearing. Private sector retirement plans, together with Social Security and individual savings, are important components of assuring a dignified retirement. More needs to be done to strengthen the retirement system and help Americans achieve a secure retirement. The Department remains committed to protecting the security and growth of retirement benefits for America's workers, retirees, and their families.

The CHAIRMAN. Ms. Borzi, thank you very much for your leadership on this issue, and the Department of Labor's under Secretary Solis. I know you are looking at this, and I know you are working on the rule.

I want to cover two things with you. First of all, on the transparency issue, 401(k) fee disclosures has been a top priority for me. I know it has been for Chairman Miller on the House side. And Senator Sanders has been long time involved in making sure people know exactly what they are getting into on the fees.

But you have pointed out in your written testimony, as a footnote, just what the differences can be in small percentage changes in the fees. I will read what you have here. "A difference of just 1 percentage point, 1.5 percent, as compared to 0.5 percent."

Now, the average person, you say, 0.5, 1.5, no big deal—especially if the 1.5 may have a couple of nice little ornaments on it, you know? "Oh, that looks good. I will take that because that is not that big of a difference."

However, 1.5 percent compared to 0.5 percent over 35 years dramatically affects overall returns. If a worker with a 401(k) account balance of \$25,000 averages a 7 percent return, the worker will have \$227,000 at retirement with the lower fee, \$163,000 with the higher fee—assuming no other contribution, everything else remains static.

Now I hope and trust that we are soon going to have mandatory regulations and rules that say that any fee has to disclose this up front, so that a person will know, whatever plan they pick, how it compares to the other plans.

Ms. BORZI. Absolutely. The participant disclosure regulation that I alluded to in my testimony, which will be out very shortly, is in the form of a chart. So participants can look along the line and compare every single one of their investment options that are offered to them on fees and expenses.

You are absolutely right, Mr. Chairman. Most people don't understand the impact that fees have on their returns. You know, they look at a return and they say, "Hey, that is pretty good." And they don't understand that the return can be dramatically reduced once the fees are subtracted.

In a defined benefit plan, the fees are paid by the employers. But in a defined contribution plan, in a 401(k) plan, they are passed through to individuals. And it makes a dramatic difference in their bottom line.

The CHAIRMAN. The other thing I wanted to cover with you is I have become more aware over the last couple of years—especially in the downturn in the economy—how many people are borrowing on their 401(k)s. And the more I have looked into it, they are depleting them. They are taking the loans or withdrawals.

Do you have any sense of how many people are borrowing? And then, as I say, they borrow, and if they don't pay it back within a certain period of time, they get penalized.

It seems to me, this is growing. This is a growing concern. But I don't have a handle on exactly how many people are borrowing and not paying their loans back.

Ms. BORZI. Yes, I don't know those numbers off the top of my head, Mr. Chairman, but we will be happy to look into them and try to get you the numbers. I share your concern.

I worked on the House side as a congressional staffer for 16 years. And when this provision that allowed loans from 401(k) plans was being considered, certainly the members of the Ed and

Labor Committee that I worked for were very, very concerned about it.

But the provision was put in because the argument on the other side is people wouldn't save in a 401(k) plan unless they knew that they had access to the money. But that really illustrates the difficulty we have with 401(k) plans. They are not really structured to be retirement plans.

Senator Sanders, you alluded to that. They are savings plans. And that is a good function. We need to have people save. But people can get their money prior to retirement. And all that does is reduce their ultimate retirement security.

So I will be happy to try to get those numbers for you, Mr. Chairman.

The CHAIRMAN. And human nature being what it is, I mean, if you have health expenses or something happens to your family, a downturn in the economy, you lose your job, "Yes, I will borrow the money now." And if you do that, you get penalized.

I don't know exactly what the penalties are if they don't pay it back in time. We need to get a better handle on how much this is and how big it is growing.

Ms. BORZI. We will try and get those numbers for you, Mr. Chairman.

The CHAIRMAN. I appreciate that. Thanks, Ms. Borzi.

Senator Sanders.

Senator SANDERS. Thank you very much, Mr. Chairman.

And thank you very much, Ms. Borzi, for your testimony.

Ms. BORZI. You are welcome.

Senator SANDERS. Ms. Borzi, you, in your statement, say,

"Twenty-seven percent of workers report that they have virtually no savings or investments or less than \$1,000 in savings, and 54 percent of workers report the total value of their household saving is less than \$25,000."

That is what you say.

I want you to speculate with me for a moment. If we were to raise the retirement age in Social Security to 70, and you were living in an economic period right now, and you had somebody who was out building roads in the State of Vermont or—that is his job, he is a construction worker—what happens? First of all, how many employers are going to hire a 68-year-old construction worker, as opposed to a 25-year-old construction worker?

And second of all, if that construction worker or if that nurse or anyone else who is 68 or 69 years of age waiting for Social Security is unable to get Social Security, what happens to that person who has virtually no savings right now, is 68, 69, has a number of health problems, and can't get Social Security? How are they going to survive?

Ms. BORZI. I wish I could give you a good answer. I know that there are many, many hundreds of thousands, if not millions, of Americans that are exactly in the situation that you are positing.

The question about older workers in the workforce is one of the issues that I did work on when I was in the private sector because age discrimination issues were one of the sets of issues that I worked on. And it is very difficult. It is extremely difficult for older workers.

It is not just the 68-year-old worker. It is people like one of my brothers, who is in his early 50s and can't get a job.

Senator SANDERS. I absolutely agree with you. But the idea that there are people out there—the leader of the Republican Party in the House of Representatives and many others who are suggesting no problem. Hey, 67, 68, go out, you know, go out and work on construction. Be a carpenter. What world are they living in? What world?

And then, if this person has no income coming in from Social Security, what happens to that person? You know, it is an idea that I guess it is OK for Wall Street billionaires to come up with, but it is not the real world, and it is something that must be opposed.

I want to ask you another question. Pete Peterson, who made billions of dollars on Wall Street, has pledged to spend a billion dollars on a campaign to cut Social Security and Medicare, according to Forbes magazine. Among other things, Mr. Peterson funded a movie entitled “I.O.U.S.A.,” claiming that there is not a surplus in the Social Security Trust Fund, and it just contains a bunch of worthless IOUs.

Just worthless IOUs. What do you think?

Ms. BORZI. Senator, it is what I say to the children of my friends who tell me that Social Security won't be there for them. And what I say is the one thing I know—and it doesn't have anything to do with the fact that I work for the Obama administration or I formerly worked for the Congress—the one thing I know and believe in my heart is that Social Security will always be there for people. And our task is to make sure that over the long run it remains there for everyone.

Senator SANDERS. And isn't it true that these IOUs are backed up by the faith and credit of the U.S. Government?

Ms. BORZI. That is true.

Senator SANDERS. And that if the U.S. Government doesn't maintain that faith and credit, Social Security were the least of the problems that we have to worry about because we will be looking at an international financial collapse?

Ms. BORZI. I think that is absolutely correct.

Senator SANDERS. All right. Now I am going to ask you a hard question. I know what your answer is going to be, but it is going to be a hard question.

On April 16, 2008, a gentleman running for President of the United States—I won't give you his name—he said, “What I have proposed is that we raise the cap on the payroll tax because, right now, millionaires and billionaires don't have to pay beyond”—what was then \$97,000 a year. Today, it is \$106,000 a year.

That same gentleman, whose name will not be mentioned, but who did win the election—

[Laughter.]

Senator SANDERS [continuing]. In 2008 continued,

“Now, most firefighters and teachers, they are not making over \$100,000 a year. In fact, only 6 percent of the population does. And I have also said that I would be willing to look at exempting people who are making slightly above that. The alternatives, like raising the retirement age or cutting benefits

or raising the payroll tax on everybody, including people making less than \$97,000 a year, those are not good policy options.”

And it really was Barack Obama who said that, in case you didn't know that. What do you think?

Ms. BORZI. This is a hard question.

Senator SANDERS. I know. In other words, what the President said to me when he was campaigning makes eminent sense, is, in fact, while Social Security is not in crisis right now and can pay out every nickel owed for the next 29 years, we want to make it stronger, even in years beyond that. What the President proposed during his campaign is to get rid of the cap, maybe start higher than \$106,000. I think that makes sense. Do you want to comment on that?

Ms. BORZI. The only thing I can say is that if I were to comment, it would be well beyond my area of expertise. But I do think that over the years, as a citizen taxpayer myself, I know over the years a lot of ideas have been floated. And it seems to me that we ought to examine that one very carefully.

Senator SANDERS. Good. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. I can't help but remark on that. We often talk about the middle class in America. And I think we got a little confused as to who is the middle class in America.

At \$250,000 a year income, that is the top 2 percent income earners in America; 98 percent of the American people make less than \$250,000 a year. At \$150,000, that is 5 percent. In other words, 95 percent of the American people who are out there working make less than \$150,000 a year.

I think we have forgotten the people in the middle class are those that are making \$35,000, \$40,000, \$45,000, \$50,000, \$60,000, \$65,000. That is the bulk of where Americans are today, and we forget about that.

And they are rightfully concerned about a lot of things, but I think the fairness—about what Senator Sanders just said, the fairness of this, if you are an American making \$40,000 a year, you pay on Social Security, on your payroll tax, on every dollar you make. If you are a person making \$400,000 a year, you only pay on Social Security on 25 percent of what you make. One-fourth. Where is the fairness in that?

So I can understand that the middle class in America is upset. I don't mean the people making \$150,000 a year. I mean the people making \$40,000, \$50,000, \$60,000, \$35,000 a year. I can see why they are upset.

I didn't mean to get into that, but you brought it up. So there you go. It is just grossly unfair.

But I have one other issue I just want to cover very briefly.

Ms. BORZI. Sure.

The CHAIRMAN. As you know, the amount of money in IRAs dwarfs the amount of money in the 401(k) accounts because people frequently roll over their 401(k)s into an IRA when they leave a job or transfer. But we know that is not always the best decision, and I am concerned that some employers may be trying to cut costs by forcing people to do a rollover, or in some cases, services providers may be trying to earn a higher fee by encouraging rollovers.

Is the department looking at rollovers and, in particular, the communications to workers from employers and service providers regarding rollovers?

Ms. BORZI. Mr. Chairman, we are looking at it. We have a legal problem, though, in that once the money is rolled out of the ERISA-covered plan, it is not quite clear to me how we can reach the money in the IRAs. But we certainly can look at all of the behavior around the rollover decision, the information people are given, making sure that it is accurate, making sure that there aren't conflicts of interest associated with it. And so, we are looking into this, yes.

The CHAIRMAN. Do you plan to take steps to implement the IG's recommendations, the inspector general's recommendations?

Ms. BORZI. I am sure we will be doing whatever we can to meet what the IG has suggested.

The CHAIRMAN. Again—disclosing any possible conflicts—and that kind of thing.

Ms. BORZI. Exactly. Exactly. This question of disclosure is really important.

The CHAIRMAN. I really want to work with you and the department on this whole issue of the rollovers into IRAs and how they are being promoted and the fees that are being taken and how people are being enticed to do that. That is one area.

The other area is the whole area of borrowing. It seems to be growing, maybe even exponentially, on this. I don't know. But we need some good data on that. And how many people are defaulting on these loans, unable to pay them back?

Ms. BORZI. We will get you whatever data we have, Mr. Chairman.

The CHAIRMAN. I appreciate that very much.

Senator Sanders did you have any follow-up questions at all?

Senator SANDERS. Just very briefly. You said something that I have to comment on. We can go on all day here, but just very briefly.

As you know, Ms. Borzi, Social Security not only covers the elderly, but it also is a very important part of the lives of people in our country with disabilities.

Ms. BORZI. Absolutely.

Senator SANDERS. What happens to the 8 million people currently receiving Social Security who have disabilities and the 4.5 million widows and widowers and 4.3 million kids who are receiving Social Security if we make cuts in Social Security?

In other words, my point is, there are a lot of—as Senator Harkin has said so aptly, people are hurting all over this country. And it is so easy for people up here, you know, who have a whole lot of money or who take campaign contributions from millionaires and billionaires, “Oh, we have got to cut these programs.”

What happens if you are a widow trying to raise two kids and your sole income is Social Security? What happens to you when you cut that?

Ms. BORZI. We need to protect those people.

Senator SANDERS. We sure do. Thank you very much, Ms. Borzi.

Ms. BORZI. Thank you.

The CHAIRMAN. Thank you, Ms. Borzi. We look forward to the information that I have requested. Thank you.

We will now move to panel two. In panel two, we have three witnesses.

The first will be Dr. Jack VanDerhei. He is the research director at the Employee Benefit Research Institute. Dr. VanDerhei has more than 100 publications devoted to employee benefits and insurance. His major areas of research focus on the financial aspects of private defined benefit and defined contribution retirement plans. Dr. VanDerhei will give us some statistics regarding participation in savings.

Then we have Mr. Ross Eisenbrey, vice president of the Economic Policy Institute. Prior to joining the Economic Policy Institute, Mr. Eisenbrey worked as a staff attorney and legislative director in the U.S. House of Representatives, a committee counsel in the U.S. Senate, and as policy director of the Occupational Safety and Health Administration.

Mr. Eisenbrey will talk about how the system is failing many workers and the importance, again, of Social Security.

Finally, we will hear from Shareen Miller, a homecare worker from Falls Church, VA, who will give us a firsthand account of the challenges workers face in trying to prepare for retirement.

For all of you, your written statements will be made a part of the record in their entirety. And I would ask if you could just sum it up in—the clock says 5 minutes, but 5, 6, 7 minutes. I won't get too excited, but once it starts going over 7, I will start getting a little nervous. But somewhere in that range, if you could sum it up so we could get into a nice exchange here, I would appreciate it.

Dr. VanDerhei, I have read your testimony, extremely interesting and insightful, but please proceed.

**STATEMENT OF JACK VANDERHEI, Ph.D., RESEARCH DIRECTOR, EMPLOYEE BENEFIT RESEARCH INSTITUTE, WASHINGTON, DC**

Mr. VANDERHEI. Thank you.

Good morning, Chairman Harkin and Senator Sanders. I am Jack VanDerhei, a research director of the Employee Benefit Research Institute. EBRI is a nonpartisan institute that has been conducting original research on retirement and health benefits for the past 32 years. EBRI does not take policy positions and does not lobby.

Today's testimony will deal with the following four topics—first, sponsorship and participation in employment-based retirement plans; secondly, the national and individual retirement adequacy deficits; third, the importance of Social Security; and, fourth, Americans' retirement confidence.

First, a quick look at the numbers will tell you where the Nation is today when it comes to Americans' participation in retirement plans. Among all of the 154 million Americans who worked in 2009, almost half—just over 49 percent—worked for an employer or a union that sponsored a pension or retirement plan, and almost 40 percent participated in a plan. For full-time, full-year wage and salaried workers between 21 and 64, 54 percent of these workers participated in a retirement plan.

Obviously, the likelihood of a worker participating in employment-based retirement plans goes up sharply with employer size. For workers at employers with fewer than 10 employees, less than 14 percent participated in a plan, compared with 53 percent of those working for an employer with 1,000 or more employees.

Now, looking at the more than 78 million workers who did not work for employers sponsoring a plan in 2009, about 12 percent were self-employed. Of the remaining 69 million workers who are not offered retirement benefits, almost 10 percent were under the age of 21, and about 5 percent were age 65 or older. Almost half, 48 percent, were not full-time, full-year workers; 27 percent had annual earnings of less than \$10,000; and more than half, 57 percent, worked for employers with less than 100 employees.

What these numbers show is the structural reasons why many Americans do not have employment-based retirement benefits. They don't work full-time, they work at small firms, or they are very low income.

Measuring retirement income adequacy is an extremely important, complex topic, and EBRI started to provide this type of measurement in the late 1990s. When we modeled the baby boomers and Gen Xers in 2010, as you mentioned earlier, between 44 percent and 47 percent of the households were projected to be at risk of not having adequate retirement income for basic retirement expenses, plus uninsured healthcare costs. Even though this number is quite large, the good news is that that is 11 to 12 percentage points lower than what we found in 2003.

Who is most at risk? Figure 1 in my oral testimony shows, not surprisingly, lower income households are much more likely to be at risk for insufficient retirement income. The 2010 baseline at-risk ratings range from 76 percent for the lowest-income households to only 20 percent of the highest income households.

Figure 2 in my oral testimony shows the average retirement income deficits by age, family status, and gender for baby boomers and Gen Xers. The average individual deficit with current Social Security retirement benefits is estimated to be approximately \$48,000 per individual. If you were to eliminate Social Security benefits, that would increase to approximately \$89,000. In aggregate terms, that would be an increase from \$4.6 trillion to \$8.5 trillion.

The importance of Social Security retirement benefits for low-income workers, as shown in Figure 1 in my testimony, 91 percent of the lowest-income households would be at risk of inadequate retirement income if they had no Social Security retirement benefits. And that is compared to 76 percent with the current Social Security benefits.

Perhaps surprisingly, the other three higher-income quartiles also benefit from Social Security to the extent that 24 percent to 26 percent of households in those groups are saved from at-risk status because of Social Security retirement benefits.

Not surprisingly, these trends have been clearly reflected in our annual Retirement Confidence Study for the last 20 years. Only 16 percent of workers in the 2010 RCS say they are very confident they will have enough money to live comfortably through their retirement years.

Moreover, those who say they are saving has not grown. The percentage of workers who reported they and/or their spouse had saved for retirement now stands at 69 percent.

In addition to the lack of improvement in percentage savings, the percentage of workers who have virtually no money in savings and investments has increased over the past year. As you have already mentioned, among RCS workers providing this type of information, 54 percent report that the total value of their household savings and investments, excluding the value of the primary home and any defined benefit plans, is less than \$25,000.

The propensity to guess or to do their own calculation may help to explain why the amounts that workers say they need to accumulate for a comfortable retirement appears to be rather low. Twenty-nine percent of workers say they need to save less than \$250,000 for a comfortable retirement. Another 17 mention a goal of between \$250,000 and \$500,000.

Thank you for the opportunity to testify today. And I welcome the opportunity to work with the committee in the future.

[The prepared statement of Mr. VanDerhei follows:]

PREPARED STATEMENT OF JACK VANDERHEI, PH.D. AND CRAIG COPELAND

RETIREMENT INCOME ADEQUACY AND THE RELIANCE ON EMPLOYMENT-BASED  
RETIREMENT PLANS AND SOCIAL SECURITY

(By Jack VanDerhei, Ph.D.)

#### SUMMARY

Mr. Chairman and members of the committee, I am Jack VanDerhei, research director of the Employee Benefit Research Institute. EBRI is a nonpartisan institute that has been conducting original research on retirement and health benefits for the past 32 years. EBRI does not take policy positions and does not lobby.

Today's testimony will deal with the following topics:

- Sponsorship and participation in employment-based retirement plans.
- The national and individual retirement adequacy deficits.
- The importance of Social Security.
- Americans' retirement confidence.

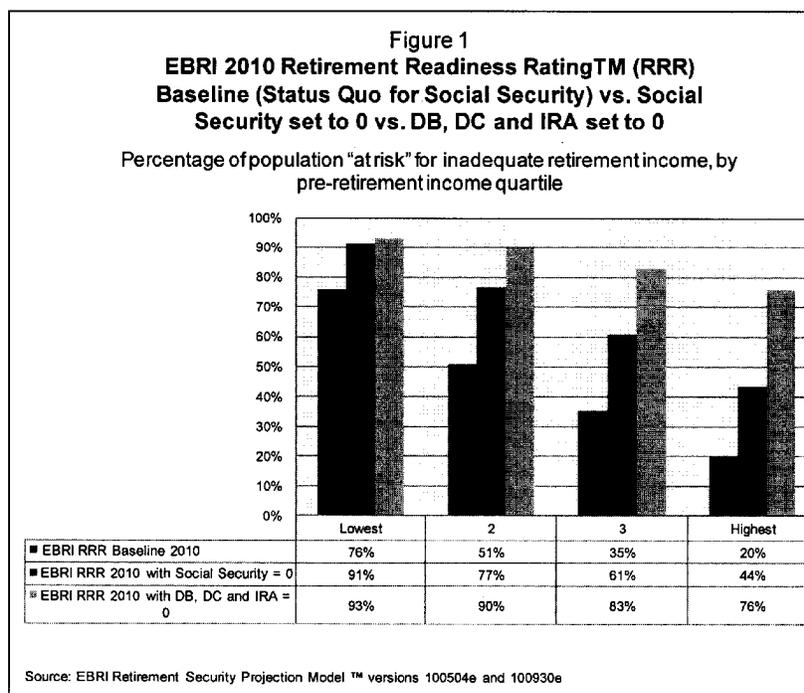
#### 2009 SPONSORSHIP AND PARTICIPATION LEVELS

First, a quick look at the numbers will tell you where the Nation is today when it comes to Americans' participation in a retirement plan. Among all of the 154 million Americans who worked in 2009, almost half—just over 49 percent—worked for an employer or union that *sponsored* a pension or retirement plan, and almost 40 percent *participated* in a plan. For *full-time, full-year wage and salary workers* ages 21–64—those most likely to be offered retirement benefits—54 percent of these workers participated in a retirement plan.

The likelihood of a worker participating in an employment-based retirement plan goes up sharply with employer size. For workers at employers with fewer than 10 employees, less than 14 percent participated in a plan, compared with 53 percent of those working for an employer with 1,000 or more employees.

Now looking at the more than 78 million workers who did NOT work for an employer sponsoring a plan in 2009, about 12 percent were self-employed. Of the remaining 69 million workers who were not offered retirement benefits, almost 10 percent were under the age of 21, and about 5 percent were age 65 or older. Almost half—48 percent—were not full-time, full-year workers, 27 percent had annual earnings of less than \$10,000, and more than half—57 percent—worked for employers with less than 100 employees.

What these numbers show is the structural reasons why many Americans do not have employment-based retirement benefits: They don't work full-time, they work at small firms, they are very low-income.



#### RETIREMENT ADEQUACY DEFICITS

Measuring retirement income adequacy is an extremely important and complex topic, and EBRI started to provide this type of measurement in the late 1990s. When we modeled the Baby Boomers and Gen Xers in 2010, between 44–47 percent of the households were projected to be at risk of not having adequate retirement income for BASIC retirement expenses—housing, food, etc.—plus uninsured health care costs. Even though this number is quite large, the good news is that this is 11–12 percentage points LOWER than what we found in 2003.

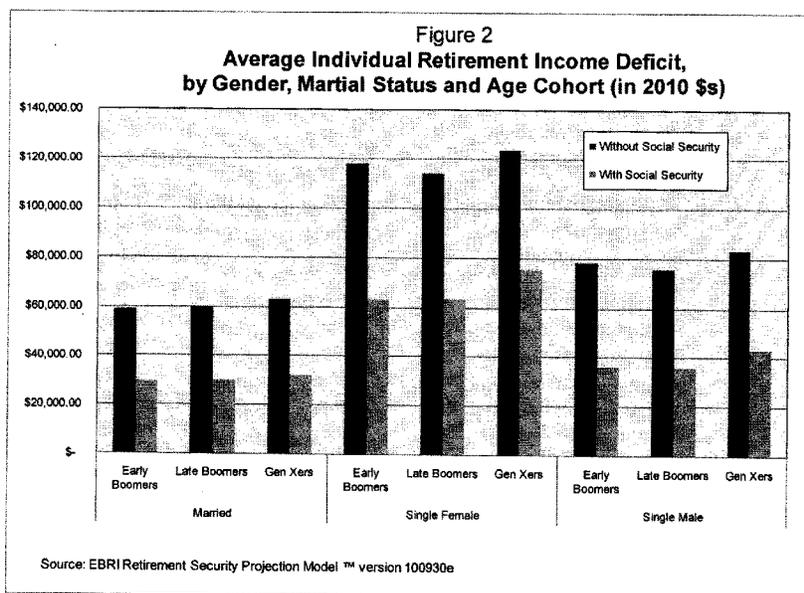
Who is most at risk? Figure 1 shows that, not surprisingly, lower income households are MUCH more likely to be at risk for insufficient retirement income: The 2010 baseline at-risk ratings (the left-most column) range from 76 percent for the lowest-income households, compared with only 20 percent of the highest income households.

But even more significant is **when** many workers, especially low-income workers, will run "short" of money: Our research finds that 41 percent of early Baby Boomers in the lowest-income quartile will run short of money *within just 10 years of retirement*.

In preparation for this hearing, EBRI has used our modeling capabilities to calculate the accumulated retirement adequacy deficits. Figure 2 shows the average retirement income deficits by age, family status, and gender for Baby Boomers and Gen Xers. These numbers are present values at retirement age and represent the additional amount each member in that group would need at age 65 to eliminate their expected deficits in retirement (which could be a relatively short period or could last decades).

The aggregate deficit number with the current Social Security retirement benefits is estimated to be \$4.6 trillion with an individual average of approximately \$48,000. If Social Security benefits were to be eliminated, the aggregate deficit would jump to \$8.5 trillion and the average would increase to approximately \$89,000.

These numbers show that the national retirement income deficit is quite large—and it would be almost twice as large without current-level Social Security benefits.



#### IMPORTANCE OF SOCIAL SECURITY

In addition to employment-based retirement plans, Social Security is an extremely important component of retirement income, and hence retirement income adequacy. The importance of Social Security retirement benefits for low-income workers is shown in Figure 1: 91 percent of the lowest income households would be at risk of inadequate retirement income if they had no Social Security retirement benefits, compared with 76 percent at risk with current Social Security benefits.

The other three higher income quartiles also benefit from Social Security: Comparing the at-risk percentages with and without Social Security retirement benefits, 24–26 percent of households in the other three higher income groups are saved from at-risk status by Social Security.

Also, Figure 1, focusing on the third set of columns for each income group, shows just how important the employment-based retirement system is: If you eliminated the expected retirement income generated by defined benefit pensions, defined contribution plans, and IRAs, the at-risk percentages would be even larger than that without Social Security benefits.<sup>1</sup>

#### RETIREMENT CONFIDENCE

Not surprisingly, these trends have clearly been reflected in the annual EBRI/MGA Retirement Confidence Survey, which has measured Americans' confidence in their ability to retire for 20 years. Sixteen percent of workers in the 2010 RCS say they are very confident they will have enough money to live comfortably throughout their retirement years. Forty-six percent are *not too* or *not at all* confident they will have enough money to live comfortably. While these rates have fluctuated, they hit their lowest levels we have ever recorded in 2009.

Again, full details are on our Web site, but many of the findings are grim: Those who say they are saving has not grown. The percentage of workers who reported they and/or their spouse had saved for retirement increased briefly in 2009 (75 percent), it now stands at 69 percent. While the percentage of workers having saved for retirement increased from 1995–2000, it declined significantly in 2001 and has hovered around 70 percent throughout most of the 2000s.

In addition to the lack of improvement in the percentage saving, the percentage of workers who have virtually no money in savings and investments has increased over the past year. Among RCS workers providing this type of information, 54 percent report that the total value of their household's savings and investments, ex-

cluding the value of their primary home and any defined benefit plans, is less than \$25,000. Moreover, 27 percent say they have less than \$1,000 in savings (up from 20 percent in 2009).<sup>2</sup>

The propensity to guess or do their own calculation may help to explain why the amounts that workers say they need to accumulate for a comfortable retirement appear to be rather low. Twenty-nine percent of workers say they need to save less than \$250,000, and another 17 percent mention a goal of \$250,000–\$499,999. Twenty-four percent think they need to save \$500,000–\$999,999, while about 1 in 10 each believe they need to save \$1 million–\$1.49 million (8 percent) or \$1.5 million or more (9 percent). However, savings goals tend to increase as household income rises.

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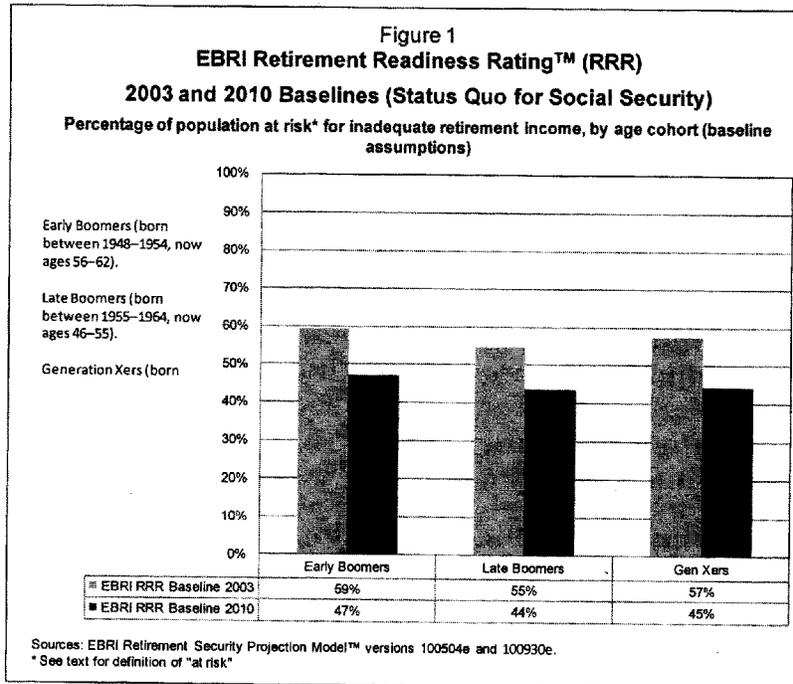
Mr. Chairman and members of the committee, thank you for your invitation to testify today on retirement security in America. I am Jack VanDerhei, research director of the Employee Benefit Research Institute. Craig Copeland, a senior research associate at EBRI co-authored the written testimony and is with me today.

EBRI is a nonpartisan research institute that has been focusing on retirement and health benefits for the past 32 years. EBRI does not take policy positions and does not lobby.

RETIREMENT INCOME ADEQUACY AND THE RELIANCE ON EMPLOYMENT-BASED  
RETIREMENT PLANS AND SOCIAL SECURITY

The concept of measuring retirement security—or retirement income adequacy—is an extremely important topic. EBRI started a major project to provide this type of measurement in the late 1990s for several States that were concerned whether their residents would have sufficient income when they reached retirement age. After conducting studies for Oregon, Kansas and Massachusetts, we expanded the simulation model to a full-blown national model in 2003 and earlier this year updated it to several significant changes including the impact of defined benefit plan freezes, automatic enrollment provisions for 401(k) plans and the recent crises in the financial and housing markets.<sup>3</sup>

If I could direct your attention to Figure 1, you will see that when we modeled the Baby Boomers and Gen Xers in 2010 that between 44–47 percent of the households were projected to have inadequate retirement income for even BASIC retirement expenses plus uninsured health care costs. Even though this number is quite large, the good news is that this is 11–12 percentage points LOWER than what we found in 2003.



The improvement over the last 7 years is largely due to the fact that in 2003 very few 401(k) sponsors used automatic enrollment (AE) provisions and the participation rates among the low-income employees (those most likely to be at risk) was quite low. With the adoption of AE in the past few years, these percentages have often increased to the high 80s or low 90s.

Although there do not appear to be any major trends by age, if I could direct your attention to Figure 2 you will see that, as I mentioned previously, the lower income households are MUCH more likely to be at risk for insufficient retirement income (even though we model our basic retirement expenses as a function of the household's expected retirement income). The 2010 baseline ratings (the left most column) ranges from 76 percent of the lowest income households at risk to only 20 percent for the highest income household.

While the lack of retirement income adequacy of the lowest income households should be of great concern, even more alarming is the rate at which they will run "short" of money. As documented in VanDerhei and Copeland (July 2010), 41 percent of early boomers in the lowest income quartile will run short of money *within 10 years*.

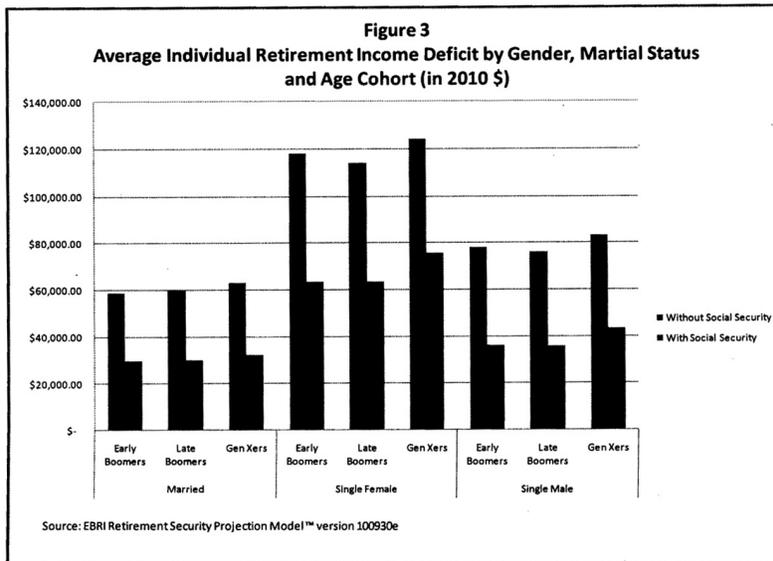
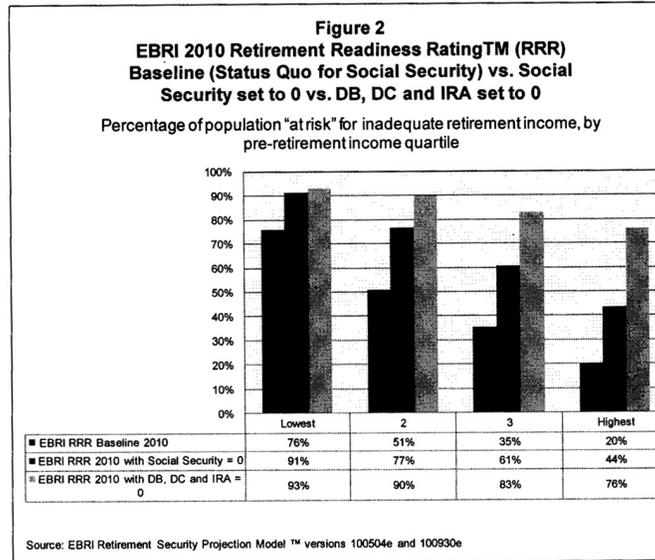
The importance of Social Security retirement benefits can be seen by comparing the second set of columns for each income quartile in Figure 2 with the baseline at risk percentages just mentioned. Comparing the 91 percent of the lowest-income households who would be at risk if they had no Social Security retirement benefits with the 76 percent of those who are at risk with the current benefits means that 15 percent of these households are saved from retirement income inadequacy by Social Security.

The value of Social Security retirement benefits to the low-income households will not come as a surprise to anyone who has studied this issue but what may be startling is the extent to which the other three income quartiles also benefit from this program. If one compares the at-risk percentages with and without Social Security retirement benefits, the percentage of households that are saved from at-risk status is 24–26 percent for the other three groups.

The value of employment based accumulations can also be seen in Figure 2 by focusing on the third set of columns for each income group. This shows that if one were to eliminate the expected retirement income generated by defined benefit

plans, defined contribution plans and IRAs that the impact on at-risk percentages would be even larger than that projected for Social Security.<sup>4</sup>

While knowing the percentage of households that will be at risk for inadequate retirement income is important for public policy analysis, perhaps equally important is knowing just how large the accumulated deficits are likely to be. Figure 3 provides information on the average individual retirement income deficits by age cohort as well as family status and gender for baby boomers and Gen Xers. These numbers are present values at retirement age and represent the additional amount each individual in that group would need at age 65 to eliminate their expected deficits in retirement (which could be a relatively short period or could last decades).



The aggregate deficit number with the current Social Security retirement benefits is estimated to be \$4.6 trillion with an individual average of approximately \$48,000. If Social Security benefits were to be eliminated, the aggregate deficit would jump to \$8.5 trillion and the average would increase to approximately \$89,000.

2009 PARTICIPATION LEVELS

Among the 154.2 million Americans who worked in 2009, 76.0 million worked for an employer or union that sponsored a pension or retirement plan, and 61.0 million participated in the plan (Figure 4). This translates into a sponsorship rate (the per-

centage of workers working for an employer or union that sponsored a plan) of 49.3 percent and a participation level (fraction of all participating in a plan regardless of eligibility) of 39.6 percent.

Figure 4—Percentage of Various Work Forces Who Work for an Employer That Sponsored a Retirement Plan, and the Percentage Who Participated in a Plan, 2009

	All workers	Wage and salary workers ages 21–64	Private-sector wage and salary workers ages 21–64	Public-sector wage and salary workers ages 21–64	Full-time, full-year wage and salary workers ages 21–64
[In millions]					
Worker Category Total .....	154.2	128.8	107.6	21.2	89.0
Works for an employer sponsoring a plan .....	76.0	70.1	52.9	17.3	55.0
Participating in a plan .....	61.0	57.7	42.2	15.5	48.4
[In percent]					
Worker Category Total .....	100.0	100.0	100.0	100.0	100.0
Works for an employer sponsoring a plan .....	49.3	54.4	49.1	81.3	61.8
Participating in a plan .....	39.6	44.8	39.2	72.9	54.4

Source: Employee Benefit Research Institute estimates from the 2010 March Current Population Survey.

However, this measure of the workforce contains the unincorporated self-employed and those typically with a looser connection to the workforce—individuals under age 21 and older than age 64. Therefore, a different measure of the workforce is examined: *wage and salary workers* ages 21–64.<sup>5</sup> For this group, the sponsorship rate increases to 54.4 percent and the fraction participating increases to 44.8 percent. When separating these wage and salary workers into the public and private sectors, the percentages participating differ significantly. Almost 73 percent (72.9 percent) of the public-sector workers participated in an employment-based retirement plan, compared with 39.2 percent of the private-sector workers.

A more restrictive definition of the workforce, which more closely resembles the types of workers who generally must be covered in accordance with the Employee Retirement Income Security Act (ERISA) for a retirement plan offered by a private-sector employer or union, is the workforce of *full-time, full-year wage and salary workers* ages 21–64.<sup>6</sup> Approximately 54 percent of these workers participated in a retirement plan.

#### *Worker Characteristics and Participation*

The percentage of wage and salary workers ages 21–64 participating in a retirement plan in 2009 increased with age. For those ages 21–24, 18.0 percent participated in a plan, compared with 53.4 percent of those ages 55–64. Male workers were slightly more likely to participate in a plan than females. However, female workers were more likely to have participated in a plan than males among full-time, full-year workers.

Being white or having attained a higher educational level was also associated with a higher probability of participating in a retirement plan. Among white workers, 49.4 percent participated in a plan, compared with 26.7 percent of Hispanic workers. Seventeen percent of workers without a high school diploma participated in a plan, with the percentage participating increasing with educational attainment to 66.6 percent of those holding a graduate or professional degree.

Workers who were married were more likely to participate in a plan, while never-married workers had the lowest probability. The higher an individual's earnings were, the more likely he or she participated in a plan. Nearly one-quarter of those who had annual earnings of \$15,000–\$19,999 participated in a plan. This number increased to 68.5 percent of those earning \$50,000 or more. Furthermore, full-time, full-year workers were by far the most likely type to participate in a retirement plan. Those individuals working in professional and related occupations had the highest probability of participating in a retirement plan, at 60.4 percent. In comparison, those workers in farming, fishing, and forestry occupations had the lowest likelihood of participating in a plan, at 13.7 percent.

#### *Employer Characteristics and Participation*

The probability of a worker participating in an employment-based retirement plan increased significantly with the size of his or her employer (Figure 5). For workers at employers with fewer than 10 employees, 13.6 percent participated in a plan,

compared with 53.1 percent of those working for an employer with 1,000 or more employees. The sector and industry of the employer also had an impact on the likelihood of participating in a plan. Public-sector workers were significantly more likely to participate than private-sector workers. Workers in the manufacturing industry and the transportation, utilities, information, and financial industry had the highest probability of participating, while those in the other services industry had the lowest probability.

**Figure 5**  
**Percentage of Various Work Forces Who Worked for an Employer That Sponsored a Retirement Plan and the Percentage Who Participated in a Plan, by Various Characteristics, 2009**

	All Workers		V <sup>o</sup> lunt <sup>o</sup> ry		64		Private-Workers		Sector		21-64		Public-Workers		Sector		21-64		Full-Workers		Full-Year		
	Number of workers (000s)	Sponsorship rate (%)	Number of workers (000s)	Participation rate (%)	Age group	Participation rate (%)	Number of workers (000s)	Participation rate (%)	Age group	Sponsorship rate (%)	Participation rate (%)	Number of workers (000s)	Participation rate (%)	Number of workers (000s)	Sponsorship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsorship rate (%)	Number of workers (000s)	Sponsorship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsorship rate (%)
Age	8,653	25.0%	4,176	4.1%	20 or younger	10.0%	10,052	32.5%	21-24	43.0%	15.5%	1,229	13.7%	4,844	44.7%	30.7%	1,844	44.7%	1,844	44.7%	30.7%	1,844	44.7%
	12,091	35.0	5,179	36.0%	25-34	37.9	27,394	45.1	35-44	39.2	43.3%	4,397	77.4	21,258	57.1	47.1	21,258	57.1	21,258	57.1	47.1	21,258	57.1
	33,177	47.8	15,092	48.9	45-54	47.9	23,981	51.4	55-64	42.7	49.6%	8,963	83.5	23,784	62.8	55.7	23,784	62.8	23,784	62.8	55.7	23,784	62.8
	32,835	53.4	15,453	48.3	65 or older	33.4	16,756	34.7		46.7	5.9%	5,903	83.7	24,810	63.4	50.0	24,810	63.4	24,810	63.4	50.0	24,810	63.4
	30,886	35.3	14,885	48.2																			
	23,754	56.6	11,480	61.3																			
	7,659	39.2	293	29.9																			
Gender	81,218	48.3	67,070	53.7	Male	45.0	58,055	48.3	Female	40.4	37.8	12,262	80.6	38,786	60.1	53.2	40,233	60.1	40,233	60.1	53.2	40,233	60.1
	72,981	50.3	61,771	52.2																			
	108,261	52.8	57,208	50.0	Race/Ethnicity	46.4	72,500	54.0	White	44.0	35.2	14,478	85.8	80,979	66.2	58.1	80,979	66.2	80,979	66.2	58.1	80,979	66.2
	18,208	28.0	14,300	32.5	Black	41.4	11,311	48.5	Hispanic	21.4	21.4	2,163	74.7	9,833	60.5	51.8	9,833	60.5	9,833	60.5	51.8	9,833	60.5
	31,758	20.8	18,810	32.8	Other	38.3	49,617	28.2		38.0	38.0	1,264	78.7	8,076	98.2	30.8	8,076	98.2	8,076	98.2	30.8	8,076	98.2
	3,878	47.8	3,690	51.9																			
Education	16,103	22.3	10,818	25.4	No high school diploma	17.0	10,275	23.5	High school diploma	15.2	5.4	6,210	62.2	6,210	31.7	23.3	6,210	31.7	6,210	31.7	23.3	6,210	31.7
	44,259	43.8	36,930	48.3	Some college	37.6	32,827	44.5	Bachelor's degree	33.8	33.8	4,303	77.2	24,863	55.4	46.4	24,863	55.4	24,863	55.4	46.4	24,863	55.4
	44,998	48.8	37,791	54.8	Graduate/professional degree	43.6	32,041	50.4		38.9	5,750	79.0	25,089	63.2	54.9	25,089	63.2	25,089	63.2	54.9	25,089	63.2	
	32,000	58.7	28,844	63.3																			
	16,780	58.3	14,459	73.3																			
Marital Status	38,564	54.4	27,625	58.9	Married	61.0	8,224	83.3	Widowed	45.2	45.2	3,402	84.1	8,447	64.7	58.7	8,447	64.7	8,447	64.7	58.7	8,447	64.7
	3,182	47.4	1,589	36.8	Divorced	45.5	1,398	50.5	Single	39.2	39.2	373	83.7	3,289	54.8	56.8	3,289	54.8	3,289	54.8	56.8	3,289	54.8
	45,927	50.8	41,300	55.9	Never married	44.2	11,876	48.7		37.5	2,404	80.9	10,654	61.6	52.4	10,654	61.6	10,654	61.6	52.4	10,654	61.6	
	3,179	42.9	2,382	45.5																			
	45,888	38.9	34,784	45.6																			
Work Status	86,539	58.3	89,038	61.8	Full-time, full-year	54.4	73,113	56.6	Part-time, full-year	48.5	15,925	85.6	15,925	81.6	54.4	15,925	81.6	15,925	81.6	54.4	15,925	81.6	
	22,046	39.9	18,611	42.9	Full-time, part-year	29.8	16,099	37.8	Part-time, part-year	25.0	2,512	75.8	2,512	60.5	41.7	2,512	60.5	2,512	60.5	41.7	2,512	60.5	
	17,440	32.1	11,888	37.4																			
	16,174	25.4	9,305	28.8																			

(cont'd)

(cont'd)

Occupation	All Workers			18-24			25-34			35-44			45-54			55-64			65+		
	Number of workers (000s)	Sponsor-ship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsor-ship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsor-ship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsor-ship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsor-ship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsor-ship rate (%)	Participation rate (%)	Number of workers (000s)	Sponsor-ship rate (%)	Participation rate (%)
Management, business, and financial	16,696	27.3	5.5	2,970	34.3	7.4	6,887	31.0	8.3	872	48.3	16.2	353	52.2	20.6	353	52.2	20.6	353	52.2	20.6
Professional and related	20,025	32.5	21.7	21,469	37.4	26.5	19,780	62.1	53.5	5,273	80.8	75.1	16,819	86.8	81.4	16,819	86.8	81.4	16,819	86.8	81.4
Service	17,445	38.3	27.4	13,332	44.8	33.3	13,141	44.3	32.9	191	74.2	61.1	12,161	47.5	38.4	12,161	47.5	38.4	12,161	47.5	38.4
Sales and related	19,895	57.1	44.6	17,275	58.8	47.8	14,471	55.3	42.5	3,103	90.8	72.6	12,409	66.3	57.8	12,409	66.3	57.8	12,409	66.3	57.8
Office and admin. support	1,335	15.9	11.6	967	17.7	13.7	942	15.3	11.3	45	68.4	64.9	501	23.8	21.2	501	23.8	21.2	501	23.8	21.2
Farming, fishing, and forestry	9,045	32.0	26.6	7,274	37.8	31.8	6,752	34.1	28.2	522	85.3	76.1	4,016	44.8	39.9	4,016	44.8	39.9	4,016	44.8	39.9
Construction and extraction	5,372	51.4	43.5	4,681	55.7	47.8	4,269	52.6	44.4	411	97.8	81.0	3,715	61.5	54.4	3,715	61.5	54.4	3,715	61.5	54.4
Installation, maintenance, repair	8,737	50.7	40.7	7,983	53.1	43.1	7,547	52.1	42.0	318	77.7	70.5	5,384	57.1	48.1	5,384	57.1	48.1	5,384	57.1	48.1
Production	9,338	45.6	31.9	7,778	47.0	35.8	7,004	44.4	33.2	774	70.8	59.4	5,039	53.6	44.3	5,039	53.6	44.3	5,039	53.6	44.3
Transportation and material moving	32,073	13.7	11.0	19,444	17.0	13.6	19,404	17.0	13.6	238	23.8	21.4	11,326	21.4	18.3	11,326	21.4	18.3	11,326	21.4	18.3
Employer/Union	14,690	28.0	21.8	12,699	29.7	23.6	12,698	29.7	23.6	297	50.7	35.4	9,007	35.4	30.4	9,007	35.4	30.4	9,007	35.4	30.4
10-24 employees	17,845	41.6	31.8	15,605	43.7	34.2	15,605	43.7	34.2	10,552	48.7	41.9	10,552	48.7	41.9	10,552	48.7	41.9	10,552	48.7	41.9
25-99 employees	19,413	55.4	41.9	14,255	55.2	43.9	14,255	55.2	43.9	4,305	71.2	61.9	4,305	71.2	61.9	4,305	71.2	61.9	4,305	71.2	61.9
100-499 employees	5,482	62.8	50.4	5,356	64.5	53.1	5,336	64.5	53.1	28,129	75.4	65.7	28,129	75.4	65.7	28,129	75.4	65.7	28,129	75.4	65.7
500-999 employees	44,844	86.1	81.3	38,397	89.4	85.2	38,397	89.4	85.2	15,956	95.9	91.8	15,956	95.9	91.8	15,956	95.9	91.8	15,956	95.9	91.8
1,000 or more employees	23,243	79.2	69.7	21,248	81.3	72.9	21,248	81.3	72.9	75,113	56.6	48.5	75,113	56.6	48.5	75,113	56.6	48.5	75,113	56.6	48.5
Public sector	130,956	44.0	34.2	107,594	48.1	38.2	107,594	48.1	38.2	6,173	39.9	34.9	6,173	39.9	34.9	6,173	39.9	34.9	6,173	39.9	34.9
Private sector	14,127	27.9	23.1	10,668	34.2	28.6	10,668	34.2	28.6	11,875	55.8	44.9	11,875	55.8	44.9	11,875	55.8	44.9	11,875	55.8	44.9
agriculture, mining, and construction	15,133	61.8	53.1	14,025	64.1	55.3	14,025	64.1	55.3	15,090	64.3	57.4	15,090	64.3	57.4	15,090	64.3	57.4	15,090	64.3	57.4
manufacturing	22,042	46.1	30.3	17,813	48.0	35.0	17,813	48.0	35.0	22,561	60.1	51.2	22,561	60.1	51.2	22,561	60.1	51.2	22,561	60.1	51.2
wholesale and retail trade	19,411	54.2	46.8	16,919	59.0	50.4	16,919	59.0	50.4	6,398	34.0	28.8	6,398	34.0	28.8	6,398	34.0	28.8	6,398	34.0	28.8
transportation, utilities, information, and financial	38,996	47.9	38.0	32,773	52.7	42.3	32,773	52.7	42.3	15,956	81.3	72.9	15,956	81.3	72.9	15,956	81.3	72.9	15,956	81.3	72.9
professional services	21,250	34.2	14.7	15,397	27.4	18.0	15,397	27.4	18.0	21,248	81.3	72.9	21,248	81.3	72.9	21,248	81.3	72.9	21,248	81.3	72.9
other services	15,429	15.0	9.5	14,307	17.7	11.0	14,307	17.7	11.0	6,173	39.9	34.9	6,173	39.9	34.9	6,173	39.9	34.9	6,173	39.9	34.9
Public sector	42,542	70.0	65.4	38,788	73.2	68.5	38,788	73.2	68.5	21,248	81.3	72.9	21,248	81.3	72.9	21,248	81.3	72.9	21,248	81.3	72.9
300,000 or more	42,542	70.0	65.4	38,788	73.2	68.5	38,788	73.2	68.5	21,248	81.3	72.9	21,248	81.3	72.9	21,248	81.3	72.9	21,248	81.3	72.9

Source: Employee Benefit Research Institute estimates from the 2010 March Current Population Survey.

NUMBER WITHOUT A PLAN

An important policy topic resulting from an analysis of employment-based retirement plan participation is the number of workers who are *not* participants, as well as the number for those who work for an employer/union that does not sponsor a plan.<sup>7</sup> This section investigates these numbers to show where potential legislation may exclude workers, or the number of workers who are already being reached, by certain demographic and employer characteristics, annual earnings, employer size, and work status (full-time/part-time).

In 2009, 78.2 million workers worked for an employer/union that did *not* sponsor a retirement plan and 93.2 million workers did *not* participate in a plan (Figure 6).<sup>8</sup> Focusing in on employees who did not work for an employer that sponsored a plan,

9.2 million were self-employed—meaning the worker could have started a plan for himself/herself without the need for action from his/her employer. Therefore, the number of workers who worked for someone else that did not sponsor a plan totaled 69.0 million in 2009.

Figure 6.—Number of Workers Working for an Employer Who Does NOT Sponsor an Employment-Based Retirement Plan, by Various Demographic and Employer Characteristics, 2009

Characteristic(s)	Working for an employer NOT sponsoring a plan (In millions)	NOT participating in a plan (In millions)
Total .....	78.2	93.2
Self-Employed (Not Wage and Salary) .....	9.2	9.4
Net Wage and Salary .....	69.0	83.8
Under 21 Years Old .....	6.7	8.4
65 Year Old or Older .....	3.6	4.3
Not Full-Time, Full-Year .....	32.7	40.5
Full-time, part-year .....	12.1	14.8
Part-time, full-year .....	10.1	12.5
Part-time, part-year .....	10.6	13.2
Less than \$5,000 in annual earnings .....	10.4	12.8
Less than \$10,000 in annual earnings .....	18.6	22.9
Less than 100 employees .....	39.4	42.9
Fewer than 10 employees .....	18.8	19.6
10–24 employees .....	10.4	11.4
25–99 employees .....	10.2	11.9
Wage and Salary, Full-Year, Ages 21–64, \$5,000 or more in annual earnings, 10 or more employees .....	29.5	37.3
Wage and Salary, Full-Year, Ages 21–64, \$5,000 or more in annual earnings, 25 or more employees .....	23.3	30.6
Wage and Salary, Full-Time, Ages 21–64, \$5,000 or more in annual earnings, 10 or more employees .....	31.5	39.6
Wage and Salary, Full-Time, Ages 21–64, \$5,000 or more in annual earnings, 25 or more employees .....	24.9	32.5
Wage and Salary, Full-Year, Ages 21–64, \$10,000 or more in annual earnings, 10 or more employees .....	27.8	35.0
Wage and Salary, Full-Year, Ages 21–64, \$10,000 or more in annual earnings, 25 or more employees .....	21.9	28.7
Wage and Salary, Full-Time, Ages 21–64, \$10,000 or more in annual earnings, 10 or more employees .....	29.6	37.2
Wage and Salary, Full-Time, Ages 21–64, \$10,000 or more in annual earnings, 25 or more employees .....	23.4	30.5
Wage and Salary, Full-Time, Full-Year, Ages 21–64, \$5,000 or more in annual earnings, 10 or more employees .....	13.3	17.6
Wage and Salary, Full-Time, Full-Year, Ages 21–64, \$5,000 or more in annual earnings, 25 or more employees .....	10.4	14.4
Wage and Salary, Full-Time, Full-Year, Ages 21–64, \$5,000 or more in annual earnings, 100 or more employees .....	7.8	11.3
Wage and Salary, Full-Time, Full-Year, Ages 21–64, \$10,000 or more in annual earnings, 10 or more employees .....	9.5	12.5
Wage and Salary, Full-Time, Full-Year, Ages 21–64, \$10,000 or more in annual earnings, 25 or more employees .....	7.4	10.2
Wage and Salary, Full-Time, Full-Year, Ages 21–64, \$10,000 or more in annual earnings, 100 or more employees .....	5.5	8.0

Source: Employee Benefit Research Institute estimates from the 2010 March Current Population Survey.

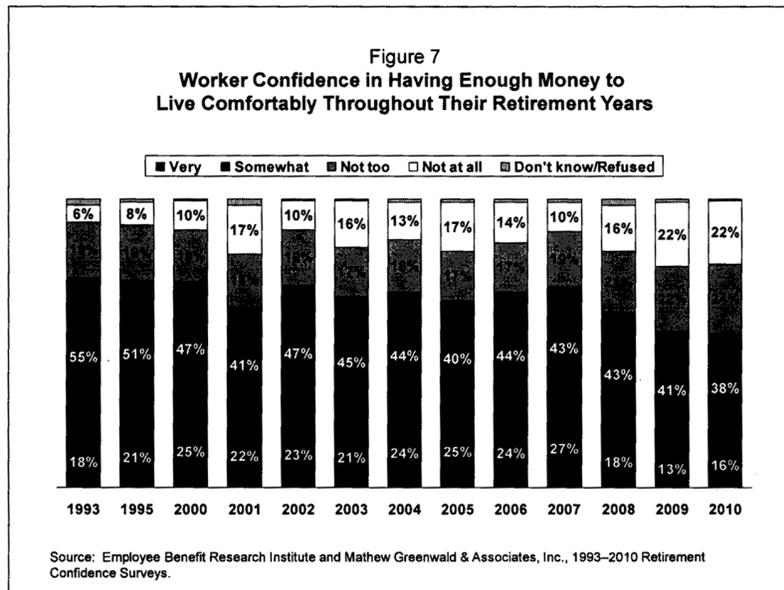
Of those 69.0 million, 6.7 million were under the age of 21, and 3.6 million were age 65 or older. Approximately 33 million were not full-time, full-year workers, and 18.5 million had annual earnings of less than \$10,000. Furthermore, many of these workers (39.4 million) worked for employers with fewer than 100 employees, including 10.2 million working for employers with 25–99 employees, 10.4 million for those with 10–24 employees, and 18.8 million for those with fewer than 10 employees.

However, many of these workers would fall into many of these categories simultaneously, such as being under age 21, having less than \$10,000 in annual earnings, and not being a full-time, full-year worker. Therefore, the bottom of the Figure 6

shows the number of workers who would remain in a targeted population, if exclusions are made for age, annual earnings, work status, and/or employer size. For example, if the population of interest is wage and salary workers ages 21–64 who work full time, make \$5,000 or more in annual earnings, and work for an employer with 10 or more employees, 31.5 million worked for an employer that did not sponsor a retirement plan in 2008 (meaning that 46 percent of the total nonself-employed working for an employer that did not sponsor a plan fell into this group). Yet, if a more restrictive definition is placed on the targeted population, so that only workers who work full-time, full-year, make \$10,000 or more in annual earnings, and work for an employer with 100 or more employees, only 5.5 million workers (or 11 percent) would be included among those working for an employer that did not sponsor a plan. Of course, another way to look at this last number is that 89 percent of these workers with those characteristics worked for an employer that did sponsor a retirement plan in 2009.

#### RETIREMENT CONFIDENCE

A downward trend found in the 2008 and 2009 Retirement Confidence Surveys (RCS) in Americans' confidence in their ability to retire comfortably appears to be stabilizing in 2010. Sixteen percent of workers in the 2010 RCS say they are *very* confident they will have enough money to live comfortably throughout their retirement years (statistically equivalent to the low of 13 percent measured in 2009). Forty-six percent are *not too* or *not at all* confident they will have enough money to live comfortably (statistically equivalent to the 44 percent observed in 2009). Overall retirement confidence has fluctuated over the 20 years of the RCS, reaching its highest levels among workers in 2007 (27 percent very confident), 2005 (25 percent) and 2000 (25 percent) and its lowest level in 2009 (13 percent) (Figure 7).

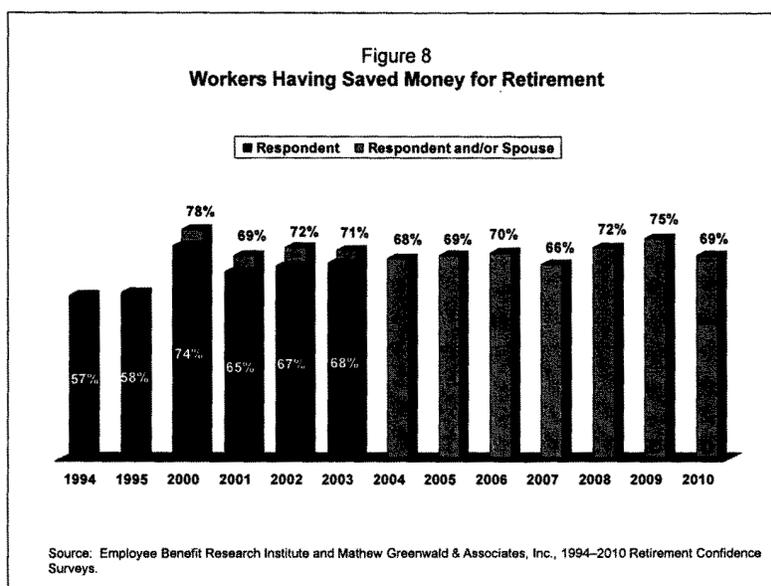


As would be expected, worker confidence in having enough money for a comfortable retirement increases with household income. Worker confidence also increases with savings and investments, education, and improved health status. Those who have experienced increases in income (compared with those whose income in 2009 was the same or lower than in 2008) or financial assets (compared with those whose assets in January 2010 were the same or lower than in January 2008) are more likely to express confidence in having enough money for a comfortable retirement. Others more often confident are men (compared with women), married workers (compared with those not married), those who participate in a defined contribution retirement plan (compared with those who do not), those who report they or

their spouse currently have benefits from a defined benefit plan (compared with those who do not), and those who expect to have access to employer-provided health insurance (compared with those who do not).

#### *Saving for Retirement*

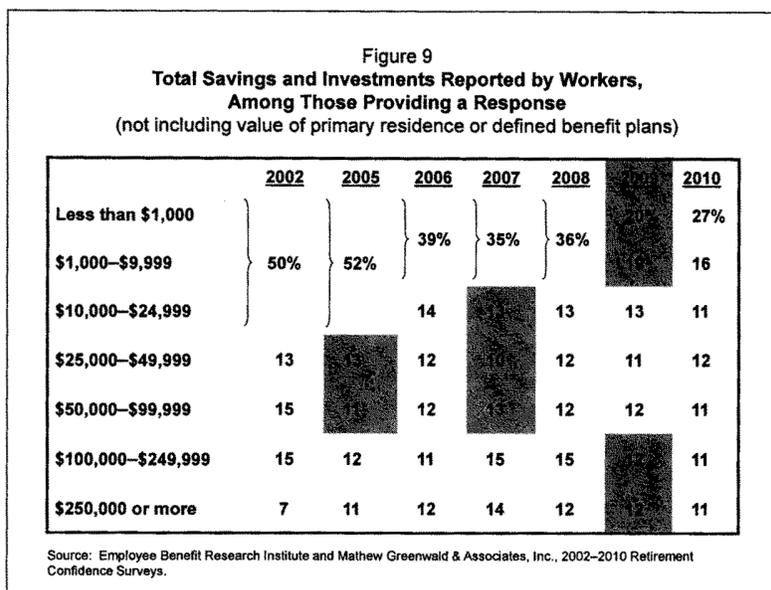
While retirement confidence was stabilizing, it did not appear that Americans were saving more to improve their retirement financial prospects. Although the percentage of workers who reported they and/or their spouse had saved for retirement increased briefly in 2009 (75 percent), it now stands at 69 percent. While the percentage of workers having saved for retirement increased from 1995–2000, it declined significantly in 2001 and has hovered around 70 percent throughout most of the 2000s (Figure 8).



Three in ten Americans age 25 and over report they have not saved any money for retirement (29 percent of workers and retirees). Of these, 79 percent of workers say this is because they cannot or could not afford to save. Nevertheless, 31 percent of workers who have not saved are *very* or *somewhat* confident that they will have enough money for a comfortable retirement. However, this percentage has steadily declined from 47 percent in 2004, suggesting that workers are increasingly recognizing the need to save at least some money themselves if they would like to achieve a financially secure retirement.

#### *Retirement Savings*

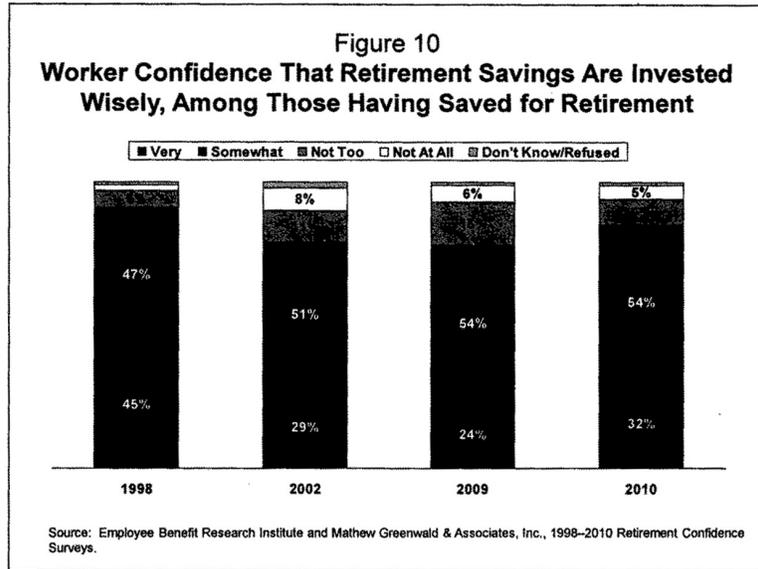
In addition to the lack of improvement in the percentage saving, the percentage of workers who have virtually no money in savings and investments has increased over the past year. Among RCS workers providing this type of information, 54 percent report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than \$25,000. Moreover, 27 percent say they have less than \$1,000 in savings (up from 20 percent in 2009). Approximately 1 in 10 each report totals of \$25,000–\$49,999 (12 percent), \$50,000–\$99,999 (11 percent), \$100,000–\$249,999 (11 percent), and \$250,000 or more (11 percent) (Figure 9).



These findings are similar to some other estimates of American household assets. Quantifiable data from the 2007 Survey of Consumer Finances (conducted by the U.S. Federal Reserve Board) found that the median (midpoint) level of household assets of all Americans who have an asset is \$221,500.<sup>9</sup> This includes the value of the primary home, which had a median value of \$200,000 for those who owned a home. Since then, home values have declined nationwide.

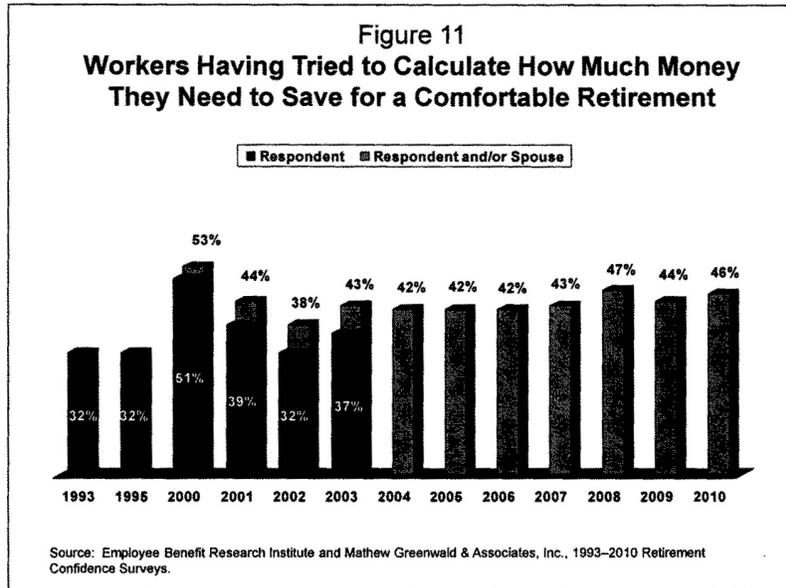
Older workers tend to report higher amounts of assets. Seventy-one percent of workers age 25–34 have total savings and investments of less than \$25,000, compared with 42 percent of workers age 45 and older. At the same time, 18 percent of workers age 45 and older cite assets of \$250,000 or more (versus 4 percent of workers age 25–34). As one might suspect, total savings and investments increase sharply with household income, education, and health status. Workers who have done a retirement savings needs calculation (compared with those who have not) tend to have higher levels of savings. In addition, those who have saved for retirement are more likely than those who have not saved to have substantial levels of savings. In fact, 69 percent of those who have not saved for retirement say their assets total less than \$1,000.

One-third of workers who have saved for retirement (32 percent) say they are *very* confident that they are investing their retirement savings wisely (up from 24 percent in 2009, but down from the high of 45 percent measured in 1998). Another 54 percent are *somewhat* confident that their savings are wisely invested (Figure 10).



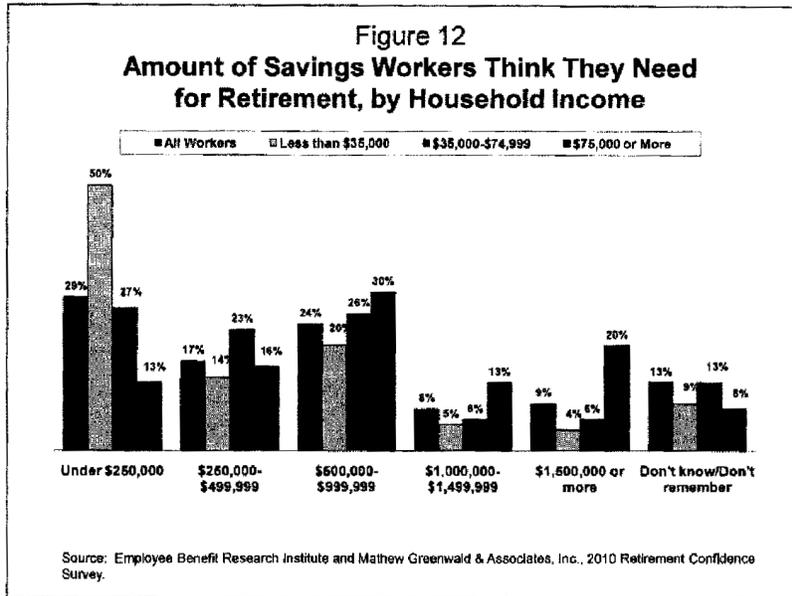
#### *Retirement Savings Needs*

Along with relatively low savings, many workers continue to be unaware of how much they need to save for retirement, which may be leading them to not accurately determine their retirement prospects. Less than half of workers (46 percent) report they and/or their spouse have tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement. This is comparable to the percentages measured from 2003–9, but is lower than the high of 53 percent recorded in 2000 (Figure 11).



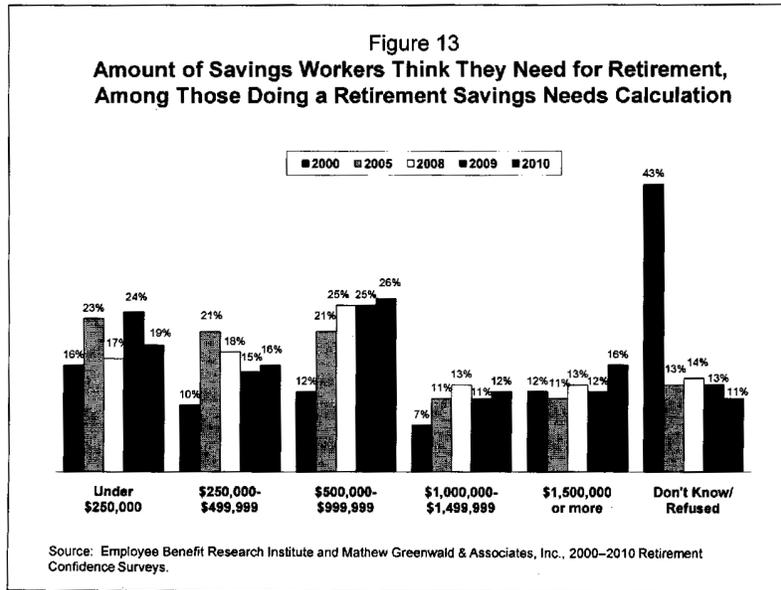
The likelihood of doing a retirement savings needs calculation increases with household income, education, and financial assets. In addition, married workers (compared with unmarried workers), those age 35 and older (compared with those age 25–34), retirement savers (compared with nonsavers), and participants in a defined contribution plan (compared with nonparticipants) more often report trying to do a calculation.

The propensity to guess or do their own calculation may help to explain why the amounts that workers say they need to accumulate for a comfortable retirement appear to be rather low. Twenty-nine percent of workers say they need to save less than \$250,000, and another 17 percent mention a goal of \$250,000–\$499,999. Twenty-four percent think they need to save \$500,000–\$999,999, while about 1 in 10 each believe they need to save \$1 million–\$1.49 million (8 percent) or \$1.5 million or more (9 percent). However, savings goals tend to increase as household income rises (Figure 12).

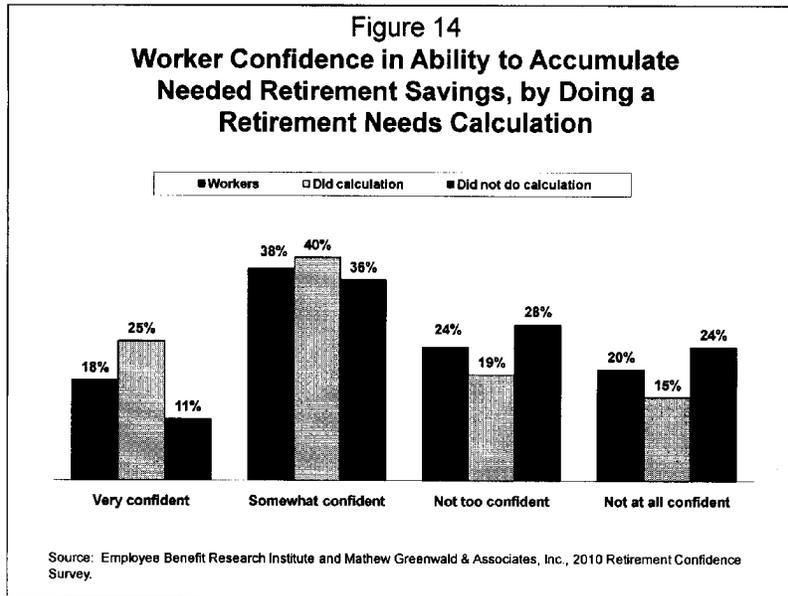


Workers who have done a retirement savings needs calculation also tend to have higher savings goals than do workers who have not done the calculation. Twenty-eight percent of workers who have done a calculation, compared with just 8 percent of those who have not, estimate they need to accumulate at least \$1 million for retirement. At the other extreme, 19 percent of those who have done a calculation, compared with 39 percent who have not, think they need to save less than \$250,000 for retirement.

The savings goals cited by workers who have done a retirement needs calculation have increased over time. In the 2000 RCS, 31 percent said they needed to accumulate at least \$500,000 for retirement. This percentage increased to 43 percent in 2005 and again to 54 percent in 2010 (Figure 13).



Despite this, workers who have done a retirement needs calculation are more likely than those who have not to feel confident that they will be able to accumulate the amount they need for retirement. Twenty-five percent of those who have done a calculation report they are *very* confident that they will be able to accumulate the amount they need, compared with just 11 percent of those who have not done a calculation. At the other extreme, only 15 percent of those who have done a calculation are *not at all* confident they will reach their goal, compared with 24 percent of those who have not done a calculation. Overall, 18 percent of workers are *very* confident, 38 percent are *somewhat* confident, and 44 percent are *not too* or *not at all* confident that they will be able to accumulate the amount they need by the time they retire (Figure 14).



The RCS provides little support for speculation that workers who do a retirement savings calculation are discouraged by the results. Those who have done a retirement needs calculation continue to be more likely than those who have not to say they are *very* confident about having enough money for a comfortable retirement (22 percent vs. 10 percent). Moreover, those who think they need to accumulate at least \$1 million in retirement savings are six times as likely as those who think they need less than \$250,000 to be very confident (36 percent vs. 6 percent).

Finally, the retirement savings calculation appears to be a particularly effective tool for changing retirement planning behavior. Forty-four percent of workers who calculated a goal amount in the 2008 RCS report having made changes to their retirement planning as a result. Most often, these workers say they started saving or investing more (59 percent). Other actions reported include:

- Changing their investment mix (20 percent).
- Reducing debt or spending (7 percent).
- Enrolling in a retirement savings plan at work (5 percent).
- Deciding to work longer (3 percent).
- Researching other ways to save for retirement (3 percent).

#### *Financial Advice*

Most workers believe they are getting all the information they need to make sound financial decisions for their retirement. Twenty-nine percent of workers say this describes them *very* well. Another 44 percent of workers feel it describes them somewhat well. Only 27 percent of workers say it does not describe them. Among workers, those who participate in an employer-sponsored retirement savings plan are particularly likely to say it describes them *very* or *somewhat* well. The likelihood of indicating they receive all the information they need also increases with age, education, and household income.

One-third of workers (33 percent) report they have sought investment advice from a professional financial advisor over the past year. Those with higher levels of financial assets are more likely than those with lower levels of assets to seek this advice, but whether this is because higher-asset individuals feel a greater need of investment advice or because professional advice increases the likelihood of building asset levels is unclear.

#### *Overconfidence?*

Although many workers may have re-evaluated their confidence in having a comfortable retirement in the wake of the recession and the accompanying economic tur-

moil, many workers still provide conflicting responses with respect to confidence and retirement preparation. This suggests that at least some workers may be overconfident about their likely financial security in retirement. A general public opinion survey such as the RCS cannot provide a definitive answer to whether workers are preparing adequately for retirement, but the RCS does provide some strong indications.

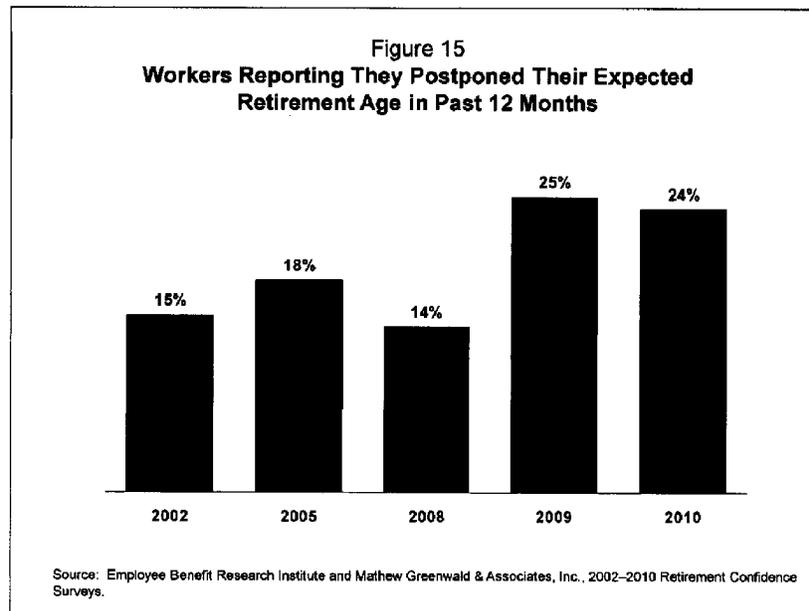
First, workers who are *very* confident that they will have enough money to live comfortably throughout their retirement years appear to be better prepared, on average, than those who are *somewhat* confident. In turn, those who are *somewhat* confident appear to be better prepared overall than those who are not confident. For example, confidence increases as the reported total of savings and investments increases. Further, the likelihood of having done a retirement savings needs calculation increases with confidence, and retirement savings goals tend to rise with confidence.

At the same time, workers who are most confident about their financial security in retirement also tend to expect to get the most out of retirement, so that their accumulated savings will need to stretch further. Workers who are very confident are more likely than those who are less confident to expect to retire before age 60 and they are less likely to expect that they will work for pay after they retire. They are also more likely to think their spending in retirement will be about the same as before they retire.

Finally, there is considerable room for improvement in preparing for retirement among at least some of those who say they are very confident. Twenty-three percent of *very* confident workers are not currently saving for retirement, 44 percent have less than \$50,000 in savings, and 33 percent have not done a retirement needs calculation. In addition, 13 percent of *very* confident workers who are offered a retirement savings plan by their current employer are not contributing to the plan. Workers may be thinking about these failures in preparation when they consider the possibility of becoming financially dependent on others in their old age: 25 percent of workers who are *very* confident about having enough money for retirement and 34 percent of workers who are *somewhat* confident admit they worry about being financially dependent on others during their retirement.

#### CHANGING EXPECTATIONS ABOUT RETIREMENT AGES

Many workers are adjusting some of their expectations about retirement, perhaps in response to their reduced level of confidence about their retirement finances. Twenty-eight percent of workers in the 2010 RCS say the age at which they expect to retire has changed in the past year. Of those, the vast majority (87 percent) report that their expected retirement age has increased. This means that 24 percent of all workers planned to postpone their retirement in 2010. While similar to the level reported in 2009, this represents a substantial increase over previous years, when less than 20 percent said they had postponed their anticipated retirement age (Figure 15).

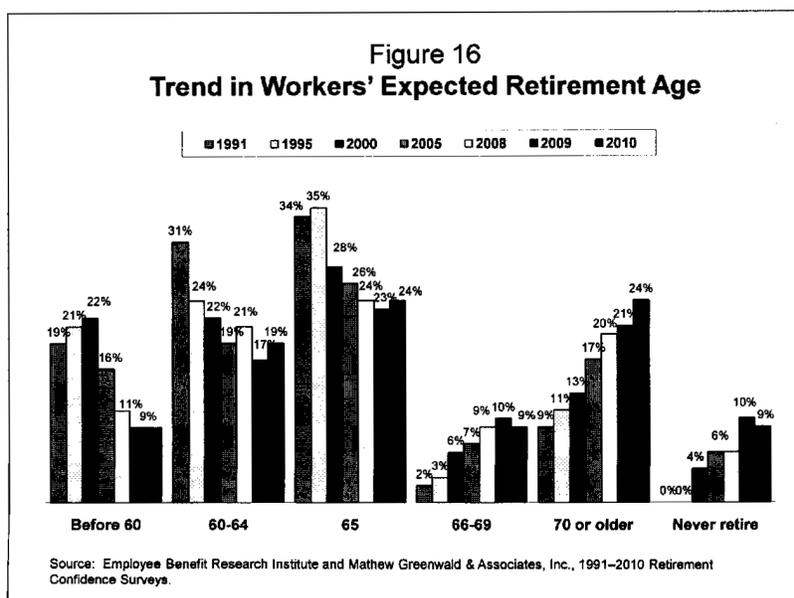


Among the reasons given for the change by workers postponing retirement in the 2010 RCS are:

- The poor economy (29 percent).
- A change in employment situation (22 percent).
- Inadequate finances or can't afford to retire (16 percent).
- The need to make up for losses in the stock market (12 percent).
- Lack of faith in Social Security or government (7 percent).
- The cost of living in retirement will be higher than expected (7 percent).
- Needing to pay current expenses first (6 percent).
- Wanting to make sure they have enough money to retire comfortably (6 percent).

At the same time, 8 percent of workers changing their retirement age in the past year (2 percent of all workers) report they will retire sooner than they had planned, primarily due to poor health or disability.

While worker responses to a question asking the age at which they expect to retire has shown little change between 2009 and 2010, the age at which workers say they plan to retire has crept upward incrementally over time. In particular, the percentage of workers who expect to retire after age 65 has increased over time, from 11 percent in 1991 to 14 percent in 1995, 19 percent in 2000, 24 percent in 2005, and 33 percent in the 2010 RCS (Figure 16). Nevertheless, the median (midpoint) age at which workers expect to retire has remained stable at 65 since 1995.



#### APPENDIX A: BRIEF DESCRIPTION OF RSPM<sup>10</sup>

One of the basic objectives of RSPM is to simulate the percentage of the population that will be “at risk” of having retirement income that is inadequate to cover basic expenses and pay for uninsured health care costs for the remainder of their lives once they retire.<sup>11</sup> However, the EBRI Retirement Readiness Rating™ also provides information on the distribution of the likely number of years before those at risk “run short of money,” as well as the percentage of compensation they would need in terms of additional savings to have a 50, 70, or 90 percent probability of retirement income adequacy.

Appendix C describes how households (whose heads are currently ages 36–62) are tracked through retirement age, and how their retirement income/wealth is simulated for the following components:

- Social Security.
- Defined contribution balances.
- IRA balances.
- Defined benefit annuities and/or lump-sum distributions.
- Net housing equity.<sup>12</sup>

A household is considered to run short of money in this model if aggregate resources in retirement are not sufficient to meet aggregate minimum retirement expenditures, which are defined as a combination of deterministic expenses from the Consumer Expenditure Survey (as a function of income), and some health insurance and out-of-pocket health-related expenses, plus stochastic expenses from nursing home and home health care expenses (at least until the point they are picked up by Medicaid). This version of the model is constructed to simulate “basic” retirement income adequacy; however, alternative versions of the model allow similar analysis for replacement rates, standard-of-living calculations, and other ad hoc thresholds.

The version of the model used for the analysis in this testimony assumes all workers retire at age 65 and immediately begin to withdraw money from their individual accounts (defined contribution and cash balance plans, as well as IRAs) whenever the sum of their basic expenses and uninsured medical expenses exceed the after-tax<sup>13</sup> annual income from Social Security and defined benefit plans (if any). If there is sufficient money to pay expenses without tapping into the tax-qualified individual accounts,<sup>14</sup> the excess is assumed to be invested in a non-tax-advantaged account where the investment income is taxed as ordinary income.<sup>15</sup> The individual accounts

are tracked until the point at which they are depleted; if the Social Security and defined benefit payments are not sufficient to pay basic expenses, the entity is designated as having “run short of money” at that time.

#### APPENDIX B: BRIEF CHRONOLOGY OF RSPM<sup>16</sup>

The original version of Retirement Security Projection Model® (RSPM) was used to analyze the future economic well-being of the retired population at the State level. The Employee Benefit Research Institute and the Milbank Memorial Fund, working with the Governor of Oregon, set out to see if this situation could be addressed for Oregon. The analysis<sup>17</sup> focused primarily on simulated retirement wealth with a comparison to ad hoc thresholds for retirement expenditures, but the results made it clear that major decisions lie ahead if the State’s population is to have adequate resources in retirement.

Subsequent to the release of the Oregon study, it was decided that the approach could be carried to other States as well. Kansas and Massachusetts were chosen as the next States for analysis. Results of the Kansas study were presented to the State’s Long-Term Care Services Task Force on July 11, 2002,<sup>18</sup> and the results of the Massachusetts study were presented on Dec. 1, 2002.<sup>19</sup> With the assistance of the Kansas Insurance Department, EBRI was able to create Retirement Readiness Ratings based on a full stochastic decumulation model that took into account the household’s longevity risk, post-retirement investment risk, and exposure to potentially catastrophic nursing home and home health care risks. This was followed by the expansion of RSPM, as well as the Retirement Readiness Ratings produced by it, to a national model and the presentation of the first micro-simulation retirement income adequacy model built in part from administrative 401(k) data at the EBRI December 2003 policy forum.<sup>20</sup> The basic model was then modified for Senate Aging testimony in 2004 to quantify the beneficial impact of a mandatory contribution of 5 percent of compensation.<sup>21</sup>

The first major modification of the model occurred for the EBRI May 2004 policy forum. In an analysis to determine the impact of annuitizing defined contribution and IRA balances at retirement age, VanDerhei and Copeland (2004) were able to demonstrate that for a household seeking a 75 percent probability of retirement income adequacy, the additional savings that would otherwise need to be set aside each year until retirement to achieve this objective would decrease by a median amount of 30 percent. Additional refinements were introduced in 2005 to evaluate the impact of purchasing long-term care insurance on retirement income adequacy.<sup>22</sup>

The model was next used in March of 2006 to evaluate the impact of defined benefit freezes on participants by simulating the minimum employer contribution rate that would be needed to financially indemnify the employees for the reduction in their *expected* retirement income under various rate-of-return assumptions.<sup>23</sup> Later that year, an updated version of the model was developed to enhance the EBRI interactive Ballpark Estimate® worksheet by providing Monte Carlo simulations of the necessary replacement rates needed for specific probabilities of retirement income adequacy under alternative risk management treatments.<sup>24</sup>

RSPM was significantly enhanced for the May 2008 EBRI policy forum by allowing automatic enrollment of 401(k) participants with the potential for automatic escalation of contributions to be included.<sup>25</sup> Additional modifications were added in 2009 for a Pension Research Council presentation that involved a winners/losers analysis of defined benefit freezes and the enhanced defined contribution employer contributions provided as a quid pro quo.<sup>26</sup>

A new subroutine was added to the model to allow simulations of various styles of target-date funds for a comparison with participant-directed investments in 2009.<sup>27</sup> Most recently, the model was completely reparameterized with 401(k) plan design parameters for sponsors that have adopted automatic enrollment provisions.<sup>28</sup>

#### APPENDIX C: ASSUMPTIONS USED IN RSPM<sup>29</sup>

##### *Retirement Income and Wealth Assumptions*

RSPM is based in part on a 13-year time series of administrative data from several million 401(k) participants and tens of thousands of 401(k) plans,<sup>30</sup> as well as a time series of several hundred plan descriptions used to provide a sample of the various defined benefit and defined contribution plan provisions applicable to plan participants. In addition, several public surveys based on participants’ self-reported answers (the Survey of Consumer Finances [SCF], the Current Population Survey [CPS], and the Survey of Income and Program Participation [SIPP]) were used to model participation, wages, and initial account balance information.

This information is combined to model participation and initial account balance information for all defined contribution participants, as well as contribution behavior for non-401(k) defined contribution plans. Asset allocation information is based on previously published results of the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, and employee contribution behavior to 401(k) plans is provided by an expansion of a method developed in VanDerhei and Copeland (2008) and further refined in VanDerhei (2010).

A combination of Form 5500 data and self-reported results was also used to estimate defined benefit participation models; however, it appears information in the latter is rather unreliable with respect to estimating current and/or future accrued benefits. Therefore, a database of defined benefit plan provisions for salary-related plans was constructed to estimate benefit accruals.

Combinations of self-reported results were used to initialize IRA accounts. Future IRA contributions were modeled from SIPP data, while future rollover activity was assumed to flow from future separation from employment in those cases in which the employee was participating in a defined contribution plan sponsored by the previous employer. Industry data are used to estimate the relative likelihood that the balances are rolled over to an IRA, left with the previous employer, transferred to a new employer, or used for other purposes.

#### *Defined Benefit Plans*

A stochastic job duration algorithm was estimated and applied to each individual in RSPM to predict the number of jobs held and age at each job change. Each time the individual starts a new job, RSPM simulates whether or not it will result in coverage in a defined benefit plan, a defined contribution plan, both, or neither. If coverage in a defined benefit plan is predicted, time series information from the Bureau of Labor Statistics (BLS) is used to predict what type of plan it will be.<sup>31</sup>

While the BLS information provides significant detail on the generosity parameters for defined benefit plans, preliminary analysis indicated that several of these provisions were likely to be highly correlated (especially for integrated plans). Therefore, a time series of several hundred defined benefit plans per year was coded to allow for assignment to the individuals in RSPM.<sup>32</sup>

Although the Tax Reform Act of 1986 at least partially modified the constraints on integrated pension plans by adding Sec. 401(l) to the Internal Revenue Code, it would appear that a significant percentage of defined benefit sponsors have retained Primary Insurance Amount (PIA)-offset plans. In order to estimate the offset provided under the plan formulas, RSPM computes the employee's Average Indexed Monthly Earnings, Primary Insurance Amount, and covered compensation values for the birth cohort.

#### *Defined Contribution Plans*

Previous studies on the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project have analyzed the average account balances for 401(k) participants by age and tenure. Recently published results (VanDerhei, Holden and Alonso, 2009) show that the year-end 2008 average balance ranged from \$3,237 for participants in their 20s with less than 3 years of tenure with their current employer to \$172,555 for participants in their 60s who have been with the current employer for at least 30 years (thereby effectively eliminating any capability for IRA rollovers).

Unfortunately, the EBRI/ICI database does not currently provide detailed information on other types of defined contribution plans nor does it allow analysis of defined contribution balances that may have been left with previous employers. RSPM uses self-reported responses for whether an individual has a defined contribution balance to estimate a participation model and the reported value is modeled as a function of age and tenure.

The procedure for modeling participation and contribution behavior and asset allocation for defined contribution plans that have not adopted automatic enrollment is described in VanDerhei and Copeland (2008). The procedure for modeling contribution behavior (with and without automatic escalation of contributions) for 401(k) plans is described in VanDerhei (2010). Asset allocation for automatic enrollment plans is assumed to follow average age-appropriate target-date funds as described in VanDerhei (2009). Investment returns are based on those used in Park (2009).

#### *Social Security Benefits*

Social Security's current-law benefits are assumed to be paid and received by those qualifying for the benefits under the baseline scenario. This funding could either be from an increase in the payroll tax or from a general revenue transfer. The benefits are projected for each cohort assuming the intermediate assumptions within the 2009 OASDI Trustee's Report. A second alternative is used where all recipients'

benefits are cut 24 percent on the date that the OASDI Trust Fund is depleted (2037).

#### *Expenditure Assumptions*

The expenditures used in the model for the elderly consist of two components—deterministic and stochastic expenses. The deterministic expenses include those expenses that the elderly incur in their basic daily life, while the stochastic expenses in this model are exclusively health-event related—such as an admission to a nursing home or the commencement of an episode of home health care—that occur only for a portion, if ever, during retirement, not on an annual or certain basis.

#### *Deterministic Expenses*

The deterministic expenses are broken down into seven categories—food, apparel and services (dry cleaning, haircuts), transportation, entertainment, reading and education, housing, and basic health expenditures. Each of these expenses is estimated for the elderly (65 or older) by family size (single or couple) and family income (less than \$20,000, \$20,000–\$39,999, and \$40,000 or more in 2008 dollars) of the family/individual.

The estimates are derived from the 2008 Consumer Expenditure Survey (CES) conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. The survey targets the total noninstitutionalized population (urban and rural) of the United States and is the basic source of data for revising the items and weights in the market basket of consumer purchases to be priced for the Consumer Price Index. Therefore, an expense value is calculated using actual experience of the elderly for each family size and income level by averaging the observed expenses for the elderly within each category meeting the above criteria. The basic health expenditure category has additional data needs besides just the CES.

#### *Health*

The basic health expenditures are estimated using a somewhat different technique and are comprised of two parts. The first part uses the CES as above to estimate the elderly's annual health expenditures that are paid out-of-pocket or are not fully reimbursed (or not covered) by Medicare and/or private Medigap health insurance.

The second part contains insurance premium estimates, including Medicare Part B and Part D premiums. All of the elderly are assumed to participate in Part B and Part D, and the premium is determined annually by the Medicare program and is the same nationally with an increasing contribution from the individual/family on the basis of their income. For the Medigap insurance premium, it is assumed all of the elderly purchase a Medigap policy. A national estimate is derived from a 2005 survey done by *Thestreet.com* that received average quotes for Plan F in 47 States and the District. The estimates are calculated based on a 65-year-old female. The 2005 premium level is the average of the 47 State average quotes. The 2010 premium level was estimated by applying the annual growth rates in the Part B premiums from 2006 through 2010 to the average 2005 premium.

This approach is taken for two reasons. First, sufficient quality data do not exist for the matching of retiree medical care (as well as the generosity of and cost of the coverage) and Medigap policy use to various characteristics of the elderly. Second, the health status of the elderly at the age of 65 is not known, let alone over the entire course of their remaining life. Thus, by assuming everyone one has a standard level of coverage eliminates trying to differentiate among all possible coverage types as well as determining whether the sick or healthy have the coverage. Therefore, averaging of the expenses over the entire population should have offsetting effects in the aggregate.

The total deterministic expenses for the elderly individual or family are then the sum of the values in all the expense categories for family size and family income level of the individual or family. These expenses make up the basic annual (recurring) expenses for the individual or family. However, if the individual or family meet the income and asset tests for Medicaid, Medicaid is assumed to cover the basic health care expenses (both parts), not the individual or family. Furthermore, Part D and Part B premium relief for the low-income elderly (not qualifying for Medicaid) is also incorporated.

#### *Stochastic Expenses*

The second component of health expenditures is the result of simulated health events that would require long-term care in a nursing home or home-based setting for the elderly. Neither of these simulated types of care would be reimbursed by Medicare because they would be for custodial (not rehabilitative) care. The incidence of the nursing home and home health care and the resulting expenditures on the

care are estimated from the 1999 and 2004 National Nursing Home Survey (NNHS) and the 2000 and 2007 National Home and Hospice Care Survey (NHHCS). NNHS is a nationwide sample survey of nursing homes, their current residents and discharges that was conducted by the National Center for Health Statistics from July through December 1999 and 2004. The NHHCS is a nationwide sample survey of home health and hospice care agencies, their current and discharge patients that was conducted by the National Center for Health Statistics from August 2000 through December 2000 and from August 2007 through February 2008.

For determining whether an individual has these expenses, the following process is undertaken. An individual reaching the Social Security normal retirement age has a probability of being in one of four possible assumed “health” statuses:

- Not receiving either home health or nursing home care.
- Home health care patient.
- Nursing home care patient.
- Death.

Based upon the estimates of the use of each type of care from the surveys above and mortality. The individual is randomly assigned to each of these four categories with the likelihood of falling into one of the four categories based upon the estimated probabilities of each event. If the individual does not need long-term care, no stochastic expenses are incurred. Each year, the individual will again face these probabilities (the probabilities of being in the different statuses will change as the individual becomes older after reaching age 75 then again at age 85) of being in each of the four statuses. This continues until death or the need for long-term care.

For those who have a resulting status of home health care or nursing home care, their duration of care is simulated based upon the distribution of the durations of care found in the NNHS and NHHCS. After the duration of care for a nursing home stay or episode of home health care, the individual will have a probability of being discharged to one of the other three statuses based upon the discharge estimates from NNHS and NHHCS, respectively. The stochastic expenses incurred are then determined by the length of the stay/number of days of care times the per diem charge estimated for the nursing home care and home health care, respectively.

For any person without the need for long-term care, this process repeats annually. The process repeats for individuals receiving home health care or nursing home care at the end of their duration of stay/care and subsequently if not receiving the specialized care again at their next birthday. Those who are simulated to die, of course, are not further simulated.

As with the basic health care expenses, the qualification of Medicaid by income and asset levels is considered to see how much of the stochastic expenses must be covered by the individual to determine the individual’s final expenditures for the care. Only those expenditures attributable to the individual—not the Medicaid program—are considered as expenses to the individual and as a result in any of the “deficit” calculations.

#### *Total Expenditures*

The elderly individuals’ or families’ expenses are then the sum of their assumed deterministic expenses based upon their retirement income plus any simulated stochastic expenses that they may have incurred. In each subsequent year of life, the total expenditures are again calculated in this manner. The base year’s expenditure value estimates excluding the health care expenses are adjusting annually using the assumed general inflation rate of 2.8 percent from the 2009 OASDI Trustees Report, while the health care expenses are adjusted annually using the 4.0 percent medical consumer price index that corresponds to the average annual level from 2004–9.<sup>33</sup>

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## ENDNOTES

<sup>1</sup>Although one needs to be extremely careful in comparing at-risk ratings between a program that is in essence a 100-percent annuity program with one that is increasingly providing lump-sum distributions.

<sup>2</sup>Approximately 1 in 10 each report totals of \$25,000–\$49,999 (12 percent), \$50,000–\$99,999 (11 percent), \$100,000–\$249,999 (11 percent), and \$250,000 or more (11 percent).

<sup>3</sup>A brief description of the EBRI Retirement Security Projection Model® (RSPM) is provided in Appendix A followed by chronology of its development and utilization in Appendix B. More technical details regarding the assumptions used in the model are provided in Appendix C.

<sup>4</sup>Although one needs to be extremely careful in comparing at-risk ratings between a program that is in essence a 100-percent annuity program with one that is becoming increasingly providing lump sum distributions.

<sup>5</sup>Wage and salary workers include all workers who work for someone else as well as those who are self-employed and are incorporated. Thus, the unincorporated self-employed are not included.

<sup>6</sup>A worker, who is at least 21 years of age, has 1 year of tenure, and works more than 2,000 hours in a year, in general, must be covered by an employer who offers a private-sector retirement plan to its workers (IRC Sec. 401(a) 26). Typically,

public-sector employers follow similar rules, despite not being governed by all of the same statutes as those for private-sector employers.

<sup>7</sup>An employment-based retirement plan can be sponsored by an employer or by a union. “Employer sponsored” is used in this study for brevity, but it should be understood that it also means union.

<sup>8</sup>This includes the 78.2 million who worked for employer/union that did not sponsor a plan plus 15.0 million who worked for an employer that sponsored a plan but did not participate in the plan for whatever reason.

<sup>9</sup>Brian K. Bucks, Arthur B. Kennickell, Traci L. March, and Kevin B. Moore, “Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances,” *Federal Reserve Bulletin*, Vol. 95 (February 2009): A1–A55.

<sup>10</sup>This material first appeared in VanDerhei and Copeland (July 2010).

<sup>11</sup>The nominal cost of these expenditures increases with component-specific inflation assumptions. See the appendix for more details.

<sup>12</sup>Net housing equity is introduced into the model in three different mechanisms (explained below).

<sup>13</sup>IRS tax tables from 2009 are used to compute the tax owed on the amounts received from defined benefit plans and Social Security (with the percentage of Social Security benefits subject to Federal Income Tax proxied as a function of the various retirement income components) as well as the individual account withdrawals.

<sup>14</sup>Roth IRA and 401(k) accounts are not used in this version of the model but will be incorporated into a forthcoming EBRI publication.

<sup>15</sup>Capital gains treatment is not used in this version of the model.

<sup>16</sup>This material first appeared in VanDerhei and Copeland (July 2010).

<sup>17</sup>VanDerhei and Copeland (2001).

<sup>18</sup>VanDerhei and Copeland (July 2002).

<sup>19</sup>VanDerhei and Copeland (December 2002).

<sup>20</sup>VanDerhei and Copeland (2003).

<sup>21</sup>VanDerhei (January 2004).

<sup>22</sup>VanDerhei (2005).

<sup>23</sup>VanDerhei (March 2006).

<sup>24</sup>VanDerhei (September 2006).

<sup>25</sup>VanDerhei and Copeland (2008).

<sup>26</sup>Copeland and VanDerhei (forthcoming).

<sup>27</sup>VanDerhei (2009).

<sup>28</sup>VanDerhei (2010).

<sup>29</sup>This material first appeared in VanDerhei and Copeland (July 2010).

<sup>30</sup>The EBRI/ICI Participant-Directed Retirement Plan Data Collection Project is the largest, most representative repository of information about individual 401(k) plan participant accounts. As of December 31, 2008, the database included statistical information about:

- 24.0 million 401(k) plan participants, in
- 54,765 employer-sponsored 401(k) plans, holding
- \$1.092 trillion in assets.

The 2008 database covered 48 percent of the universe of active 401(k) plan participants, 12 percent of plans, and 47 percent of 401(k) plan assets. The EBRI/ICI project is unique because it includes data provided by a wide variety of plan record-keepers and, therefore, portrays the activity of participants in 401(k) plans of varying sizes—from very large corporations to small businesses—with a variety of investment options.

<sup>31</sup>The model is currently programmed to allow the employee to participate in a nonintegrated career average plan; an integrated career average plan; a 5-year final average plan without integration; a 3-year final average plan without integration; a 5-year final average plan with covered compensation as the integration level; a 3-year final average plan with covered compensation as the integration level; a 5-year final average plan with a PIA offset; a 3-year final average plan with a PIA offset; a cash balance plan, or a flat benefit plan.

<sup>32</sup>BLS information was utilized to code the distribution of generosity parameters for flat benefit plans.

<sup>33</sup>While the medical consumer price index only accounts for the increases in prices of the health care services, it does not account for the changes in the number and/or intensity of services obtained. Thus, with increased longevity, the rate of health care expenditure growth will be significantly higher than the 4.0 percent medical inflation rate, as has been the case in recent years.

*(The views expressed in this statement are solely those of Jack VanDerhei and should not be attributed to the Employee Benefit Research Institute (EBRI), the EBRI Education and Research Fund, any of its programs, officers, trustees, sponsors, or other staff. The Employee Benefit Research Institute is a nonprofit, nonpartisan, education and research organization established in Washington, DC, in 1978. EBRI does not take policy positions, nor does it lobby, advocate specific policy recommendations, or receive Federal funding).*

The CHAIRMAN. Thank you very much, Mr. VanDerhei.

And now we turn to Ross Eisenbrey.

Ross, again, your statement will be made part of the record. Please proceed.

**STATEMENT OF ROSS EISENBREY, VICE PRESIDENT,  
ECONOMIC POLICY INSTITUTE, WASHINGTON, DC**

Mr. EISENBREY. Thank you for inviting me, Mr. Chairman and Senator Sanders. I am Ross Eisenbrey, vice president of the Economic Policy Institute. We are a founding member of two groups, Strengthen Social Security and Retirement USA, that together represent over 50 million people who share a common view that strengthening retirement security requires strengthening Social Security, a goal that a higher retirement age would undermine.

Retirement USA just this month happens to be in the middle of Wake Up Washington Month to do exactly what you are doing and try to let policymakers and the American public realize better what a crisis we are actually in in retirement savings.

The three-legged stool supporting retirement income has actually always been wobbly for most Americans. It has had one long sturdy leg, which is Social Security, and two shorter, less-reliable legs—employer-provided plans and personal savings.

Social Security covers 97 percent of employees and provides more than half of retirement income for 55 percent of seniors. And a quarter of seniors get more than 90 percent of their income from Social Security.

The second leg, personal savings, as you have just heard, is not very substantial. It has been shrinking as middle-class incomes have been squeezed. The housing market's collapse has only added to those woes.

And the third leg, employer-provided pensions, have never covered much more than half of employees—never. But the quality of coverage has declined steadily over the last 30 years, with traditional defined benefit pension plans disappearing and 401(k) plans replacing them. Now, 401(k)s have not proved to be an adequate substitute for the traditional pension plan or even for hybrid cash balance plans. The reasons are well known, and Phyllis Borzi and you both have mentioned some of them. They don't provide lifetime benefits, and retirees can outlive their assets.

Employees, rather than professionals, manage their own assets, and they tend to do pretty badly. They take too much risk or too little risk. They fail to diversify. They put their investments in their employer's stock. Even after Enron we see this. And as you say, fees can decimate investment returns.

Loans and hardship withdrawals that you have mentioned leak away assets. And then, you know, the fundamental issue is that employers generally contribute only through a match for employees' contributions. And lower income employees, as you have heard,

tend not to participate. So they don't get anything from their employer as a result.

The tax incentives are completely upside down for this program. They are skewed to higher income, higher tax bracket employees, who need savings help the least, and as a result, 80 percent of the tax benefits, the incentives for participating in 401(k) plans go to the top 20 percent of earners, just increasing the kind of income inequality that you and Senator Sanders have been talking about.

The result is a nation woefully unprepared for retirement, and I have different, slightly different figures, but they are about of the same magnitude as you have just heard from Mr. VanDerhei.

The Center for Retirement Research calculates that the retirement income deficit for households 32 to 64 is \$6.6 trillion. And the Federal budget deficit, of course, is about \$1.2 trillion, to give you a reminder about the magnitude of this.

The 401(k), I think, is at the heart of this problem. It has had serious negative consequences. It has increased inequality and allowed upper income families to shelter more and more of their income from taxation without increasing overall retirement savings at a cost which you ought to try to calculate, which is somewhere, I think, between \$1 trillion and \$2 trillion over the last 30 years.

What have we bought for that? Its creation precipitated the loss of the traditional pension by providing employers a way to shift investment risk to employees, as well as part of the cost of contributions.

But other congressional actions have also harmed the defined benefit pension plan before 1986. Some of these were well-intentioned, and some of them were actually, I think, wise changes. But they still led to a decline in pension plans.

Pension plans were a handy tax shelter for employers because earnings contributed to a plan aren't taxed, and employers routinely overfunded plans. But in 1986, Congress put limits on overfunding—Congress put limits on overfunding as a way to cut the Federal budget deficit and then made it harder for employers to recapture excess assets, which they were doing by putting on large excise taxes.

Congress tightened funding rules to make them pinch hardest, and you did this again just a few years ago, to pinch hardest at the very times employers can least afford to increase their contributions, during recessions and business downturns, whereas 401(k) plans are always funded, you know, at 100 percent by the contributions that the employer makes.

Employers can actually cut back and suspend their contributions, unless they have a collective bargaining agreement. And then faster vesting rules, which were an important thing to make sure that employees got a pension, made pensions more expensive.

All of these things and others, which I can talk about, contributed to the decline. But the result, of course, is this huge shift, where 40 percent used to have a defined benefit plan, and now less than 20 percent does.

As indicated in my testimony, you will see what the Center for Retirement Research predicts. The share of Americans at risk of being unable to maintain their living standards in retirement increases over time. Each succeeding generation will have less secu-

rity going forward. Gen Xers, you know, God save them, 71 percent will be at risk of not having an adequate retirement income.

So my message is the one that you have already announced yourself. The most important thing I can say is that cutting Social Security benefits in this context would be disastrous. It would be pulling the rug out from under millions of people.

Each year of raising the retirement age is a 6.5 percent cut in benefits that are already very modest. The average retiree has only \$14,000 a year in Social Security benefits, which is less than the minimum wage.

The program's 75-year funding gap is less than 2 percent of payroll. It should be and can be closed with revenue increases from upper income earners, more and more of whose income is escaping taxation while the average worker, as you have said, pays Social Security tax on 100 percent of his or her wages.

Polls show that this is the solution that Americans want. In a Rockefeller Foundation poll, 83 percent of Americans said that they would like to see taxes raised on the upper income people, who are not paying on their full share right now. Good policy actually happens to be good politics.

Thank you.

[The prepared statement of Mr. Eisenbrey follows:]

PREPARED STATEMENT OF ROSS EISENBREY

INTRODUCTION

Good morning, Chairman Harkin. I am Ross Eisenbrey, Vice President of the Economic Policy Institute. EPI is a non-partisan think tank with a long history of analyzing trends in employment, compensation, and income, as well as advocating for policies to ensure shared prosperity. We are founding members of two important coalitions: Retirement USA—28 organizations advocating for a retirement system that delivers universal, secure, and adequate retirement income—and Strengthen Social Security—a coalition of more than 150 organizations who feel strongly that Social Security benefits should not be cut and the retirement age should not be raised. Today, however, I speak only for myself.

Polls show that Americans are scared about their retirement. In a recent Gallup poll of people ages 44 to 75, more than 90 percent said we are facing a retirement crisis, and 61 percent said they fear depleting their assets *more than they fear dying*. Unfortunately, they have good reason to be scared.

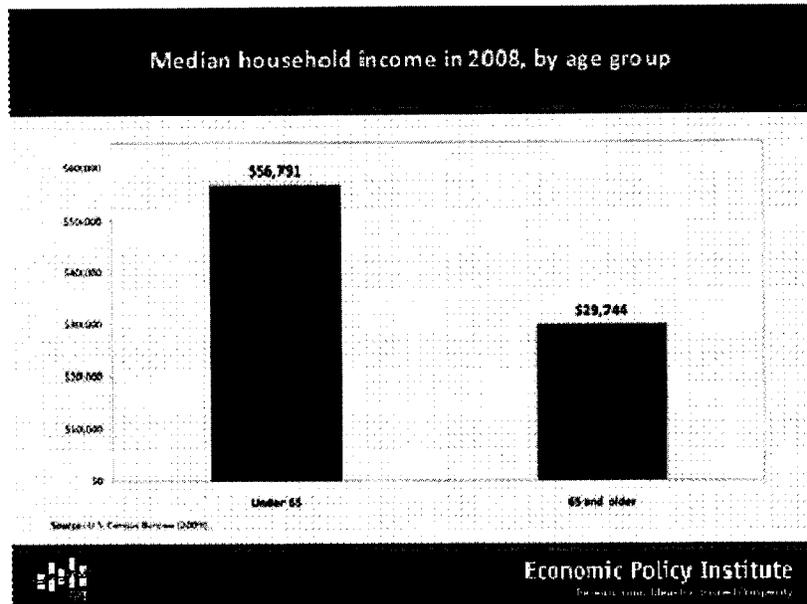
According to the Center for Retirement Research, American households ages 32 to 64 currently have a retirement income deficit of \$6.6 trillion, a figure that dwarfs the Federal deficit and casts a pall over hopes of them retiring in any kind of comfort. That is how far behind they are in building sufficient pensions and private savings to maintain their standard of living in retirement. This sum comes to \$90,000 per household, on average, which means these households have about half of what they need in retirement savings.

I have three main points to make in this testimony today:

1. Congress has made matters worse by focusing retirement policy on high-income households and neglecting low-income workers;
2. Congress and the Obama administration will make matters even worse if they raise the Social Security retirement age; and
3. There are potential solutions to the retirement crisis, but tweaks and small changes at the margins won't be enough.

**1. Congress has made matters worse by focusing retirement policy on high-income households and neglecting low-income workers.**

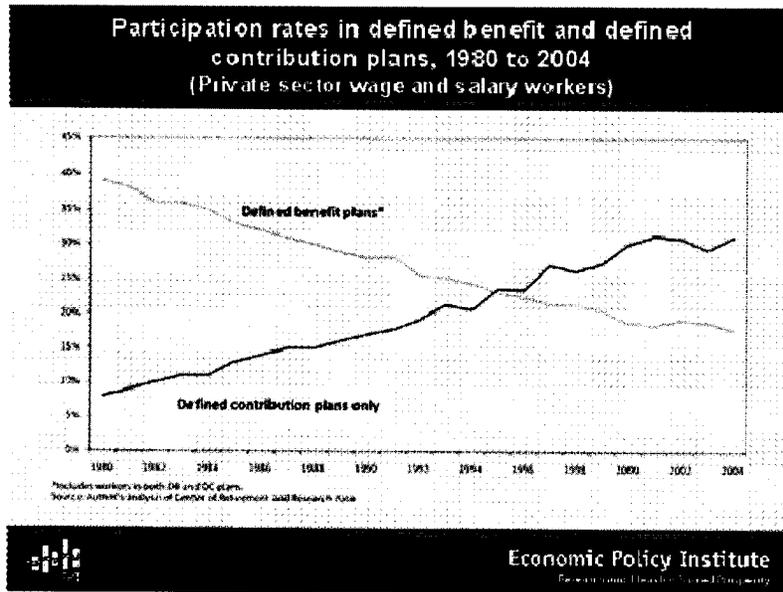
The median household income of seniors in 2008 was less than \$30,000, about half that of households under 65.



While nothing to tout, the financial situation of seniors today might be as good as it will ever get for the typical American. Between declining pension coverage and Social Security cuts, it is possible that the next generation to retire will be the first to be worse off than its predecessor.

The surest vehicle for retirement savings (other than Social Security) has been the traditional defined-benefit pension, which is disappearing. Almost from the day in 1978 that Congress created an alternative savings vehicle, the 401(k) plan, employers have been shifting employees out of pension plans and into these accounts that put all of the risk and more of the cost onto the backs of individual workers. Only about one private sector employee in five is still covered by a real pension plan.

Traditional pension plans are pooled investments, managed by professionals, and spread risks over many years (even generations), while 401(k) participants must make their own investment decisions and bear the risk of adverse investment performance. But most 401(k) participants do not have the financial expertise to manage their investments. Many fail to diversify sufficiently and often make poor investment decisions. They tend to have an all-or-nothing approach to risk, and despite the lessons of Enron, many still have funds invested in employer stock.

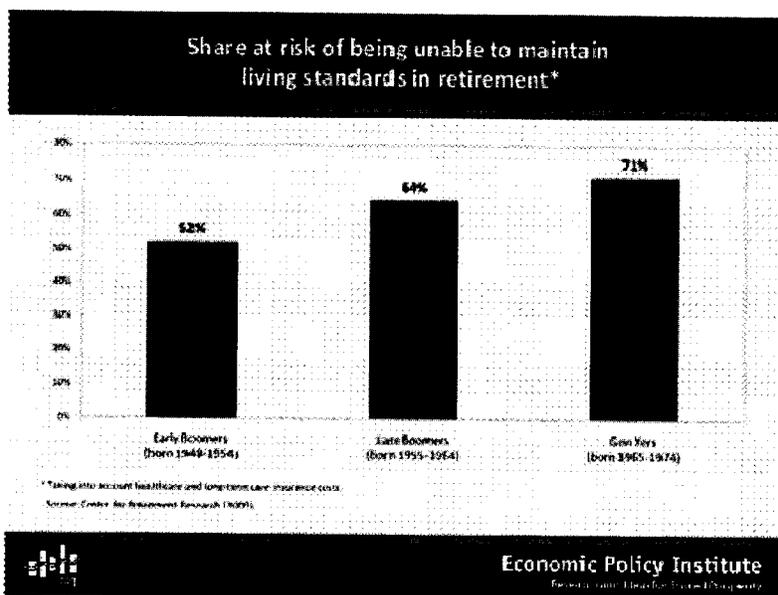


Luck plays an oversized role in whether retirement savings in personal accounts will be adequate. Even 401(k) participants who make relatively conservative investment allocation decisions over a long time horizon are subject to unacceptable risks. Gary Burtless of the Brookings Institution has estimated that 401(k) participants who contributed 4 percent of her wages over 40 years and invested the funds in a portfolio split equally between long-term government bonds and stocks would be able to replace a quarter of their pre-retirement earnings if they retired in 2008. This replacement rate is only half as much as a similar worker who retired in 1999, but much better than a worker who retired in 1974, who would have a dismal replacement rate of only 18 percent.

Another key risk—one the Gallup survey identified—is longevity. A real pension guarantees a monthly payment for a lifetime, whereas retirees can and do outlive their 401(k) assets.

And finally, the fees associated with 401(k) plans can decimate long-term returns. The Center for Retirement Research estimates that net investment returns were a full percentage point higher for defined-benefit pension plans than for 401(k)-type defined contribution plans between 1988 and 2004, despite a lower concentration of funds invested in equities. With compounding of the returns on the investment, this small-sounding difference can translate into a 30 percent larger nest egg at retirement.

The end result of the shift from secure pensions to insecure 401(k)s and Social Security cuts can be seen in the following chart, which presents the likelihood of inadequate retirement income for three successive generations, each with a smaller share of pension coverage than the generation before.

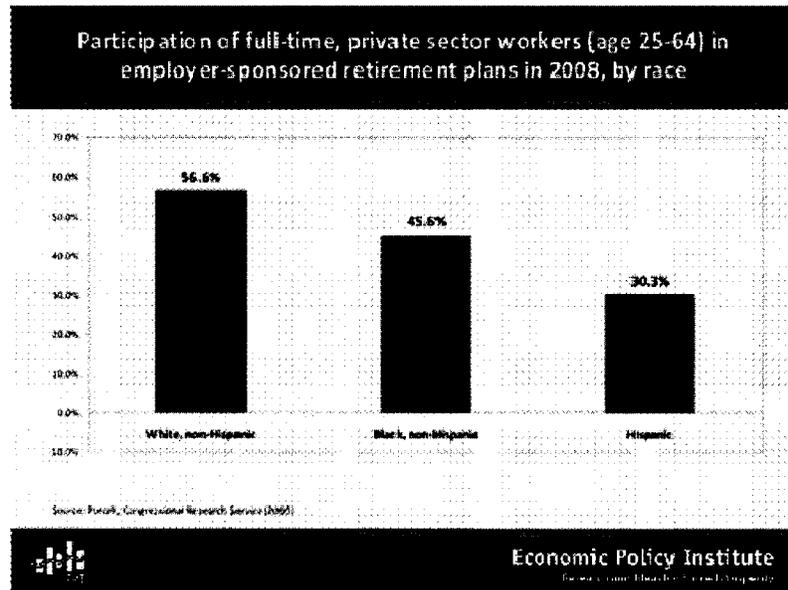


I hope this committee will recognize that the retirement income deficit we are leaving for the Gen Xers is at least as serious as the “burden of debt for our grandchildren” that gets so much attention in the media and in political debate.

How can it be that after 32 years and trillions in tax subsidies, 401(k)s have worsened—rather than improved—retirement security? First and foremost, the design of the 401(k) ensures that its tax subsidies go disproportionately to high-income earners who least need the government’s help in saving, while providing little or nothing to low-income earners, many of whom struggle to meet their daily expenses, let alone save for a distant retirement.

The Urban-Brookings Tax Policy Center estimates that 80 percent of the tax subsidies for retirement savings go to the top 20 percent of earners. This is government welfare stood on its head. There is no rationale for providing a larger tax break to a millionaire than to a Wal-Mart cashier for the same dollar contribution to a 401(k) plan (and nothing at all if the cashier owes payroll but not income tax). Similarly, high earners receive more help from employers, who contribute 5 percent of earnings, on average, to the retirement accounts of households in the 75th percentile, compared with less than 2 percent for those at the 25th percentile, according to the Congressional Research Service.

Rather than continue to make this situation worse by increasing the 401(k) contribution limits, which benefits only the highest earners, Congress should re-structure the tax subsidies to ensure that they help everyone save for retirement and provide no greater aid to the upper class than to the working class. One common sense improvement would be to change the current system of deductions into tax credits and make them refundable. But bolder steps are called for.



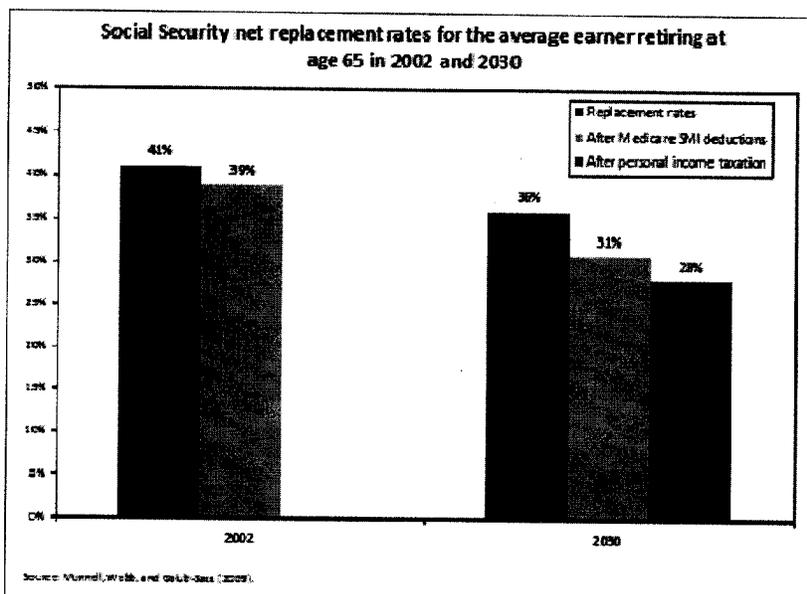
The system of relying on tax subsidies to expand the employer-based retirement system has proven a failure. Only about half of all private sector workers in the United States between the ages of 25 and 64 participate in a retirement plan—and participation is much lower for blacks and Hispanics. Despite rising enrollment in 401(k)s, this figure has remained essentially unchanged for 30 years because employers have simply replaced traditional pensions with 401(k) plans.

**2. Congress and the Obama administration will make matters worse for most Americans if they raise the Social Security retirement age.**

Knowing that retirement insecurity is growing and that the coming generations are even less well-prepared than those nearing retirement now, how can Congress consider raising the retirement age, which is exactly the same as a benefit cut?

Social Security is the one part of retirement income working people can count on. It isn't adequate—it replaces only 39 percent of pre-retirement income for the average retiree—but it is universal and secure.

Unfortunately, we are already weakening this foundation of our retirement system, and some are proposing further cuts. Taking into account the increase in the normal retirement age from 65 to 67 as well as Medicare deductions and income taxes paid on benefits, the net replacement rate for the average earner retiring at 65 is already scheduled to drop from 39 percent to 28 percent in two decades.



The trust fund has more than \$2 trillion and will be able to pay 100 percent of promised benefits for another 27 years. Even then, Social Security will not “go broke” but will be able to pay 78 percent of promised benefits.

So the question isn’t how to “save” the program; it will survive without any change. The problem is how to get more money into the trust fund so full benefits can be paid in perpetuity. The goal is, or ought to be, to preserve full benefits and to maximize the retirement income of the tens of millions of households that depend on Social Security.

Yet the Peterson Foundation and a host of other mostly well-off “experts” have managed to convince much of the media and many Washington policymakers that the way to save Social Security benefits is to cut them. Working people can see through this, however, and every poll shows large majorities that reject cuts in benefits, reject raising the retirement age, and support higher taxes to pay for promised benefits.

Despite what we have heard from your former colleague, Alan Simpson, the average Social Security recipient isn’t living in a gated community. The average benefit is about \$14,000—less than a minimum wage income—and Social Security provides more than half the income for 55 percent of seniors. Cutting such modest benefits means reducing the consumption and living standards of tens of millions of households.

The cuts that Simpson, Alice Rivlin, and others call for would come on top of major cuts Congress imposed in 1983, which are still taking effect. I know that you, Mr. Chairman, and Senator Sanders understand that raising the retirement age is not a fair way to deal with longer life expectancies. You should both be commended for introducing S. Res. 664, your Sense of the Senate Resolution opposing any benefit cuts.

Over the past quarter century, life expectancy at age 65 has increased by 1 year for lower income men, compared to 5 years for upper income men. Men in the lower half of the earnings distribution have not even caught up to where upper income men were in 1982. In the case of women, although life expectancy has grown slowly overall, lower income women are actually seeing declines and upper income women are seeing only modest improvements. The general pattern appears to hold with older women as well.

Second, many workers in physically demanding jobs are already unable to work to the full retirement age. They retire before 66 because a lifetime of working on their feet as cashiers, or doing construction, or lifting patients in a nursing home, have worn them out and left them hurting. It is easy for a Member of Congress,

an economist, or a lawyer to imagine working until 70, but it is much harder to imagine a truck driver or factory worker doing so. Research by Hye Jin Rho of the Center for Economic and Policy Research found that 45 percent of older workers last year were employed in physically demanding jobs or jobs with difficult working conditions. These are jobs most likely to be held by less educated workers who are more likely to find themselves out of work late in life.

Third, raising the retirement age disproportionately hurts low-income Americans who rely on Social Security the most. A 2-year increase in the retirement age is equivalent to a 13 percent cut in benefits for someone who retires at 65. For seniors in the bottom fourth of the income distribution, this translates into an 11 percent cut in much-needed income, because these seniors rely on Social Security for 84 percent of their total income. For seniors in the top fourth of the income distribution, however, this would amount to a 2.6 percent cut in total income. This is not to suggest that we should shrink Social Security by targeting cuts at the top, however, because Social Security's strength is its universality. The fact that even high-income earners have an important stake in Social Security is why the program has remained almost unscathed for 75 years, while other parts of our safety net are in tatters.

As Social Security Chief Actuary Stephen Goss has pointed out, the main pressure on the cost side isn't rising life expectancy, but rather declining birth rates. Revenues, however, are also declining due to stagnant wages, growing wage inequality, and rising health care costs.

The Greenspan Commission predicted the Baby Boom and rising longevity and took them into account when they balanced benefit cuts and increased revenues. What the Commission didn't anticipate was the enormous growth in inequality, that the top 1 percent would get 55 percent of all income growth over the last 30 years, while the bottom 90 percent would get only 16 percent. Rising inequality has meant that much more income growth has occurred above the taxable income cap than below it, shrinking the program's revenue dramatically.

As the earnings of most workers have stagnated and earnings of those at the top have skyrocketed, the system's revenues have suffered because earnings above the taxable earnings cap—currently set at \$106,800—are not subject to the Social Security payroll tax. Though the cap is indexed to average wages, these wages have not grown as fast as earnings at the top, leading to an erosion of Social Security's tax base. As a result, the share of untaxed earnings grew from 10 percent in 1983 to around 16 percent in 2008.

The problem has been compounded by health care cost inflation, which increases the share of compensation going to untaxed fringe benefits. The Social Security actuaries estimate that the recent health care overhaul will somewhat mitigate this problem, but health care cost inflation remains a problem for Social Security and the economy as a whole.

Most Americans don't realize that someone with a salary of \$300,000 or even \$30 million a year pays no more in Social Security taxes than someone earning roughly \$107,000. When they do realize this, they don't like it. A poll commissioned by the Rockefeller Foundation and the National Academy of Social Insurance (NASI) found that 83 percent of respondents support lifting the Social Security tax cap so that all workers pay the same payroll tax rate, regardless of income.

In prior congressional testimony, EPI Research and Policy Director John Irons recommended a variation on elimination of the cap: eliminating it for employers while retaining but raising the cap on high-income employees. With earnings up to the employee cap credited for benefit purposes, this change would reduce the long-term funding shortfall by about three-fourths.

There are several advantages to this approach. It would eliminate most of the long-term shortfall, while maintaining a link between contributions and benefits. It would not lead to extremely large benefits for millionaires, which could be a concern if all earnings were credited for benefit calculations. Finally, self-employed taxpayers, who are responsible for both the employer and employee contributions, would not face as large an increase in payroll taxes as a full elimination of the cap.

Furthermore, this option would have a modest impact on the standard of living of upper income taxpayers. On the employee side, this would mean an increase in tax payments of, at most, 2.6 percent of income. If income growth for the top 5 percent of households continues as it has for the past 20 years, and assuming that all 6.2 percent of the employer tax were passed on to employees in the form of lower wages, this additional tax obligation would be recouped by these households in less than 4 years. Affected taxpayers would also recoup some of these higher taxes in the form of higher benefits.

**3. There are potential solutions to the retirement crisis, but tweaks and small changes at the margins won't be enough.**

Given the \$6.6 trillion retirement income deficit, strengthening Social Security, rather than further weakening it by reducing benefits, is a necessary but insufficient first step to restoring retirement security. As we said at Retirement USA's inaugural conference last year:

"We need a comprehensive solution that addresses interrelated problems. For example, a system that places most of the burden for retirement saving on individuals will always have to wrestle with the problem of pre-retirement loans and withdrawals (simply plugging these leaks will not work, because many workers would stop contributing to the system). A system that relies on tax incentives to promote individual retirement savings will necessarily tend to favor high-income workers who can afford to save more and who benefit the most from these tax breaks. Conversely, a truly universal system would need to shield low-income workers from out-of-pocket costs or wage cuts."

EPI has published and advocated what we feel would be an excellent national supplemental retirement plan, the Guaranteed Retirement Account, which was authored by Professor Teresa Ghilarducci, Director of the Schwartz Center for Economic Policy Analysis at the New School for Social Research. In a nutshell, the GRA would mandate employer and employee contributions to a federally administered cash balance plan. The combined 5 percent of payroll contributions would be invested by a Thrift Savings Plan-like entity in the bond and stock markets, with a guaranteed minimum return of 3 percent beyond inflation. A \$600 tax credit would cover the entire 2.5 percent contribution for workers earning \$24,000 or less, and greatly reduce the effective contribution rate for other lower paid workers. We calculate that at the end of a normal working life, the average worker would accumulate, along with Social Security, enough to assure a 70 percent replacement rate of pre-retirement income.

Retirement USA has not endorsed the GRA, except to affirm that it meets all of the 12 principles the coalition set out as essential to deliver retirement income that is universal, secure, and adequate. Our coalition has asked the public for other model reform plans that meet our principles and have received more than two dozen that satisfy most or all of them. It is clear to the Retirement USA coalition that any successful model will have certain common elements:

- All jobs must come with benefits that provide a steady retirement income for life. As currently structured, Social Security is not enough. Relying primarily on tax incentives to encourage employers to provide benefits or individuals to save is ineffective and helps those who least need it.
- Investment and longevity risks must be spread, not just shifted from employers to workers. Here too, government can play a role, and so can multiple-employer plans.
- Responsibilities must be shared. A do-it-yourself system does not work, but neither does a system that places the entire burden on employers. Government must also be involved, especially to offset the cost of contributions for lower income workers.
- Finally, the key to achieving adequacy is maintaining steady contributions and preserving funds for retirement by preventing pre-retirement loans and withdrawals and by limiting fees.

The most interesting plans we received include the Variable Defined Benefit Plan conceived by Gene Kalwarski, CEO of Cheiron, Inc., the Retirement USA-Plus presented by Nancy Altman, Chairman of the Board of the Pension Rights Center, and Glenn Beamer's Guaranteed Pension and Community Investment Plan, all of which are summarized, with others, on the Retirement-USA Web site ([www.retirement-usa.org](http://www.retirement-usa.org)).

The CHAIRMAN. Thank you very much, Ross.

And now we will turn to Ms. Miller.

Ms. Miller, I also read your testimony last night, and it is very profound. Please proceed.

#### **STATEMENT OF SHAREEN MILLER, FALLS CHURCH, VA**

Ms. MILLER. Good morning. Thank you. I would like to thank Chairman Harkin and Senator Sanders and the rest of this committee for inviting me to speak today on this important issue.

Again, my name is Shareen Miller, and I am the mother of two and proud grandma of one. I am a personal care assistant in Falls

Church, VA, and I am a member of the SEIU Local 5. I started working when I was 17 years old. You name it, I have done it. I have pumped gas, managed a convenience store. I have cooked pizzas, worked in a nursing home. I am used to living hand-to-mouth, doing what I have to do to pay the bills. Like most Americans, I am worried about my retirement. I worked hard all my life, but I have no pension. I have not been able to save enough money, and Social Security alone won't be enough to sustain me.

As a personal care assistant, I make \$12 an hour. I receive no healthcare benefits, no retirement benefits, no sick time or vacation time. I care for a client, Marissa, in her mid-20s with spastic cerebral palsy.

Personal care is not babysitting. My job includes bathing Marissa, cooking for Marissa, feeding her, helping her use the bathroom, assisting her with schoolwork for college, and anything else she cannot do by herself. I like to say that I am her hands, since she can't use her own.

I love Marissa. This is the most rewarding job I have ever had. Without the services I provide, she would not be able to live a full and productive life.

I cannot do personal care forever. Marissa can move herself in a power chair, but I have to lift her into the bed. I have to lift her into the tub. And if we want to go somewhere, I have to lift her into the car. It becomes harder each year. I think about the day when I permanently damage my back or knees trying to lift her. After all, how many of you could imagine your grandmothers carrying a person around?

Other career options will not be very attractive, as there is not a lot of open doors for 65-year-olds with a high school education. So I have no planned retirement date. I will keep on working until my body gives out. So if continuing working isn't an option, what do I have to fall back on for retirement? Twelve dollars an hour doesn't leave much room for savings. My entire paycheck goes to pay my mortgage, keep the electricity on, putting gas in my car, and buying groceries.

I have approximately \$28,000 left in a 401(k). It is from a previous job, and it is half of what it was before the market that crashed in 2008. I am no expert in investing, but I do know that our retirement should not be left to the ups and downs of Wall Street.

Thankfully, I know Social Security will be there for me. If I retire at the full retirement age, I will receive at least \$17,000 a year, and it will not be subject to the swings of the market. But it is still not enough. I make approximately \$35,000 a year, and I am barely making ends meet. And if there is an emergency, like necessary dental or car repairs, I have to borrow from my 401(k). I have no idea how I can live off of \$17,000 a year, and that is if my back holds up for another 20 years. And if the retirement age is raised to 70, as some are proposing, I would lose another 5 percent of my pay if I chose to retire at the current retirement rate.

We need to act to strengthen Social Security. Cutting Social Security or raising the retirement age is not an option, but we need to do more.

Members of this committee and every lawmaker in Washington needs to commit to finding solutions that allow Americans who spend a lifetime of hard work, driving their bodies to the limit, to retire with dignity, to be able to pay their bills and spend time with their grandchildren. I hope we can meet this challenge.

Thank you again for letting me share my story.

[The prepared statement of Ms. Miller follows:]

PREPARED STATEMENT OF SHAREEN MILLER

Good morning. I would like to thank Chairman Harkin, Senator Sanders, Ranking Member Enzi and the rest of this committee for inviting me to speak on this important issue.

My name is Shareen Miller. I'm a personal care assistant in Falls Church, VA and member of SEIU Local 5. I started working when I was 17 years old. You name it, I've done it—pumped gas, managed a convenience store, cooked pizza, worked in a nursing home. I'm used to living hand-to-mouth, doing what I have to to pay the bills.

Like most Americans, I am worried about my retirement. I've worked hard all my life. But I have no pension, have not been able to save nearly enough, and Social Security alone will not be enough to sustain me.

As a personal care assistant, I make \$12 an hour and receive no healthcare benefits, retirement benefits, sick time or vacation. I care for a client, Marissa, in her mid-twenties with Spastic Cerebral Palsy. Personal care is not babysitting. My job includes bathing Marissa, cooking, feeding her, helping her use the bathroom, assisting her with schoolwork and anything else she cannot do by herself. I like to say that I am her hands since she cannot use her own.

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I cannot do personal care forever. Marissa can move herself in a power wheelchair, but I have to lift her into beds, baths, and cars. It becomes harder each year. I think about the day when I permanently damage my back or knees trying to lift her. After all, how many of you could imagine your grandmothers carrying other people? Other career options will not be very attractive as there are not a lot of open doors to 65-year-olds with a high school education.

So I have no planned retirement date—I will keep on working until my body gives out. So if continuing working isn't an option, what do I have to fall back on for retirement?

Twelve dollars an hour does not leave much room for savings. My entire paycheck goes to paying the mortgage, keeping the electricity on, putting gas in the car, and buying groceries. I have \$28,000 left in a 401(k) from a previous job. Half of what it was before that market crashed in 2008.

I am no expert in investing. But I do know that our retirements should not be left to the ups and downs of Wall Street. Thankfully, I know Social Security will be there for me. If I retire at the full retirement age, I will receive at least \$17,000 a year. And it will not be subject to the swings of the market. But it's not enough. I make about \$35,000 a year and am barely making ends meet—and if there is an emergency like necessary dental work or car repairs, I have to borrow from my 401(k). I have no idea how I can live off \$17,000 a year. And that is if my back holds up for another 20 years. And if the retirement age is raised to 70, as some are proposing, I would lose another 5 percent of my pay if I choose to retire at the current retirement age.

We need to act to strengthen Social Security. Cutting Social Security or raising the retirement age is not an option.

But we need to do more. Members of this committee and every lawmaker in Washington needs to commit to finding solutions that allow Americans who spend a lifetime of hard work, driving their bodies to the limit, to retire with dignity. To be able to pay their bills and spend time with their grandchildren. I hope we can meet the challenge.

The CHAIRMAN. Thank you, Ms. Miller, for putting it in concrete human terms.

Ms. MILLER. Thank you.

The CHAIRMAN. I mean, I am not disparaging our experts who are here—they do incredibly important work, too, in informing us

as to what is happening. But I think too often we just don't get down to the real people and what is happening out there. As I said, we keep talking around here about tax breaks for \$250,000 and above or \$1 million and above, as if that is the middle class of America. You are the middle class of America. Most Americans are making what you make—\$35,000, \$40,000, \$45,000, \$50,000, \$55,000 a year. That is the middle class of America. They are being squeezed like they have never been squeezed before. And on top of that, they are losing their retirements.

So, is it any surprise that the vast middle class of America is pretty upset with what we are doing? Doesn't come as any surprise to me.

But thank you very much for being here and telling us your story. And I will have a couple of questions for you, too.

But I wanted to ask Mr. VanDerhei, in the old days, again, many people got their defined benefit pension through their employers. They didn't have to sign up or choose which plan. It was just automatic.

Now retirement has gotten a lot more complicated. Workers with 401(k)s need to do research, figure out how much they need to set aside for retirement. That is their own choice, their own decision. Less than—at least my figures or what I have been informed is that less than half of the workers actually do the calculations. Only about one-third are getting professional advice.

You note in your written testimony that when workers understand how much they need for a secure retirement, they generally increase their savings. In that regard, there have been proposals, including one from Senator Bingaman, to require 401(k) account balances to show a participant's projected income stream in retirement, not just the account balance.

Do you think giving workers that kind of information would, No. 1, encourage retirement savings? And what if that were paired with an estimate of how much a person would need in retirement? In other words, here is how much you would need in retirement, and here is what your income stream would be. Do you think that might encourage people maybe to set aside a little bit more if they were able to?

Mr. VANDERHEI. Senator Harkin, that is an excellent question. And I am afraid my answer is going to be more complicated than a simple yes or no, if you don't mind.

This is something we have studied for many, many years at the Employee Benefit Research Institute. We have a 2006 issue brief just trying to estimate what people actually do need to have a comfortable retirement. The problem I would see of trying to do something that is just a boilerplate regulation or legislation is that there are so many complications in trying to figure out what is an adequate retirement target. It depends on whether or not you have any sort of annuity. It depends on whether you have any sort of long-term care. It depends on a number of different things.

And just to quickly emphasize one thing, is that you can do all the simulation modeling you want and come out with, "Here is the average value." You have to keep in mind that if you shoot for a target that is based on averages, you are, in essence, telling people, one chance out of two, you are not going to have sufficient money

either because you live too long or because you had catastrophic healthcare costs or what have you.

So if someone were trying to approach something like that, my professional opinion would be you can't just have a number. You absolutely have to have a range of numbers to try to guide them along to their particular comfort level, and you have to reflect their particular characteristics.

I personally think it might be a bit misleading, more than a bit misleading, to just come out with any rule of thumb and try to apply it across the board.

The CHAIRMAN. That is really hard for people, for the average person, to sift through all those numbers, sift through all that and say, "Here is what I need."

Look, I have a law degree. My wife has a law degree. We make good money. We are in the upper ranges there. So we were thinking about our retirement and went to a retirement counselor, and she gave us all these things. I don't even understand it.

I said, "Well, what do you think? What do you think is best for us?" "Well, here is what I think." OK, fine, we will do that. I have to believe that is what most people do. They can't understand all this gobble-dy-gook, you know, the average worker out there? So they tend to take whatever is presented to them, is suggested to them.

So how do you get it in a form so that they really do understand, here is what your income stream can be, and here is how much you need. Based upon where you are now—assuming if you are disabled now—here is what you need. If you are not disabled, if you don't become disabled, here is what you need, to project what you need, and here is your income stream. Then people would have a pretty good idea of that, wouldn't they?

Mr. VANDERHEI. If one were to simplify the target to a place where one could do ready comparisons between the projected annuity value coming from a defined contribution plan, plus their Social Security, plus their additional savings, plus if they had a defined benefit or a cash balance situation, and combine all that information together, again, one could come up with a relatively easy comparison.

My extreme caution would be if you are going to develop that target based on nothing but average life expectancy, average investment experience, average healthcare costs in retirement, you are, in essence, dooming them to a 50 percent chance of running out of money in retirement. If you are going to proceed down that route, one needs to be conservative in those assumptions. One needs to realize life expectancy is going to be relevant only for 50 percent of the population. One needs to get a target that they will be able to focus on and have some degree of certainty that that would be sufficient for them.

The CHAIRMAN. I am trying to get a better handle on this and also this whole shift to the 401(k)s. But the other thing I wanted to ask you is—I will pursue that later because I want to ask—oh, my time is out. I have a lot of questions for Ross and Ms. Miller, but I will turn to Senator Sanders. We will go back and forth.

Senator SANDERS. Thank you, Mr. Chairman.

And thank you all for your excellent testimony.

Mr. Eisenbrey, let me briefly run through some economic history the last couple of years. A couple of years ago, as a result of the greed and illegal behavior on Wall Street, this country has been plunged into a horrendous recession. Congress in its wisdom, against my vote, decided to bail out Wall Street to the tune of \$700 billion.

No. 2, despite growing income and wealth inequality in America, what we have done in recent years is lower taxes for the very rich. Warren Buffett, you know, Mr. Chairman, often comments that he, one of the richest people in the world, pays an effective tax rate lower than his secretary—effective tax rate.

Right now, we have some of our colleagues who want to give \$700 billion in tax breaks to the top 2 percent and want to repeal the estate tax, which will provide \$1 trillion in tax breaks to the top  $\frac{3}{10}$  of 1 percent.

And now in the midst of all of that, we have folks like Pete Peterson of the Peterson Foundation—now, you say in your remarks,

“The Peterson Foundation and a host of other mostly well-off experts have managed to convince much of the media and many Washington policymakers that the way to save Social Security benefits is to cut them.”

Would you want to comment on a billionaire, who made his money in Wall Street, now suggesting spending a huge sum of money to convince the American people that the way to save Social Security is to cut benefits?

Mr. EISENBREY. Yes. There is so much to say about that.

Senator SANDERS. And so little time.

Mr. EISENBREY. You know, the average person, the secretary, Warren Buffett's secretary, if she is making a good income, might be paying 35 percent on her salary, whereas someone like Pete Peterson with hundreds of millions, billions of dollars in capital investments is paying 20—15 percent on his capital gains and the dividends.

And when confronted with the possibility of helping out the deficit by supporting the carried interest—ending the carried interest exemption, which taxes private equity managers at a capital gains rate instead of at ordinary income rate, chose to oppose the repeal of that exemption.

So his concern about the Federal deficit is a very narrow one, and it seems to be focused on people who have very little and what they can contribute to closing the deficit.

As I think you said earlier, Social Security does not contribute to the deficit. The law prohibits Social Security from borrowing. So if we did nothing, and the trust fund actually were depleted, as predicted in 2037 or 2039, it would even then not contribute to the deficit. The benefits would be automatically cut.

Senator SANDERS. Let me ask you this. Why are our good friends on Wall Street so interested in seeing Social Security privatized or dismantled?

Mr. EISENBREY. Oh, they have always opposed Social Security since its inception, and part of it is that if there weren't Social Security, people would have to save through 401(k)-like instruments, which give them a fee. It is a business choice for them, and they would like to see their business expanded.

Senator SANDERS. Thank you very much.

Ms. Miller, thank you very much for being here today. And I want you to know, as Senator Harkin indicated, your experience is the experience of many, many millions of people who, sadly enough, don't have their experiences really reflected here on Capitol Hill.

There are those, as I think you have heard, who suggest that you should be perhaps working to the age of 70, and many of those guys sit behind a desk and make a whole lot of money. They think it is a great idea that you work until the age of 70 and that people who are involved in construction, people who are on their feet every day, people who are doing physically demanding work, as you are, should work to the age of 70. What do you think?

Ms. MILLER. I would work until I am 70 because I am going to have to. If my body doesn't give out, I will be fine. But that is a hope. I am lifting a 100-pound person in and out of bathtubs. It is very hard work. They can work until they are 70 because they are sitting behind a desk, as you said. They are not out physically doing labor. And if I was sitting behind a desk, I would have no problem to work until I am 80, as my mother-in-law is 80, and she has a great—

Senator SANDERS. You can run for the U.S. Senate. You would be one of the younger members.

[Laughter.]

Ms. MILLER. That would be great because then my grandson would have somebody to be really proud of, wouldn't he? My mother-in-law is 80, and I was saying in the elevator up here, When I turn 80, I want to be as sound of mind and body as she is. You know, she is very lucky. But if I continue working like this, I will never make it to 70 in employment.

Senator SANDERS. Let me ask you this also. Let us just assume one is 68 years old doing your type of work. The truth of the matter is many employers would prefer somebody who is 25 years of age, who will work for a lower wage, right, and maybe have more strength. What happens if you are 68, and somebody says, "Well, I am sorry, I can't hire you anymore." Do you think there will be a whole lot of good job opportunities for 68-year-old people out there?

Ms. MILLER. No. There are not even good opportunities out there for a 43-year-old like myself. I mean, when I came back into the job market after 10 years on a job in the construction field—I was a bookkeeper. I was making good money. I thought I was high on the hog, actually, then. I was making over double what I am making now. But I went to find a job, and I was semi-skilled. I can do bookkeeping and all that. I couldn't find a job. That is what they wanted. They wanted young kids, and I was in my 40s already.

Senator SANDERS. And they want young people often in physical demanding jobs. Younger people are stronger.

Ms. MILLER. They are.

Senator SANDERS. Also, in other types of work, younger people are going to work for lower wages than older workers are. So I am not sure, Mr. Chairman, what world people are living in when they think, hey, you are 68, 69. You can go out and get a job. You don't need Social Security. It is really quite incomprehensible to me.

Thank you very much, Ms. Miller.

Ms. MILLER. Thank you.

Senator SANDERS. I thank the whole panel.

The CHAIRMAN. Senator Sanders, just to follow up on that, I was reading Mr. Eisenbrey's testimony, and on page 6, he said that,

“Yet the Peterson Foundation and a host of other mostly well-off experts have managed to convince much of the media and many Washington policymakers that the way to save Social Security benefits is to cut them. Despite what we have heard from your former colleague, Alan Simpson, the average Social Security recipient isn't living in a gated community.”

Now there you go. I think that sort of puts your finger on it. I mean, I like Alan Simpson. He is a fine man. But I know a lot of retired Senators, Senators who have left here, either been defeated or voluntarily retired. And that is who they associate with—people kind of who live in gated communities. They are upper income people. Maybe they are not living in gated communities, but they are upper income.

They are not associating with Ms. Miller and the families that make \$40,000 and \$50,000 and \$60,000 a year. They are associating with people like us, making \$200,000 and more per year.

That is who they associate with. So you automatically think, well, gee, I know all these elderly people, and they got the condo in Miami, and then they got someplace else up north for the summer, and they got a gated community. That is who Alan Simpson is thinking about.

But that is not the bulk of Americans who are out there. That is just the very thin veneer at the top. The average benefit, as you point out, is about \$14,000 for Social Security. I doubt that anybody on that is going to be living in a gated community.

We have to get back to just who we are talking about here. Who are we talking about? What are we talking about? Who are we talking about?

Mr. Eisenbrey, you also said,

“Unfortunately, we are already weakening this foundation of our retirement system, and some are proposing further cuts. Taking into account the increase in the normal retirement age from 65 to 67,”

which we are doing right now, based upon the 1982 or 1981—1983 bill,

“as well as Medicare deductions and income taxes paid on benefits, the net replacement rate for the average earner retiring at 65 is already scheduled to drop from 39 percent to 28 percent in two decades.”

So the replacement rate at 65 was 39. You say by raising the average age to 67, that replacement rate will drop to 28. What will it drop to if you raise it to 70? Do you know, or Mr. VanDerhei, I don't know. Do either one of you know that?

Mr. EISENBREY. It is another 13 percent—no, to 70 is a 19.5 percent additional cut in benefits. I will give you the calculation of what that would do to the average replacement rate, but you can see that it is a substantial cut. Each year that you raise the retirement age is an additional 6.5 percent cut in benefits.

The CHAIRMAN. So I would say, just off-hand, thinking out loud, 39 to 28, 11 percent, if you went to 70 from 67, that is 3 more years rather than 2 years. You have got to have a replacement rate down in the teens someplace, I would think.

Mr. VanDerhei, am I very off on that?

Mr. VANDERHEI. It would certainly be the high teens.

The CHAIRMAN. Pardon?

Mr. VANDERHEI. It would certainly be the high teens. I am just trying to do this back of the envelope right now.

The CHAIRMAN. I am just doing that, too. But it would be somewhere less than 20 percent. So we would have gone from a 39 percent replacement rate to somewhere down in the teens.

Now, for someone who has been in the upper income brackets, not a big deal. You could absorb that. But how does Ms. Miller—how does someone who is earning \$35,000, \$40,000, \$45,000 a year—how do they absorb that replacement rate? I mean, their standard of living is really going to fall, really going to fall.

Is that right, Mr. Eisenbrey?

Mr. EISENBREY. That is right. And I think the figures that Mr. VanDerhei gave you on how close people are to poverty, this would push millions of people into poverty.

We have done a fairly good job as a nation of taking care of elderly poverty. It used to be very high before Social Security. But as benefits are cut, there is no question that more and more people will be pushed into dire circumstances.

The CHAIRMAN. Both you and Dr. VanDerhei have talked about the decline of the defined benefit plan system and the rise of 401(k)s. Here is a book I have read—I keep referring it to people—“The Great Risk Shift” by Jacob Hacker. And there is a whole section in there about this issue, about going from defined benefit plans to defined contribution plans.

But what I can't seem to get my hands on is when did this take place, and why? Why don't more employers want to offer defined benefit pension plans anymore? When did this take place, and why?

Mr. VanDerhei and then Mr. Eisenbrey, give me some context here.

Why and when?

Mr. VANDERHEI. You would have to go all the way back to 1974 with the enactment of ERISA to get a full story. And keep in mind that in November 1981, proposed regulations were released that allowed 401(k) plans to basically develop the way they have.

You have had many things happen since 1974, which have made defined benefit plans less and less attractive for employers due to certain constraints on funding flexibility. And one of the problems that happened in the mid-1980s was, because of the deficit, there was a problem when they were trying to deal with PBGC problems. There was a huge underfunding for PBGC, and they wanted to make sure underfunded defined benefit plans would be increasing their minimum funding standards.

The problem is, if minimum funding standards go up for that portion of the defined benefit population, that means more contributions, more tax deductions, more revenue losses. So a decision was made—I believe in 1986 or 1987—that to counter the revenue

loss for increasing minimum funding standards for underfunded plans, there would be a temporary holiday on deductible contributions for overfunded plans, roughly defined as any plan that had more than 50 percent more assets than they needed to cover their liabilities.

I do believe the thought was you give plans a holiday of 1, 2, 3, 5, 7 years, and when that funding ratio came back down to 150 percent eventually, that employers would start making their deductible contributions to these overfunded defined benefit plans.

Unfortunately, if you talk to many, many pension consultants, when that day finally came when the pension holiday window had evaporated, surprise, employers had found other things to do with the money they were making as far as contributions to their defined benefit plan. They had rethought from an HR perspective, from a strategy perspective, whether or not they really wanted to continue to prefund defined benefit plans to that extent.

The problem is—and I worked on some of the initial modeling with PBGC for the PIMS model—we all knew that, sooner or later, you would get the perfect storm, which we ran into. When discount rates go down extremely low, historical lows—you saw what happened in the stock market. You saw what happened with respect to bankruptcies.

And basically, when all these things happened together, and the ability to prefund for those days was severely constrained, that you now have a number of people who used to think sponsoring defined benefit plans made sense in a financial situation where the volatility of what just—the absolute minimum contribution you have to make every year to keep this tax qualified can jump around severely.

Now, there was a lot of attempts to deal with this in 2006 as part of PPA. I think some of these are still being worked out. But to be perfectly honest with you, I think the volatility—not only in cash contributions, but also in the way these things are accounted for through FASB—has scared away a large number of employers. And if they didn't just outright terminate the plan, the thing that they have been doing—and I am sure you are well aware—is they have been freezing accruals, certainly for new employees and maybe, in some cases, also existing employees.

The CHAIRMAN. Well, that is a pretty good rundown.

Mr. Eisenbrey, do you have anything to add to that?

Mr. EISENBREY. Yes. I think that is all true. And there are many other causes—the decline of unionization. Unions, a unionized workforce is more likely to have a defined benefit pension plan.

There was a huge wave of terminations in the 1980s during the merger and acquisition craze, when employers—leveraged buyout corporate raiders could seize another company's pension plan, could take it over in a hostile takeover, and then raid the plan. That went on for a long time before Congress intervened to stop it.

Bankruptcy law allows employers to terminate their pension plans, even when they have a collective bargaining agreement. That is a contribution.

You know, the terrible industrial decline. Manufacturing companies were the most likely to have pension plans. And the steel industry lost its plans. Right now, the auto industry has, as a part

of the bailout of the auto industry, agreed to put into place for new employees defined contribution plans. Existing and—you know, the older employees have their DB plans.

The deregulation in the late 1970s of the transportation industry was a huge contributor because it allowed start-up companies without legacy costs to compete against the older carriers who had these obligations, and they could be low-cost competitors.

And then, finally, when health benefit promises were forced onto balance sheets where they hadn't—companies didn't have to report them as a liability in the past. But when those rules changed and companies suddenly had to report these huge retiree benefit obligations, that was one of the things that employers realized that they had to do with their money, and it made them want to take money out of their pension plan and put it into the retiree obligation.

So there are just a host of causes for this.

The CHAIRMAN. I will think more about that.

Senator Sanders.

Senator SANDERS. Mr. Chairman, we are not going to go into great length today on this issue, but I hope at some point we can discuss the growing income inequality in America and what that means not only from a moral sense, but from an economic sense, as well.

Mr. Eisenbrey, you write in your statement that 55 percent of all income gains over the last 30 years have gone to the top 1 percent. Got that?

The CHAIRMAN. How much?

Senator SANDERS. Fifty-five percent of all income gains over the last 30 years have gone to the top 1 percent, while the bottom 90 percent have only received 16 percent, i.e., the people on top become much wealthier, middle class collapses.

Now we can talk about that from a moral point of view, from an economic point of view, but let us talk about it a little bit from a Social Security point of view. How has the growing income inequality in our country impacted the solvency of Social Security?

Mr. Eisenbrey.

Mr. EISENBREY. Simply, as more and more income has shifted to higher-income people, income above the cap, above the taxable wage base, it means Social Security is getting a smaller and smaller share of GDP. And I think going forward, the trustees suggest—and the Social Security actuary says that if we just returned to where we were in 1983 and taxed 90 percent of income—right now, we are at about 84 percent, I think, of income is being taxed—if we returned, going forward, we would close about a third of the gap for Social Security's funding.

This is an enormous problem. And that would be going forward. In the past 20 years or so, we have lost a lot of money that should have been raised on that tremendous income growth of very wealthy people.

Senator SANDERS. That takes us to another point that you make in your statement. You say,

“Most Americans don't realize that someone with a salary of \$300,000 or even \$30 million a year pays no more in Social Security taxes than someone earning roughly \$107,000.”

What is the implication of that toward making sure Social Security is solvent for the next 75 years? What do you suggest that we might want to do about that?

Mr. EISENBREY. My institute, the Economic Policy Institute, recommends that we take the cap off entirely for employers, so that high-income people—the way we do now for Medicare—that people pay—the employer pay the tax on the entire income, the entire salary that is paid to high-income people, and that on the employee side, that we raise the cap, that we don't take it off entirely. But that we raise the cap, perhaps to restore it to the level that it was in 1983, where 90 percent of income would be captured.

That, by itself, would nearly close more than three-quarters of the entire remaining gap in Social Security funding for the next 75 years.

Senator SANDERS. In other words, with fairly moderate changes, Social Security would be solvent perhaps for the next 70 to 75 years.

Mr. EISENBREY. That is right.

The CHAIRMAN. Can I just follow up on that? OK, I have to understand this. You said if we return to 1983 and tax it at 90 percent of income, you would close about a third of the gap. Then I just heard you say something about closing 75 percent of the gap.

Mr. EISENBREY. I am proposing something more radical from the point of view of wealthy Americans than just returning to where we were in 1983. At that point, we did not tax—employers were not required to pay the tax on the entire salary that they paid to an employee. Now it is capped at \$106,800. I am suggesting that employers pay on the entire salary.

The CHAIRMAN. But the employee does not match that. The employee only pays up to a certain amount?

Mr. EISENBREY. Right. The employee would only contribute 6.2 percent, up to, let us say, \$140,000. I am not sure what the calculation would be now, but it would be a higher figure than it is.

The CHAIRMAN. But Social Security has also always been predicated on equal employer-employee contribution, right?

Mr. EISENBREY. The tax rate, 6.2 percent, would be the same for employer and employee, but employers, I am suggesting, should pay more.

The CHAIRMAN. How would that affect self-employed?

Mr. EISENBREY. They would have to pay more, too.

Senator SANDERS. Mr. Chairman, let me—if I can get back to Mr. Eisenbrey?

Mr. Eisenbrey, in your testimony, you say that "45 percent of older workers last year were employed in physically demanding jobs or jobs with difficult working conditions." How difficult would it be for these workers to work until they are 70 years of age? Isn't it a little bit absurd to be suggesting that people who are doing very physically demanding work: (a) would they have jobs when they are 68 or 69, and would anybody hire them?; and (b) what happens to them, in terms of their health, if they are working to 69?

Mr. EISENBREY. You have talked about some of these jobs, where it is really almost inconceivable that somebody—you know, that large numbers of people, construction workers, carpenters, iron

workers, and so forth—it is very hard to think of them working that long.

But there are other jobs, like a cashier, standing on her feet all day long, for 40 years, and that now we are saying, for another X number of years. People are actually not retiring at the full retirement age. They do tend to retire earlier already because of health concerns.

If we raise the retirement age even farther, it doesn't mean that they will be able to work any longer. It just means that their income will be reduced by the early retirement penalty that much more.

Senator SANDERS. OK. Thanks, Mr. Chairman.

The CHAIRMAN. Mr. VanDerhei, there is one issue that was brought up here I would like to delve into a little bit more. We have all learned that collective bargaining is one of the most effective means for workers to negotiate with employers for better pay and benefits.

Do you have any data that would tell us what percentage of unionized workers have access to employer-provided retirement plans, both defined contribution and defined benefit plans? And how does that compare to workers that don't have help from a union? Do you have any data on that?

Mr. VANDERHEI. I don't have that with me. I could certainly look as soon as I get back to the office and get back to you with that.

The CHAIRMAN. But you might have access to that kind of information?

Mr. VANDERHEI. There are collectively bargained codes in a very old Form 5500 series that I might be able to put back together in a way that is going to be useful for you.

The CHAIRMAN. OK, let me repeat. I would like to know what percentage of unionized workers have access to employer-provided retirement plans, both defined contribution and defined benefit. Compare that to workers that aren't involved in collective bargaining.

Mr. VANDERHEI. Correct.

The CHAIRMAN. Mr. Eisenbrey, we talk about saving, but as Ms. Miller says, at \$12 an hour, it is pretty hard to save—family, kids, housing, fuel, food, everything else.

We talk about saving more and people should save more. What is the effect on our economy as a whole because of our low savings rate? We have a low savings rate in this country. What is the effect on the economy? And how would you help people in that \$35,000, \$40,000, \$50,000, \$60,000, to save more?

So what is the effect on the economy of a low savings rate? And if we think that savings is a good thing, how do we promote more savings among that group of income earners?

Mr. EISENBREY. A high rate of national savings is generally a good thing. It leads to greater investment. The money is saved and put to productive use by industry. And I think this is a curious time because we actually don't need a lot of savings this year and next. What we are lacking right now is actually consumption.

But generally speaking, it is a good thing. The build-up of pension funds led to tremendous investment in the economy. It isn't

always invested in the United States, but that is a whole other problem.

But to help people save, I think somebody mentioned—Senator Sanders, I think, mentioned human nature earlier. It is hard to get people to save. It is hard to get people to think 40 years into the future and plan for their retirement. I think the best—

Senator SANDERS. It is especially—if I may, it is especially hard to ask people to save when they can barely pay their bills today. People are paying for their grocery bill, they have to figure out how to fill up the gas tank to get to work. They say, “Oh, by the way, you also have to save 40 years down the line.”

Mr. EISENBREY. Right.

Senator SANDERS. It is a lot easier to talk about saving if you are making enough money to save.

Mr. EISENBREY. Well, and the Government recognizes how hard it is to get people to do that and provides incentives. Unfortunately, the incentives are going to the people who need incentives the least, people for whom it is easiest to save. So that somebody who makes \$25,000 or \$30,000 a year gets much less, even if they are paying income taxes and are making a contribution, \$1,000 contribution, to a retirement plan, the Government is providing them less than a third what it provides the same \$1,000 contribution, you know, by somebody who is making \$200,000 a year and paying at a 35 percent tax rate. This is crazy.

I would turn these completely upside down. I am actually in favor of a mandatory retirement system with subsidies from the Federal Government. And I have mentioned that the guaranteed retirement account that Teresa Ghilarducci authored is, I think, an excellent way to solve this problem going forward.

But short of that, others have suggested changing the tax deductibility of 401(k)s, turning it into a tax credit, making it a refundable tax credit, so that the Government is helping the people who need help the most to save and not just helping wealthy people move their savings from a savings account to a tax-favored savings account.

Senator SANDERS. Mr. Chairman, if I could just detour a little bit here—and I want to get back to the Social Security retirement age because one of the arguments that some people use is that, well, you know, the American people are living longer. What is the problem?

Let me quote—this is very interesting, and it hasn’t gotten the kind of, I think, attention that it deserves. But let me quote from a *Washington Post* article from September 22, 2008.

“For the first time since the Spanish influenza of 1918, life expectancy is falling for a significant number of American women. In nearly 1,000 counties that together are home to about 12 percent of the Nation’s women, life expectancy is now shorter than it was in the early 1980s.”

And Mr. Eisenbrey, you remark that over the past quarter century, life expectancy at age 65 has increased by 1 year for lower income men, all right? Twenty-five-year period, that is not much of a gain, compared to 5 years for upper income men. In other words, being poor is kind of a death sentence, isn’t it, in some respects?

Mr. EISENBREY. It certainly isn’t an aid to longevity.

Senator SANDERS. So what we are talking about now, if you add all of these things together, is saying to people who are working-class people, who already are working really hard, who are not seeing any significant increase in life expectancies, if they are women, they may actually be seeing a decrease. Guess what? You are going to have to work to 70 before you get your Social Security. What does that mean?

Mr. EISENBREY. It is actually true. This is one of, I think, the most compelling, to most people, compelling reasons to raise the retirement age, that, you know, everyone is living longer. Therefore, they will be in retirement longer, will get a bigger benefit.

This is not an across-the-board phenomenon, as you suggest. It isn't just in some counties. I think the evidence is—and there is a report that I can supply to you by a researcher who has found that lower income women, and especially in the lowest-income decile, are living less long. Their longevity is actually decreasing.

So they are not benefiting from the overall situation of Americans, where most of us are living longer. Low-income women are actually getting worse.

Senator SANDERS. But the likelihood is that if we raise the retirement age, many of these women would never get a nickel from Social Security. They would be dead.

Mr. EISENBREY. They can—if they make it to 62, they will be able to retire, but their benefit will be reduced that much more. They will be punished.

Senator SANDERS. But this is an important point that we don't talk about enough. You know, we always lump everybody together. But what he is saying—and what the *Washington Post* indicates—for many lower income women, their longevity, their life expectancy is actually declining.

And for working-class and lower income men, the gains are minimal. For upper income people, who have access to the best, really good healthcare, they are doing just fine. It is interesting.

The CHAIRMAN. And I think the other thing—and I just asked my staff to get it—is that we talk about life expectancy, but life expectancy starts at birth.

Life expectancy in the United States has increased substantially since 1900 because we have immunizations, vaccinations, babies aren't dying at birth any longer. So the life expectancy has increased because of public health and what we have done with public health in America.

But if you in 1900 reached the age of 40, you lived just about as long as if you reach the age of 40 today, a little bit longer, not very much, not like the life expectancy. So a lot of people say,

“Well, when we enacted Social Security and we put the retirement age at 65, life expectancy was only like 68. But today it is, what, 70-something, so we should raise that up so it would be comparable to what it was in the 1930s.”

That is missing the point. The life expectancy may have been that, but if you were a working person in your—if you made it to age 30 or something like that, you could expect to live just about as long as you live today.

So it wasn't that people were retiring, then dying. It is just that, that people didn't live as long because of low life expectancy because of childhood deaths.

Mr. EISENBREY. Part of the phenomenon that you have just mentioned is also that people are living longer in their working years. Their working life has been extended, so that the ratio of work life to retirement life hasn't increased at the same rate as longevity after 65.

The CHAIRMAN. Life expectancy. That is right. If you raise the retirement age, actually what you are doing is you are going backwards from where we started in the 1930s. You are actually going backwards in terms of how many retirement years you would be covered by Social Security. I submit that.

Now, I can prove it with data, too, but I just don't have it in front of me.

Ms. Miller, let me ask you a question. There is a lot of talk around here about we are going to do some tax bills here and that kind of thing. A lot of talk about raising the estate tax exemption for estates up to \$5 million per person, \$10 million per couple, and lowering the tax rate on that. How much would that benefit you?

Ms. MILLER. Start over?

[Laughter.]

As you have seen my face, it pretty much loses me very fast. I am still taking in that I am going to die early because I am low income. I am sorry. Layman's terms, please?

The CHAIRMAN. It is not going to help you, is it?

Ms. MILLER. It doesn't—

Senator SANDERS. In other words, you don't have \$5 million in the bank or \$10 million that you are going to be leaving your kids, right? For the record, that was a laugh.

Ms. MILLER. Yes, that was a laugh. My children make the same amount per hour as I do. And they are 23 and 24. My son and my daughter-in-law both make \$12 an hour. They are not in the workforce for 40 years, 20 years even, you know?

I get very confused when you guys talk about all these numbers and taxes. So I am—admittedly, I feel dense at the moment because I will never have that kind of money to leave my children. Because when my income went down, when the stock market crashed, when I lost my last job, I lost my life insurance policy, too. So I don't know how I am ever going to leave them anything. If nothing, I may be just a burden on my children.

Senator SANDERS. You know, Tom—Mr. Chairman, Ms. Miller just raised a very interesting point that we haven't really discussed. Folks talk raising the retirement age again to 70. And I know I am a little bit of a "Johnny one note" today, but that is the issue that is on my mind.

I wonder—and any of the panelists can comment on that—it would seem to me that if you raise that retirement age and people were not getting Social Security, they might, in fact, be a burden, as Ms. Miller said, on their kids. I mean, we are already seeing that in today's society. Wouldn't we expect perhaps more of that, if we raise that retirement age?

Mr. VanDerhei.

Mr. VANDERHEI. I can't give you an exact number on that, but basically, that is something that we tried to get at in the testimony. We tried to look at what would happen, in essence, if you eliminated Social Security benefits.

We could very easily go back for you and, instead of doing the current status quo versus nothing, do these kinds of comparisons for you and show you exactly the percentage of the population that would be at risk and/or not have any other financial resources, if that is how you want to define being a burden. We could very easily go back and simulate that for you.

Senator SANDERS. And I would appreciate it. I would like to see those statistics. But common sense might suggest that already a hard-pressed middle class might even have more of the burden, trying to take care of parents, who are not getting Social Security when they might need it. Would common sense suggest that?

Mr. VANDERHEI. Absolutely.

Senator SANDERS. OK.

The CHAIRMAN. Thank you all very much. This has been very enlightening.

As I said, this is the first of our hearings. I mean, we are going to have a whole series of hearings because I think the retirement system in America is putting a lot of people at risk. There is, as I hear here, there is a crisis out there in our retirement system, and people have to know this. And we have to take some action to shore it up.

Now, Mr. VanDerhei, you have some information you are going to get to us on the collective bargaining balance that I asked.

And Mr. Eisenbrey, you are going to give me some information on the—if you raise the retirement age to 70, what the replacement rate, how far that would fall.

Maybe, Mr. VanDerhei, if you have that data, too, what would happen to that replacement rate on that?

And Ms. Miller, all I can say is that you are the face of America. You are the face of working America—

Senator SANDERS. So smile.

The CHAIRMAN [continuing]. Middle America. And you are. And if nothing else, it seems to me you and many millions of Americans out there, who are making \$20,000, \$30,000, \$40,000, \$50,000, \$60,000—we have got to shore up the retirement system for them. And the best retirement system and the most secure one that we have is Social Security because that is backed by the full faith and credit of the U.S. Government.

I tell you, a lot of times when young people ask me, "Is Social Security going to be there when I retire," I ask them a question. I say, "Well, let me ask you this. When you are my age, will the United States of America exist? Do you believe that or not believe that?"

Oh, they believe that. "Well," I said, "if the United States of America exists, your Social Security will exist because it is backed by the full faith and credit of the U.S. Government." No other retirement system can say that.

Senator SANDERS. Mr. Chairman, if I could just conclude my remarks by saying I think, as we have heard this morning, and as I think most Americans know, there has been a war going on for

many years against the middle class of this country, and that is why the middle class is disappearing.

And I think these attacks on Social Security are part of that same effort by Wall Street and some other special interests now, who apparently are extremely unhappy that we have a Federal program that has worked enormously successfully for the last 75 years, and they want to destroy it. And I think our job is to make sure that they do not succeed in that goal.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you. Thank you.

Senator SANDERS. Thank you all, panelists.

The CHAIRMAN. Thank you.

The committee will stand adjourned. Thank you all very much.  
[Additional material follows.]

## ADDITIONAL MATERIAL

PREPARED STATEMENT OF THE AMERICAN BENEFITS COUNCIL  
AND THE AMERICAN COUNCIL OF LIFE INSURERS (ACLI)

The American Benefits Council (The Council) and the American Council of Life Insurers (ACLI) appreciate the opportunity to submit this statement including the attached paper entitled: Defined Contribution Plans: A Successful Cornerstone of Our Nation's Retirement System.

The Council is a public policy organization principally representing Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans that cover more than 100 million Americans.

The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90 percent of the assets and premiums of the U.S. life insurance and annuity industry.

The Council and ACLI strongly support both defined contribution and defined benefit pension plans as part of a robust private retirement system that helps America's workers achieve and maintain personal financial security. Employer-sponsored 401(k) and other defined contribution retirement plans are a core element of our Nation's retirement system and successfully assist tens of millions of families in accumulating retirement savings. Over the past three decades, 401(k) plans and other defined contribution plans have grown dramatically in number, asset value and employee participation. There are now more than 630,000 private-sector defined contribution plans covering more than 75 million active and retired workers. In addition, more than 10 million employees of tax-exempt and governmental employers participate in 403(b) and 457 defined contribution plans and the Federal Government's Thrift Savings Plan (TSP).

Despite the significant growth in 401(k) plans during their relatively short existence, and the value added by recent efforts to use automatic enrollment and automatic escalation techniques to increase participation and savings rates, some policymakers have questioned the value of defined contribution plans to participants. But these plans offer many advantages.

Congress has established a comprehensive scheme to ensure that benefits are delivered across the income spectrum, including extensive nondiscrimination rules and requirements regarding broad-based coverage. Employer sponsors of defined contribution plans must adhere to strict fiduciary obligations established by Congress to protect the interests of plan participants. These demanding fiduciary obligations offer investment protections not typically associated with non-workplace savings vehicles. Under ERISA, a fiduciary is personally liable for seeing that the plan is managed prudently and solely in the interest of the participants of the plan. One way in which employers exercise oversight and add value is through selection of plan investment options. Employers focus on selecting high quality, reasonably priced investment options from diverse asset classes and then monitoring these options on an ongoing basis. To make investing simpler for employees, employers also increasingly offer single-fund diversified investment options that grow more conservative with age. In addition, employers provide educational materials and workshops about savings and investing yielding yet another set of advantages relative to non-workplace savings vehicles.

Furthermore, the defined contribution retirement saving system has evolved in ways that have improved the plans for employees, and recent enhancements promise even more upgrades. The adoption of automatic enrollment and automatic escalation continues to increase participation and savings rates. New diversification rights with respect to company stock, guidance around single-fund investment solutions and improved opportunities to provide access to lifetime income solutions are changing the face of retirement preparation and retirement income maintenance.

Significantly, employer-sponsored 401(k) plans create not only an easy and safe vehicle for savings but also help create an atmosphere conducive to saving and preparing for retirement. In addition, most employers make significant matching, non-elective and profit-sharing contributions to complement employee deferrals, thereby sharing the responsibility for financing retirement. In fact, recent surveys found that at least 95 percent of employers typically make some form of employer contribution.

Unfortunately, along with the improvements and growth in the system has been a growth in liability and corresponding cost increases. As Congress considers changes to the employer-sponsored retirement system, it is critical that it consider

the impact of the increasing challenge of litigation and find ways to insulate plan sponsors from unreasonable claims of liability. Sponsors likewise need a stable legal and regulatory environment with respect to both defined contribution and defined benefit plans. Plan sponsors are often forced to make costly changes to their plans and the systems that maintain these plans, creating significant uncertainty for them and their employees. Many plan changes necessitated by the enactment of legislation have created confusion and litigation exposure as regulatory guidance is awaited or when the new legal rules are subsequently changed.

With respect to defined benefit pension plans, the impact of unpredictability in funding obligations has taken its toll. Employer plan sponsors need to be better shielded from the dramatic increases in defined benefit pension funding obligations and the untenable funding volatility that today's rules often impose when broader economic conditions change. In addition, a regulatory environment more focused on helping employers that still maintain defined benefit pension plans keep those plans would go a long way to protecting the employees and retirees that are depending on those retirement vehicles for income through their retirement years.

The Council and ACLI share the committee's commitment to expanding retirement plan access to more Americans. Indeed, the Council's Multi-Plan Coverage Agenda contains proposals to reform existing defined contribution and defined benefit plan rules, institute new simplified plan designs, improve existing tax incentives, encourage the use of workplace IRA arrangements, promote available arrangements to small employers, and enhance financial education.

We appreciate the committee's interest in the employer-sponsored retirement system and its willingness to consider ways to strengthen and support both defined contribution and defined benefit pension plans.

ATTACHMENT.—DENIED CONTRIBUTION PLANS: SUCCESSFUL CORNERSTONE  
OF OUR NATION'S RETIREMENT SYSTEM

INTRODUCTION

Employer-sponsored 401(k) and other defined contribution retirement plans are a core element of our Nation's retirement system, playing a critical role along with Social Security, personal savings and employer-sponsored defined benefit plans. Defined contribution plans successfully assist tens of millions of American families in accumulating retirement savings. Congress has adopted rules for defined contribution plans that:

- facilitate employer sponsorship of plans,
- encourage employee participation,
- promote prudent investing by plan participants,
- allow operation of plans at reasonable cost, and
- safeguard plan assets and participant interests through strict fiduciary obligations and intensive regulatory oversight.

While individuals have understandable retirement income concerns resulting from the recent market and economic downturns—concerns fully shared by the American Benefits Council—it is critical to acknowledge the vital role defined contribution plans play in building personal financial security.

DEFINED CONTRIBUTION PLANS REACH TENS OF MILLIONS OF WORKERS  
AND PROVIDE AN IMPORTANT SOURCE OF RETIREMENT SAVINGS

Over the past three decades, 401(k) and other defined contribution plans have increased dramatically in number, asset value, and employee participation. As of June 30, 2008, defined contribution plans (including 401(k), 403(b) and 457 plans) held \$4.3 trillion in assets, and assets in individual retirement accounts (a significant share of which is attributable to amounts rolled over from employer-sponsored retirement plans, including defined contribution plans) stood at \$4.5 trillion.<sup>1</sup> Of course, assets have declined significantly since then due to the downturn in the financial markets. Assets in 401(k) plans are projected to have declined from \$2.9 trillion on June 30, 2008 to \$2.4 trillion on December 31, 2008,<sup>2</sup> and the average 401(k) account balance is down 27 percent in 2008 relative to 2007.<sup>3</sup> Nonetheless, 401(k) account balances are up 140 percent when compared to levels as of January 1, 2000.<sup>4</sup> Thus, even in the face of the recent downturn (which of course has also affected workers' non-retirement investments and home values), employees have seen a net increase in workplace retirement savings. This has been facilitated by our robust and expanding defined contribution plan system. As discussed more fully below, employees have also remained committed to this system despite the current market conditions, with the vast majority continuing to contribute to their plans.

In terms of the growth in plans and participating employees, the most recent statistics reveal that there are more than 630,000 defined contribution plans covering more than 75 million active and retired workers with more than 55 million current workers now participating in these plans.<sup>5</sup> Together with Social Security, defined contribution plan accumulations can enable retirees to replace a significant percentage of pre-retirement income (and many workers, of course, will also have income from defined benefit plans).<sup>6</sup>

#### EMPLOYERS MAKE SIGNIFICANT CONTRIBUTIONS INTO DEFINED CONTRIBUTION PLANS

When discussing defined contribution plans, the focus is often solely on employee deferrals into 401(k) plans. However, contributions consist of more than employee deferrals. Employers make matching, non-elective, and profit-sharing contributions to defined contribution plans to complement employee deferrals and share with employees the responsibility for funding retirement. Indeed, a recent survey of 401(k) plan sponsors with more than 1,000 employees found that 98 percent make some form of employer contribution.<sup>7</sup> Another recent study of employers of all sizes indicated that 62 percent of defined contribution sponsors made matching contributions, 28 percent made both matching and profit-sharing contributions, and 5 percent made profit-sharing contributions only.<sup>8</sup> While certain employers have reduced or suspended matching contributions as a result of current economic conditions, the vast majority have not.<sup>9</sup> Those that have are often doing so as a direct result of substantially increased required contributions to their defined benefit plans or institution of a series of cost-cutting measures to preserve jobs. As intended, matching contributions play a strong role in encouraging employee participation in defined contribution plans.<sup>10</sup>

#### THE DEFINED CONTRIBUTION SYSTEM IS MORE THAN 401(K) PLANS

The defined contribution system also includes many individuals beyond those who participate in the 401(k) and other defined contribution plans offered by private-sector employers. More than 7 million employees of tax-exempt and educational institutions participate in 403(b) arrangements,<sup>11</sup> which held more than \$700 billion in assets as of earlier this year.<sup>12</sup> Millions of employees of State and local governments participate in 457 plans, which held more than \$160 billion in assets as of earlier this year.<sup>13</sup> Finally, 3.9 million individuals participate in the Federal Government's defined contribution plan (the Thrift Savings Plan), which held \$226 billion in assets as of June 30, 2008.<sup>14</sup>

#### 401(K) PLANS HAVE EVOLVED IN WAYS THAT BENEFIT WORKERS

Even when focusing on 401(k) plans, it is important to keep in mind that these plans have evolved significantly from the bare-bones employee savings plans that came into being in the early 1980s. As discussed more fully below, employers have enhanced these arrangements in numerous ways, aiding their evolution into robust retirement plans. Congress has likewise enacted numerous enhancements to 401(k) plans, making major improvements to the 401(k) system in the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Economic Growth and Tax Relief Reconciliation Act of 2001, and the Pension Protection Act of 2006. Among the many positive results have been incentives for plan creation, promotion of automatic enrollment, catch-up contributions for workers 50 and older, safe harbor 401(k) designs, accelerated vesting schedules, greater benefit portability, tax credits for retirement savings, and enhanced rights to diversify company stock contributions.

There also has been tremendous innovation in the 401(k) marketplace, with employer plan sponsors and plan service providers independently developing and adopting many features that have assisted employees. For example, both automatic enrollment and automatic contribution escalation were first developed in the private sector. Intense competition among service providers has helped spur this innovation and has driven down costs. Among the market innovations that have greatly enhanced defined contribution plans for participants are:

- on-line and telephonic access to participant accounts and plan services,
- extensive financial planning, investment education and investment advice offerings,
- single-fund investment solutions such as retirement target date funds and risk-based lifestyle funds, and
- in-plan annuity options and guaranteed withdrawal features that allow workers to replicate attributes of defined benefit plans.

These legislative changes and market innovations have resulted in more employers wanting to sponsor 401(k) plans and have—together with employer enhancements to plan design—improved both employee participation rates and employee outcomes.

LONG-TERM RETIREMENT PLANS SHOULD NOT BE JUDGED ON SHORT-TERM  
MARKET CONDITIONS

Workers and retirees are naturally concerned about the impact of the recent market turmoil. It is important, however, for policymakers and participants to evaluate defined contribution plans based on whether they serve workers' retirement interests over the long term rather than over a period of months. Defined contribution plans and the investments they offer employees are designed to weather changes in economic conditions—even conditions as anxiety-provoking as the ones we are experiencing today. (Market declines and volatility are, of course, affecting all types of retirement plans and investment vehicles, not just defined contribution plans.) Although it is difficult to predict short-run market returns, over the long run stock market returns are linked to the growth of the economy and this upward trend will aid 401(k) investors. Indeed, one of the benefits for employees of participating in a defined contribution plan through regular payroll deduction is that those who select equity vehicles purchase these investments at varying prices as markets rise and fall, achieving effective dollar cost averaging. If historical trends continue, defined contribution plan participants who remain in the system can expect their plan account balances to rebound and grow significantly over time.<sup>15</sup> That being said, the American Benefits Council favors development of policy ideas (and market innovations) to help those defined contribution plan participants nearing retirement improve their retirement security and generate adequate retirement income.

It is important to note that in the face of the current economic crisis and market decline, plan participants remain committed to retirement savings and few are reducing their contributions. Rather, the large majority of participants continue to contribute at significant rates and remain in appropriately diversified investments. One leading 401(k) provider saw only 2 percent of participants decrease contribution levels in October 2008 (1 percent actually increased contributions) despite the stock market decline and volatility experienced during that month.<sup>16</sup> Another leading provider found that 96 percent of 401(k) participants who contributed to plans in the third quarter of 2008 continued to contribute in the fourth quarter.<sup>17</sup> Research from the prior bear market confirms that employees tend to hold steady in the face of declining stock prices, remaining appropriately focused on their long-term retirement savings and investment goals.<sup>18</sup>

Demonstrating the importance of defined contribution plans to employees, a recent survey found that defined contribution plans are the second-most important benefit to employees behind health insurance.<sup>19</sup> The same survey found that 9 percent of employees viewed greater deferrals to their defined contribution plan as one of their top priorities for 2009.<sup>20</sup>

DEFINED CONTRIBUTION PLAN COVERAGE AND PARTICIPATION RATES ARE INCREASING

Participation in employer-sponsored defined contribution plans has grown from 11.5 million in 1975 to more than 75 million in 2005.<sup>21</sup> This substantial increase is a result of many more employers making defined contribution plans available to their workforces. Today, the vast majority of large employers offer a defined contribution plan,<sup>22</sup> and the number of small employers offering such plans to their employees has been increasing modestly as well.<sup>23</sup> In total, 65 percent of full-time employees in private industry had access to a defined contribution plan at work in 2008 (of which 78 percent participated).<sup>24</sup> Small businesses that do not offer a 401(k) or profit-sharing plan are increasingly offering workers a SIMPLE IRA, which provides both a saving opportunity and employer contributions.<sup>25</sup> Indeed, as of 2007, 2.2 million workers at eligible small businesses participated in a SIMPLE IRA.<sup>26</sup>

The rate of employee participation in defined contribution plans offered by employers also has increased modestly over time<sup>27</sup>—with further increases anticipated as a result of automatic enrollment adoption. Moreover, participating employees are generally saving at significant levels—levels that have risen over time.<sup>28</sup> Younger workers, in particular, increasingly look to defined contribution plans as a primary source of retirement income.<sup>29</sup>

There are understandable economic impediments that keep some small employers, particularly the smallest firms, from offering plans. The uncertainty of revenues is the leading reason given by small businesses for not offering a plan, while cost, administrative challenges, and lack of employee demand are other impediments cited

by small business.<sup>30</sup> Indeed, research reveals that employees at small companies place less priority on retirement benefits relative to salary than their counterparts at large companies.<sup>31</sup> As firms expand and grow, the likelihood that they will offer a retirement plan increases.<sup>32</sup> Congress can and should consider additional incentives and reforms to assist small businesses in offering retirement plans, but some small firms will simply not have the economic stability to do so. Mandates on small business to offer or contribute to plans will only serve to exacerbate the economic challenges they face, reducing the odds of success for the enterprise, hampering job creation and reducing wages.

Some have understandably focused on the number of Americans who do not currently have access to an employer-sponsored defined contribution plan. Certainly expanding plan coverage to more Americans is a universally shared goal. Yet statistics about retirement plan coverage rates must be viewed in the appropriate context. Statistics about the percentage of workers with access to an employer retirement plan provide only a snapshot of coverage at any one moment in time. Given job mobility and the fact that growing employers sometimes initiate plan sponsorship during an employee's tenure, a significantly higher percentage of workers have access to a plan for a substantial portion of their careers.<sup>33</sup> This coverage provides individuals with the opportunity to add defined contribution plan savings to other sources of retirement income. It is likewise important to note that individuals' savings behavior tends to evolve over the course of a working life. Younger workers typically earn less and therefore save less. What younger workers do save is often directed to non-retirement goals such as their own continuing education, the education of their children or the purchase of a home.<sup>34</sup> As they age and earn more, employees prioritize retirement savings and are increasingly likely to work for employers offering retirement plans.<sup>35</sup>

#### DEFINED CONTRIBUTION PLAN RULES PROMOTE BENEFIT FAIRNESS

The rules that Congress has established to govern the defined contribution plan system ensure that retirement benefits in these plans are delivered across all income groups. Indeed, the Internal Revenue Code contains a variety of rules to promote fairness regarding which employees are covered by a defined contribution plan and the contributions made to these plans. These requirements include coverage rules to ensure that a fair cross-section of employees (including sufficient numbers of non-highly compensated workers) are covered by the defined contribution plan and nondiscrimination rules to make certain that both *voluntary employee* contributions and *employer* contributions for non-highly compensated employees are being made at a rate that is not dissimilar to the rate for highly compensated workers.<sup>36</sup> There are also top-heavy rules that require minimum contributions to non-highly compensated employees' accounts when the plan delivers significant benefits to top employees.

Congress has also imposed various vesting requirements with respect to contributions made to defined contribution plans. These requirements specify the timetable by which employer contributions become the property of employees. Employees are always 100 percent vested in their own contributions, and employer contributions made to employee accounts must vest according to a specified schedule (either all at once after 3 years of service or in 20 percent increments between the second and sixth years of service).<sup>37</sup> In addition, the two 401(k) safe harbor designs that Congress has adopted—the original safe harbor enacted in 1996 and the automatic enrollment safe harbor enacted in 2006—require vesting of employer contributions on an even more accelerated schedule.<sup>38</sup>

#### EMPLOYER SPONSORSHIP OF DEFINED CONTRIBUTION PLANS OFFERS ADVANTAGES TO EMPLOYEES

As plan sponsors, employers must adhere to strict fiduciary obligations established by Congress to protect the interests of plan participants. ERISA imposes, among other things, duties of prudence and loyalty upon plan fiduciaries. ERISA also requires that plan fiduciaries discharge their duties "solely in the interest of the participants and beneficiaries" and for the "exclusive purpose" of providing participants and beneficiaries with benefits.<sup>39</sup> These exceedingly demanding fiduciary obligations (which are enforced through both civil and criminal penalties) offer investor protections not typically associated with savings vehicles individuals might use outside the workplace.

One area in which employers exercise oversight is through selection and monitoring of the investment options made available in the plan. Through use of their often considerable bargaining power, employers select high-quality, reasonably-priced investment options and monitor these options on an ongoing basis to ensure

they remain high-quality and reasonably-priced. Large plans also benefit from economies of scale that help to reduce costs. Illustrating the value of this employer involvement, the mutual funds that 401(k) participants invest in are, on average, of lower cost than those that retail investors use.<sup>40</sup> Recognizing these benefits, an increasing number of retirees are leaving their savings in defined contribution plans after retirement, managing their money using the plan's investment options and taking periodic distributions. With the investment oversight they bring to bear, employers are providing a valuable service that employees would not be able easily or inexpensively to replicate on their own outside the plan.

Employers also typically provide educational materials about retirement saving, investing and planning, and in many instances also provide access to investment advice services.<sup>41</sup> To supplement educational materials and on-line resources, well over half of 401(k) plan sponsors offer in-person seminars and workshops for employees to learn more about retirement investing, and more than 40 percent provide communications to employees that are targeted to the workers' individual situations.<sup>42</sup> Surveys reveal that a significant percentage of plan participants utilize employer-provided investment education and advice tools.<sup>43</sup> Although participants can obtain such information outside of the workplace, it can be costly or require significant effort to do so, yielding yet another advantage to participation in an employer-sponsored defined contribution plan.

#### RECENT ENHANCEMENTS TO THE DEFINED CONTRIBUTION SYSTEM ARE WORKING

Recent legislative reforms are improving outcomes for defined contribution plan participants. The Pension Protection Act of 2006 ("PPA"), in particular, included several landmark changes to the defined contribution system that are already beginning to assist employees in their retirement savings efforts.

Employee participation rates are beginning to increase thanks to PPA's provisions encouraging the adoption of automatic enrollment. This plan design, under which workers must opt out of plan participation rather than opt in, has been demonstrated to increase participation rates significantly, helping to move toward the universal employee coverage typically associated with defined benefit plans.<sup>44</sup> And more employers are adopting this design in the wake of PPA, in numbers that are particularly notable given that the IRS's implementing regulations have not yet been finalized and the Department of Labor's regulations were not finalized until more than a year after PPA's enactment.<sup>45</sup> One leading defined contribution plan service provider saw a tripling in the number of its clients adopting automatic enrollment between year-end 2005 and year-end 2007,<sup>46</sup> and other industry surveys show a similarly rapid increase in adoption by employers.<sup>47</sup> Moreover, many employers that have not yet adopted automatic enrollment are seriously considering doing so.<sup>48</sup> Employers are also beginning to increase the default savings rate at which workers are automatically enrolled,<sup>49</sup> which is important to ensuring that workers have saved enough to generate meaningful income in retirement. Studies show that automatic enrollment has a particularly notable impact on the participation rates of lower-income, younger, and minority workers because these groups are typically less likely to participate in a 401(k) plan where affirmative elections are required.<sup>50</sup> Thus, PPA's encouragement of auto enrollment is helping to improve retirement security for these often vulnerable groups.

PPA also encouraged the use of automatic escalation designs that automatically increase an employee's rate of savings into the plan over time, typically on a yearly basis. This approach is critical in helping workers save at levels sufficient to generate meaningful retirement income and can be useful in ensuring that employees save at the levels required to earn the full employer matching contribution.<sup>51</sup> Employers are increasingly adopting automatic escalation features.<sup>52</sup>

In PPA, Congress also directed the Department of Labor (DOL) to develop guidance providing for qualified default investment alternatives, or QDIAs—investments into which employers could automatically enroll workers and receive a measure of fiduciary protection. QDIAs are diversified, professionally managed investment vehicles and can be retirement target date or life-cycle funds, managed account services or funds balanced between stocks and bonds. There has been widespread adoption of QDIAs by employers and this has helped improve the diversification of employee investments in 401(k) and other defined contribution plans.<sup>53</sup> Congress also directed DOL in PPA to reform the fiduciary standards governing selection of annuity distribution options for defined contribution plans, and the DOL has recently issued final regulations on this topic.<sup>54</sup> As a result, fiduciaries now have a clearer road map for the addition of an annuity payout option to their plan, which can give participants another tool for translating their retirement savings into lifelong retirement income.

DEFINED CONTRIBUTION PLANS PROVIDE EMPLOYEES WITH THE TOOLS  
TO MAKE SOUND INVESTMENTS

As a result of legislative reform and employer practices, employees in defined contribution plans have a robust set of tools to assist them in pursuing sound, diversified investment strategies. As noted above, employers provide educational materials on key investing principles such as asset classes and asset allocation, diversification, risk tolerance and time horizons. Employers also provide the opportunity for sound investing by selecting a menu of high-quality investments from diverse asset classes that, as discussed above, often reflect lower prices relative to retail investment options.<sup>55</sup> Moreover, the vast majority of employers operate their defined contribution plans pursuant to ERISA section 404(c),<sup>56</sup> which imposes a legal obligation to offer a “broad range of investment alternatives” including at least three options, each of which is diversified and has materially different risk and return characteristics.

The development and greater use by employers of investment options that in one menu choice provide a diversified, professionally managed asset mix that grows more conservative as workers age (retirement target date funds, life-cycle funds, managed account services) has been extremely significant and has helped employees seeking to maintain age-appropriate diversified investments.<sup>57</sup> As mentioned above, the use of such options has accelerated pursuant to the qualified default investment alternatives guidance issued under PPA.<sup>58</sup> These investment options typically retain some exposure to equities for workers as they approach retirement age. Given that many such workers are likely to live decades beyond retirement and through numerous economic cycles, some continued investment in stocks is desirable for most individuals in order to protect against inflation risk.<sup>59</sup>

One potential challenge when considering the diversification of employee-defined contribution plan savings is the role of company stock. Traditionally, company stock has been a popular investment option in a number of defined contribution plans, and employers sometimes make matching contributions in the form of company stock. Congress and employers have responded to encourage diversification of company stock contributions. PPA contained provisions requiring defined contribution plans (other than employee stock ownership plans) to permit participants to immediately diversify their own employee contributions, and for those who have completed at least 3 years of service, to diversify employer contributions made in the form of company stock.<sup>60</sup> And today, fewer employers (23 percent) make their matching contributions in the form of company stock, down from 45 percent in 2001.<sup>61</sup> Moreover, more employers that do so are permitting employees to diversify these matching contributions immediately (67 percent), up from 24 percent that permitted such immediate diversification in 2004.<sup>62</sup>

The result has been greater diversification of 401(k) assets. In 2006, a total of 11.1 percent of all 401(k) assets were held in company stock.<sup>63</sup> This is a significant reduction from 1999, when 19.1 percent of all 401(k) assets were held in company stock.<sup>64</sup>

NEW PROPOSALS FOR EARLY ACCESS WOULD UPSET THE BALANCE BETWEEN  
LIQUIDITY AND ASSET PRESERVATION

The rules of the defined contribution system strike a balance between offering limited access to retirement savings and restricting such saving for retirement purposes. Some degree of access is necessary in order to encourage participation as certain workers would not contribute to a plan if they were unable under any circumstances (e.g., health emergency, higher education needs, first-home purchase) to access their savings prior to retirement.<sup>65</sup> Congress has recognized this relationship between some measure of liquidity and plan participation rates and has permitted pre-retirement access to plan savings in some circumstances. For example, the law permits employers to offer workers the ability to take loans from their plan accounts and/or receive so-called hardship distributions in times of pressing financial need.<sup>66</sup> However, a low percentage of plan participants actually use these provisions, and loans and hardship distributions do not appear to have increased markedly as a result of the current economic situation.<sup>67</sup> To prevent undue access, Congress has limited the circumstances in which employees may take pre-retirement distributions and has imposed a 10 percent penalty tax on most such distributions.<sup>68</sup>

In 2001, as part of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), Congress took further steps to ease portability of defined contribution plan savings and combat leakage of retirement savings. EGTRRA required automatic rollovers into IRAs for forced distributions of balances of between \$1,000 and \$5,000 and allowed individuals to roll savings over between and among 401(k), 403(b), 457 and IRA arrangements at the time of job change.<sup>69</sup>

As a result of changes like these, leakage from the retirement system at the time of job change has been declining modestly over time—although leakage is certainly an issue worthy of additional attention.<sup>70</sup> Participants, particularly those at or near retirement, are generally quite responsible in handling the distributions they take from their plans when they leave a company, with the vast majority leaving their money in the plan, taking partial withdrawals, annuitizing the balance or reinvesting their lump sum distributions.<sup>71</sup> In sum, policymakers should acknowledge the careful balance between liquidity and preservation of assets and should be wary of proposals that would provide additional ways to tap into retirement savings early.

DEFINED CONTRIBUTION PLAN SAVINGS IS AN IMPORTANT SOURCE  
OF INVESTMENT CAPITAL

The amounts held in defined contribution plans have an economic impact that extends well beyond the retirement security of the individual workers who save in these plans. Retirement plans held approximately \$16.9 trillion in assets as of June 30, 2008.<sup>72</sup> As noted earlier, amounts in defined contribution plans accounted for approximately \$4.3 trillion of this amount, and amounts in IRAs represented approximately \$4.5 trillion (much of which is attributable to rollovers from employer-sponsored plans, including defined contribution plans).<sup>73</sup> Indeed, defined contribution plans and IRAs hold nearly 20 percent of corporate equities.<sup>74</sup> These trillions of dollars in assets, representing ownership of a significant share of the total pool of stocks and bonds, provide an important and ready source of investment capital for American businesses. This capital permits greater production of goods and services and makes possible additional productivity-enhancing investments. These investments thereby help companies grow, add jobs to their payrolls and raise employee wages.

INQUIRIES ABOUT RISK ARE APPROPRIATE BUT NO RETIREMENT PLAN DESIGN  
IS IMMUNE FROM RISK

The recent market downturn has generated reasonable inquiries about whether participants in defined contribution plans may be subject to undue investment risk. As noted above, the American Benefits Council favors development of policy proposals and market innovations that seek to address these concerns. Yet it is difficult to imagine any retirement plan design that does not have some kind or degree of risk. Defined benefit pensions, for example, are extremely valuable retirement plans that serve millions of Americans. However, employees may not stay with a firm long enough to accrue a meaningful benefit, benefits are often not portable, required contributions can impose financial burdens on employers that can constrain pay levels or job growth, and companies on occasion enter bankruptcy (in which case not all benefits may be guaranteed).

Some have suggested that a new Federal governmental retirement system would be the best way to protect workers against risk. Certain of these proposals would promise governmentally guaranteed investment returns, which would entail a massive expansion of government and taxpayer liabilities at a time of already unprecedented Federal budget deficits. Other proposals would establish governmental clearinghouses or agencies to oversee retirement plan investments and administration. Such approaches would likewise have significant costs to taxpayers and would unnecessarily and unwisely displace the activities of the private sector. Under these approaches, the Federal Government also would typically regulate the investment style and fee levels of retirement plan investments. These invasive proposals would constrain the investment choices and flexibility that defined contribution plan participants enjoy today and would establish the Federal Government as an unprecedented rate-setter for many retirement investments.

Rather than focusing on new governmental guarantees or systems, any efforts to mitigate risk should instead focus on refinements to the existing successful employer-sponsored retirement plan system and shoring up the Social Security safety net.

THE STRONG DEFINED CONTRIBUTION SYSTEM CAN STILL BE IMPROVED

While today's defined contribution plan system is proving remarkably successful at assisting workers in achieving retirement security, refinements and improvements to the system can certainly be made. Helping workers to manage market risk and to translate their defined contribution plan savings into retirement income are areas that would benefit from additional policy deliberations. An additional area in which reform would be particularly constructive is increasing the number of Americans who have access to a defined contribution or other workplace retirement plan. The American Benefits Council will soon issue a set of policy recommendations as

to how this goal of expanded coverage can be achieved. We believe coverage can best be expanded through adoption of a multi-faceted set of reforms that will build on the successful employer-sponsored retirement system and encourage more employers to facilitate workplace savings by their employees. This multi-faceted agenda will include improvements to the current rules governing defined contribution and defined benefit plans, expansion of default systems such as automatic enrollment and automatic escalation, new simplified retirement plan designs, expanded retirement tax incentives for individuals and employers, greater use of workplace IRA arrangements (such as SIMPLE IRAs and discretionary payroll deduction IRAs), more effective promotion of existing retirement plan options, and efforts to enhance Americans' financial literacy.

## ENDNOTES

<sup>1</sup> Peter Brady & Sarah Holden, *The U.S. Retirement Market, Second Quarter 2008*, INVESTMENT COMPANY INST. FUNDAMENTALS 17, no. 3–Q2, Dec. 2008. This paper reveals that, as of June 30, 2008, total U.S. retirement accumulations were \$16.9 trillion, a 13.4 percent increase over 2005 and a 59.4 percent increase over 2002. As noted above, these asset figures have decreased in light of recent market declines although assets held in defined contribution plans and individual retirement accounts still make up more than half of total U.S. retirement assets. See Brian Reid & Sarah Holden, *Retirement Saving in Wake of Financial Market Volatility*, Investment Company Inst., Dec. 2008.

<sup>2</sup> 2007 Account Balances: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; 2008 Account Balances: Estimates from Jack VanDerhei, EBRI.

<sup>3</sup> Press Release, Fidelity Investments, Fidelity Reports on 2008 Trends in 401(k) Plans (Jan. 28, 2009).

<sup>4</sup> 1999 and 2006 Account Balances: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; 2007 and 2008 Account Balances: Estimates from Jack VanDerhei, EBRI. The analysis is based on a consistent sample of 2.2 million participants with account balances at the end of each year from 1999 through 2006 and compares account balances on January 1, 2000 and November 26, 2008. See also Jack VanDerhei, Research Director, Employee Benefit Research Institute, *What Is Left of Our Retirement Assets?*, PowerPoint Presentation at Urban Institute (Feb. 3, 2009).

<sup>5</sup> According to the Department of Labor, there were 103,346 defined benefit plans and 207,748 defined contribution plans in 1975. In 2005, there were 47,614 defined benefit plans and 631,481 defined contribution plans. U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin Historical Tables* (Feb. 2008). See also Sarah Holden, Peter Brady, & Michael Hadley, *401(k) Plans: A 25-Year Retrospective*, INVESTMENT COMPANY INST. PERSPECTIVE 12, no. 2, Nov. 2006.

<sup>6</sup> A joint ICI and EBRI study projected that 401(k) participants in their late 20s in 2000 who are continuously employed, continuously covered by a 401(k) plan, and earned historical financial market returns could replace significant amounts of their pre-retirement income (103 percent for the top income quartile; 85 percent for the lowest income quartile) with their 401(k) accumulations at retirement. Sarah Holden & Jack VanDerhei, *Can 401(k) Accumulations Generate Significant Income for Future Retirees?*, INVESTMENT COMPANY INST. PERSPECTIVE 8, no. 3, Nov. 2002.

<sup>7</sup> *Report on Retirement Plans—2007*, Diversified Investment Advisors (Nov. 2007).

<sup>8</sup> *401(k) Benchmarking Survey—2008 Edition*, Deloitte Consulting LLP (2008).

<sup>9</sup> In an October 2008 survey, only 2 percent of employers reported having reduced their 401(k)/403(b) matching contribution and only 4 percent said they planned to do so in the upcoming 12 months. WATSON WYATT WORLDWIDE, *EFFECT OF THE ECONOMIC CRISIS ON HR PROGRAMS 4* (2008).

<sup>10</sup> According to one study, defined contribution plans with matching contributions have a participation rate of 73 percent compared with 44 percent for plans that do not offer matching contributions. *Retirement Plan Trends in Today's Healthcare Market—2008*, American Hospital Association & Diversified Investment Advisors (2008). Some have wondered whether employers would reduce matching contributions as they adopt automatic enrollment since automatic enrollment is proving successful in raising participation rates. Current data suggest this is not occurring. For example, from 2005 to 2007 the number of Vanguard plans offering automatic enrollment tripled. During the same period, the percentage of Vanguard plans offering employer matching contributions increased by 4 percent. *How America Saves 2008: A Report on Vanguard 2007 Defined Contribution Plan Data*, The Vanguard Group,

Inc. (2008); *How America Saves 2006: A Report on Vanguard 2005 Defined Contribution Plan Data*, The Vanguard Group, Inc. (2006).

<sup>11</sup> W. Scott Simon, *Fiduciary Focus*, Morningstar Advisor, Apr. 5, 2007.

<sup>12</sup> Brady & Holden (Dec. 2008), *supra* note 1.

<sup>13</sup> Brady & Holden (Dec. 2008), *supra* note 1.

<sup>14</sup> Gregory T. Long, Executive Dir., Fed. Ret. Thrift Inv. Fund, Statement Before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia (July 10, 2008).

<sup>15</sup> The average 401(k) account balance increased at an annual rate of 8.7 percent from 1999 to 2006, despite the fact that this period included one of the worst bear markets since the Great Depression. Sarah Holden, Jack VanDerhei, Luis Alonso, & Craig Copeland, *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006*, INVESTMENT COMPANY INST. PERSPECTIVE 13, no. 1/EMPLOYEE BENEFIT RESEARCH INST. ISSUE BRIEF, no. 308, Aug. 2007.

<sup>16</sup> Jilian Mincer, *401(k) Plans Face Disparity Issue*, WALL ST. J., Nov. 6, 2008, at D9.

<sup>17</sup> Fidelity Investments (Jan. 28, 2009), *supra* note 3. *See also* Reid & Holden (Dec. 2008), *supra* note 1 (noting that only 3 percent of defined contribution plan participants ceased contributions in 2008); *The Principal Financial Well-Being Index Summary—Fourth Quarter 2008*, Principal Financial Group (2008) (finding that, in the 6 months leading up to its October 2008 survey, 11 percent of employees increased 401(k) contributions, while only 4 percent decreased contributions and only 1 percent ceased contributions entirely); *Retirement Outlook and Policy Priorities*, Transamerica Center for Retirement Studies (Oct. 2008) (finding that participation rates are holding steady among full-time workers who have access to a 401(k) or similar employer-sponsored plan, with 77 percent currently participating; 31 percent of participants have increased their contribution rates into their retirement plans in the last 12 months; only 11 percent have decreased their contribution rates or stopped contributing); Press Release, Hewitt Associates, Hewitt Data Shows Americans Continue to Save in 401(k) Plans Despite Economic Woes (Nov. 24, 2008) (finding, in a November analysis, that average savings rates in 401(k) plans have only dipped by 0.2 percent, from 8.0 percent in 2007 to 7.8 percent in 2008).

<sup>18</sup> *See* Sarah Holden & Jack VanDerhei, *Contribution Behavior of 401(k) Plan Participants During Bull and Bear Markets*, NAT'L TAX ASS'N 44 (2004) (citing a number of studies which indicate little variation in before-tax contributions and a slight decrease in employer contributions as a percentage of participants pay during the 1999–2002 bear market).

<sup>19</sup> Principal Financial Group (2008), *supra* note 17.

<sup>20</sup> *Id.*

<sup>21</sup> *Private Pension Plan Bulletin Historical Tables* (Feb. 2008), *supra* note 5.

<sup>22</sup> In 2007, 82 percent of employers with 500 or more employees offered 401(k) plans to their employees, and 19 percent of these employers offered a defined contribution plan other than a 401(k) plan to their employees. *9th Annual Retirement Survey*, Transamerica Center for Retirement Studies (2008).

<sup>23</sup> Fifty-nine percent of employers with between 10 and 499 employees offered their employees 401(k) plans in 2007, as compared with 56 percent in 2006. Transamerica Center for Retirement Studies (2008), *supra* note 22; *8th Annual Retirement Survey*, Transamerica Center for Retirement Studies (2007).

<sup>24</sup> U.S. DEPT OF LABOR & U.S. BUREAU OF LABOR STATISTICS, BULL. NO. 2715, NATIONAL COMPENSATION SURVEY: EMPLOYEE BENEFITS IN THE UNITED STATES, March 2008, tbl. 2 (Sept. 2008).

<sup>25</sup> As of December 2007, there were more than 500,000 SIMPLE IRAs. At the end of 2007, \$61 billion was held in SIMPLE IRAs. *See* Brady & Holden (Dec. 2008), *supra* note 1; Peter Brady & Stephen Sigrist, *Who Gets Retirement Plans and Why*, INVESTMENT COMPANY INST. PERSPECTIVE 14, no. 2, Sept. 2008.

<sup>26</sup> Brady & Sigrist (Sept. 2008), *supra* note 25. *See also* U.S. DEPT OF LABOR & U.S. BUREAU OF LABOR STATISTICS, BULL. NO. 2589, NATIONAL COMPENSATION SURVEY: EMPLOYEE BENEFITS IN PRIVATE INDUSTRY IN THE UNITED STATES, 2005 (May 2007) (indicating 8 percent of private-sector workers at eligible small businesses participated in a SIMPLE IRA).

<sup>27</sup> Among all full-time, full-year wage and salary workers ages 21 to 64, 55.3 percent participated in a retirement plan in 2007. This is up from approximately 53 percent in 2006. Craig Copeland, *Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2007*, EMPLOYEE BENEFIT RESEARCH INST. ISSUE BRIEF, no. 322, Oct. 2008 (examining the U.S. Census Bureau's March 2008 Current Population Survey). *See also* The Vanguard Group, Inc. (2008), *supra* note 10 (noting that, out of all employees in Vanguard-administered plans, 66 percent of eligible employees participated in their employer's defined contribution plan); *51st Annual*

*Survey of Profit Sharing and 401(k) Plans*, Profit Sharing/401(k) Council of America (Sept. 2008) (noting that 81.9 percent of eligible employees currently have a balance in their 401(k) plans).

<sup>28</sup> Participants in plans administered by Vanguard saved 7.3 percent of income in their employer's defined contribution plan in 2007. The Vanguard Group, Inc. (2008), *supra* note 10. Among non-highly compensated employees, the level of pre-tax deferrals into 401(k) plans has risen from 4.2 percent of salary in 1991 to 5.6 percent in 2007. Profit Sharing/401(k) Council of America (Sept. 2008), *supra* note 27.

<sup>29</sup> See Transamerica Center for Retirement Studies (Oct. 2008), *supra* note 17 (finding that 35 percent of Echo Boomers, 34 percent of Generation X, 28 percent of Baby Boomers, and 7 percent of Matures consider employer-sponsored defined contribution plans as their primary source of retirement income).

<sup>30</sup> Jack VanDerhei, *Findings from the 2003 Small Employer Retirement Survey*, EMPLOYEE BENEFIT RESEARCH INST. ISSUE NOTES 24, no. 9, Sept. 2003.

<sup>31</sup> Both small employers and workers in small businesses consider salary to be a greater priority than retirement benefits, but the inverse is true for the majority of larger employers and workers in larger businesses. See Transamerica Center for Retirement Studies (2008), *supra* note 22 (finding that 56 percent of employees in larger businesses consider retirement benefits to be a greater priority, where 54 percent of employees in smaller companies rank salary as a priority over retirement benefits). See also Brady & Sigrist (Sept. 2008), *supra* note 25.

<sup>32</sup> For example, one survey found that more than half of small business respondents would be "much more likely" to consider offering a retirement plan if company profits increased. VanDerhei (Sept. 2003), *supra* note 30. See also Transamerica Center for Retirement Studies (2008), *supra* note 22 (finding that large companies are more likely than smaller companies to offer 401(k) plans (82 percent large, 59 percent small)).

<sup>33</sup> It should also be remembered that those without employer plan coverage may be building retirement savings through non-workplace tax-preferred vehicles such as individual retirement accounts or deferred annuities.

<sup>34</sup> See Brady & Sigrist (Sept. 2008), *supra* note 25.

<sup>35</sup> Based on an analysis of the Bureau of Labor Statistics' Current Population Survey, March Supplement (2007), of those most likely to want to save for retirement in a given year, almost 75 percent had access to a retirement plan through their employer or their spouse's employer, and 92 percent of those with access participated. Brady & Sigrist (Sept. 2008), *supra* note 25.

<sup>36</sup> Voluntary pre-tax and Roth after-tax contributions must satisfy the Actual Deferral Percentage test ("ADP test"). The ADP test compares the elective contributions made by highly compensated employees and non-highly compensated employees. Each eligible employee's elective contributions are expressed as a percentage of his or her compensation. The numbers are then averaged for (i) all eligible highly compensated employees, and (ii) all other eligible employees (each resulting in a number, an "average ADP"). The ADP test is satisfied if (i) the average ADP for the eligible highly compensated employees for a plan year is no greater than 125 percent of the average ADP for all other eligible employees in the preceding plan year, or (ii) the average ADP for the eligible highly compensated employees for a plan year does not exceed the average ADP for the other eligible employees in the preceding plan year by more than 2 percent *and* the average ADP for the eligible highly compensated employees for a plan year is not more than twice the average ADP for all other eligible employees in the preceding plan year. Treas. Reg. § 1.401(k)-2.

Employer matching contributions and employee after-tax contributions (other than Roth contributions) must satisfy the Actual Contribution Percentage test ("ACP test"). The ACP test compares the employee and matching contributions made by highly compensated employees and non-highly compensated employees. Each eligible employee's elective and matching contributions are expressed as a percentage of his or her compensation, and the resulting numbers are averaged for (i) all eligible highly compensated employees, and (ii) all other eligible employees (each resulting in a number, an "average ACP"). The ACP test utilizes the same percentage testing criteria as the ADP test. Treas. Reg. § 1.401(m)-2.

<sup>37</sup> A trust shall not constitute a qualified trust under 401(a) unless the plan of which such trust is a part that satisfies the requirements of section 411 (relating to minimum vesting standards). See I.R.C. § 401(a)(7).

<sup>38</sup> See I.R.C. §§ 401(k)(12) and (13).

<sup>39</sup> ERISA § 404. I.R.C. § 401(a) also requires that a qualified trust be organized for the exclusive benefit of employees and their beneficiaries.

<sup>40</sup> Sarah Holden & Michael Hadley, *The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2007*, INVESTMENT COMPANY INST. PERSPECTIVE 17, no. 5, Dec. 2008.

<sup>41</sup> See Transamerica Center for Retirement Studies (2008), *supra* note 22 (finding that, regardless of company size, almost two-thirds of employers offer investment guidance or advice as part of their retirement plan; of those who do not currently offer guidance or advice, 18 percent of large employers and 7 percent of small employers plan to offer advice in the future); Deloitte Consulting LLP (2008), *supra* note 8 (51 percent of 401(k) sponsors surveyed offer employees access to individualized financial counseling or investment advice services (whether paid for by employees or by the employer)); *Trends and Experience in 401(k) Plans 2007—Survey Highlights*, Hewitt Associates LLC (June 2008) (40 percent of employers offer outside investment advisory services to employees).

<sup>42</sup> Profit Sharing/401(k) Council of America (Sept. 2008), *supra* note 27.

<sup>43</sup> Forty-six percent of plan participants consulted materials, tools, or services provided by their employers. John Sabelhaus, Michael Bogdan, & Sarah Holden, *Defined Contribution Plan Distribution Choices at Retirement: A Survey of Employees Retiring Between 2002 and 2007*, INVESTMENT COMPANY INST. RESEARCH SERIES, Fall 2008.

<sup>44</sup> See, e.g., *Measuring the Effectiveness of Automatic Enrollment*, Vanguard Center for Retirement Research (Dec. 2007) (stating that “[a]n analysis of about 50 plans adopting automatic enrollment confirms that the feature does improve participation rates, particularly among low-income and younger employees”); Deloitte Consulting LLP (2008), *supra* note 8 (stating that “[a] full 82 percent of survey respondents reported that auto-enrollment had increased participation rates”); *Building Futures Volume VIII: A Report on Corporate Defined Contribution Plans*, Fidelity Investments (2007) (stating that in 2006 overall participation rates were 28 percent higher for automatic enrollment-eligible employees than for eligible employees in plans that did not offer automatic enrollment; overall, automatic enrollment eligible employees had an average participation rate of 81 percent).

<sup>45</sup> A recently-surveyed panel of experts expects automatic enrollment to be offered in 73 percent of defined contribution plans by 2013. *Prescience 2013: Expert Opinions on the Future of Retirement Plans*, Diversified Investment Advisors (Nov. 2008).

<sup>46</sup> See The Vanguard Group, Inc. (2008), *supra* note 10.

<sup>47</sup> See Deloitte Consulting LLP (2008), *supra* note 8 (42 percent of surveyed employers have an automatic enrollment feature compared with 23 percent in last survey); Hewitt Associates LLC (June 2008), *supra* note 41 (34 percent of surveyed employers have an automatic enrollment feature compared with 19 percent in 2005); Profit Sharing/401(k) Council of America (Sept. 2008), *supra* note 27 (more than half of large plans use automatic enrollment and usage by small plans has doubled).

<sup>48</sup> See Deloitte Consulting LLP (2008), *supra* note 8 (stating that 26 percent of respondents reported they are considering adding an auto-enrollment feature).

<sup>49</sup> One leading provider has noted an upward shift since 2005 in the percentage of sponsors that use a default deferral rate of 3 percent or higher, and a corresponding decrease in the percentage of sponsors that use a default deferral rate of 1 percent or 2 percent. The Vanguard Group, Inc. (2008), *supra* note 10.

<sup>50</sup> See, e.g., Copeland (Oct. 2008), *supra* note 27 (noting that Hispanic workers were significantly less likely than both black and white workers to participate in a retirement plan); Jack VanDerhei & Craig Copeland, *The Impact of PPA on Retirement Savings for 401(k) Participants*, EMPLOYEE BENEFIT RESEARCH INST. ISSUE BRIEF, no. 318 (June 2008) (noting that industry studies have shown relatively low participation rates among young and low-income workers); Fidelity Investments (2007), *supra* note 44 (stating that, in 2006, among employees earning less than \$20,000, the participation boost from automatic enrollment was approximately 50 percent); U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-08-8, PRIVATE PENSIONS: LOW DEFINED CONTRIBUTION PLAN SAVINGS MAY POSE CHALLENGES TO RETIREMENT SECURITY, ESPECIALLY FOR MANY LOW-INCOME WORKERS (Nov. 2007); Daniel Sorid, *Employers Discover a Troubling Racial Split in 401(k) Plans*, WASH. POST, Oct. 14, 2007, at F6.

<sup>51</sup> See Fidelity Investments (2007), *supra* note 44 (noting that, in 2006, the average deferral rate for participants in automatic escalation programs was 8.3 percent, as compared to 7.1 percent in 2005).

<sup>52</sup> See The Vanguard Group, Inc. (2008), *supra* note 10 (post-PPA, two-thirds of Vanguard's automatic enrollment plans implemented automatic annual savings increases, compared with one-third of its plans in 2005); Hewitt Associates LLC (June 2008), *supra* note 41 (35 percent of employers offer automatic contribution escalation, compared with 9 percent of employers in 2005); Transamerica Center for Retirement Studies (2008), *supra* note 22 (26 percent of employers with automatic en-

rollment automatically increase the contribution rate based on their employees' anniversary date of hire).

<sup>53</sup> A leading provider states that "QDIA investments are often more broadly diversified than portfolios constructed by participants. Increased reliance on QDIA investments should enhance portfolio diversification." The Vanguard Group, Inc. (2008), *supra* note 10. *See also* Fidelity Investments (2007), *supra* note 44 (where a lifecycle fund was the plan default option, overall participant asset allocation to that option was 19.4 percent in 2006; where the lifecycle fund was offered but not as the default option, overall participant asset allocation to that option was only 9.8 percent).

<sup>54</sup> Selection of Annuity Providers: Safe Harbor for Individual Account Plans, 73 Fed. Reg. 58,447 (Oct. 7, 2008) (to be codified at 29 CFR pt. 2550).

<sup>55</sup> *See* Holden & Hadley (Dec. 2008), *supra* note 40.

<sup>56</sup> One survey found that 92 percent of companies surveyed stated that their plan is intended to comply with ERISA section 404(c). Deloitte Consulting LLP (2008), *supra* note 8.

<sup>57</sup> In 2006, the percentage of single investment option holders who invested in lifecycle funds—"blended" investment options—was 24 percent. Forty-two percent of plan participants invested some portion of their assets in lifecycle funds. The average number of investment options held by participants was 3.8 options in 2006. Fidelity Investments (2007), *supra* note 44.

<sup>58</sup> In 2007, 77 percent of employers offered lifecycle funds as an investment option, compared with 63 percent in 2005. Hewitt Associates LLC (June 2008), *supra* note 41. *See also* Fidelity Investments (2007), *supra* note 44 (noting that, in 2006, 19 percent of participant assets were invested in a lifecycle fund in plans that offered the lifecycle fund as the default investment option, compared with 10 percent of participant assets in plans that did not offer the lifecycle fund as the default investment option).

<sup>59</sup> *See Target-Date Funds: Still the Right Rationale for Investors*, The Vanguard Group, Inc. (Nov. 28, 2008) (noting that "even investors entering and in retirement need a significant equity allocation" and citing the 17- to 20-year life expectancy for retirees who are age 65). *See also* Fidelity Investments (2007), *supra* note 44 ("In general . . . the average percentage of assets invested in equities decreased appropriately with age . . . to a low of 45 percent for those in their 70s.").

<sup>60</sup> I.R.C. § 401(a)(35); ERISA § 204(j).

<sup>61</sup> Hewitt Associates LLC (June 2008), *supra* note 41.

<sup>62</sup> Hewitt Associates LLC (June 2008), *supra* note 41.

<sup>63</sup> Holden, VanDerhei, Alonso, & Copeland (Aug. 2007), *supra* note 15. *See also* Fidelity Investments (Jan. 28, 2009), *supra* note 3 (noting that, at year-end 2008, company stock made up approximately 10 percent of Fidelity's overall assets in workplace savings accounts, compared with 20 percent in early 2000).

<sup>64</sup> Holden, VanDerhei, Alonso, & Copeland (Aug. 2007), *supra* note 15. *See also* William J. Wiatrowski, *401(k) Plans Move Away from Employer Stock as an Investment Vehicle*, MONTHLY LAB. REV., Nov. 2008, at 3, 6 (stating that (i) in 2005, 23 percent of 401(k) participants permitted to choose their investments could pick company stock as an investment option for their employee contributions, compared to 63 percent in 1985, and (ii) in 2005, 14 percent of 401(k) participants permitted to choose their investments could pick company stock as an investment option for employer matching contributions, compared to 29 percent in 1985).

<sup>65</sup> *See* U.S. GOV'T ACCOUNTABILITY OFFICE, GAO/HEHS-98-2, 401(K) PENSION PLANS: LOAN PROVISIONS ENHANCE PARTICIPATION BUT MAY AFFECT INCOME SECURITY FOR SOME (Oct. 1997) (noting that plans that allow borrowing tend to have a somewhat higher proportion of employees participating than other plans).

<sup>66</sup> *See* I.R.C. §§ 72(p) and 401(k)(2)(B).

<sup>67</sup> *See, e.g.,* Reid & Holden (Dec. 2008), *supra* note 1 (stating that, in 2008, 1.2 percent of defined contribution plan participants took a hardship withdrawal and 15 percent had a loan outstanding); Fidelity Investments (Jan. 28, 2009), *supra* note 3 (noting that only 2.2 percent of its participant base initiated a loan during the fourth quarter of 2008, compared with 2.8 percent during the fourth quarter of 2007, and 0.7 percent of its participant base took a hardship distribution during the fourth quarter of 2008, compared with 0.6 percent during the fourth quarter of 2007); Holden, VanDerhei, Alonso, & Copeland (Aug. 2007), *supra* note 15 (noting that most eligible participants do not take loans); Fidelity Investments (2007), *supra* note 44 (noting that only 20 percent of active participants had one or more loans outstanding at the end of 2006). Most participants who take loans repay them. *See* Transamerica Center for Retirement Studies (2008), *supra* note 22 (only 18 percent of participants have loans outstanding, and almost all participants repay their loans).

<sup>68</sup>I.R.C. § 72(t).

<sup>69</sup>See I.R.C. § 402(c)(4).

<sup>70</sup>In 2007, among participants eligible for a distribution due to a separation of service, 70 percent chose to preserve their retirement savings by rolling assets to an IRA or by remaining in their former employer's plan, compared with only 60 percent in 2001. The Vanguard Group, Inc. (2008), *supra* note 10; *How America Saves 2002: A Report on Vanguard Defined Contribution Plans*, The Vanguard Group, Inc. (2002).

<sup>71</sup>See Sabelhaus, Bogdan, & Holden (Fall 2008), *supra* note 43 (stating that retirees make prudent choices at retirement regarding their defined contribution plan balances: 18 percent annuitized their entire balance, 6 percent elected to receive installment payments, 16 percent deferred distribution of their entire balance, 34 percent took a lump sum and reinvested the entire amount, 11 percent took a lump sum and reinvested part of the amount, 7 percent took a lump sum and spent all of the amount, and 9 percent elected multiple dispositions; additionally, only about 3 percent of accumulated defined contribution account assets were spent immediately at retirement).

<sup>72</sup>Brady & Holden (Dec. 2008), *supra* note 1.

<sup>73</sup>*Id.* It is highly doubtful that Americans would have saved at these levels in the absence of defined contribution plans given the powerful combination of pre-tax treatment, payroll deduction, automatic enrollment and matching contributions.

<sup>74</sup>See BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEDERAL RESERVE STATISTICAL RELEASE Z.1, FLOW OF FUNDS ACCOUNTS OF THE UNITED STATES (December 11, 2008); Brady & Holden (Dec. 2008), *supra* note 1.

#### THE FINANCIAL SERVICES ROUNDTABLE

The Financial Services Roundtable ("Roundtable") respectfully offers this statement for the record to the U.S. Senate Health, Education, Labor, and Pensions Committee hearing on "The Wobbly Stool: Retirement (In)Security in America."

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$74.7 trillion in managed assets, \$1.1 trillion in revenue, and 2.3 million jobs.

#### THE ROUNDTABLE SUPPORTS RETIREMENT SECURITY

The Financial Services Roundtable supports increasing incentives and opportunities for Americans to save and invest. The increased life span of the average American and the growing number of baby boomers nearing retirement age makes prudent retirement planning a critical issue. Millions of Americans do not have a source of monthly retirement income other than Social Security. The recent economic downturn has underscored the urgency to ensure that more Americans are planning and saving for retirement. It is our belief that the preservation and expansion of the current workplace-based retirement system can best ensure Americans' retirement security. Additionally, the Roundtable is concerned about the negative impact existing laws have on incentives to accumulate capital, such as double taxation of the income by estate taxes. Providing these opportunities for Americans is important because savings increases domestic investment, encourages economic growth, results in higher wages, financial freedom, and a better standard of living.

The Roundtable believes that most Americans should approach retirement with a comprehensive strategy that incorporates a number of retirement vehicles. Consumer education about retirement savings products can help consumers make sound investment decisions and allow them to maximize their retirement savings. Further gains can be achieved through better use of investment advice, and by promoting policies that provide for more diversified, dynamic asset allocation, more institutional products, and exploration of new and innovative methods to help individuals make better investment decisions.

The Financial Services Roundtable believes that the following recommendations will enhance our Nation's retirement system and improve the outcome for all Americans:

##### *I. Ensuring Sufficient Savings for Retirement*

- **Encourage Policies That Remove Disincentives for Individuals Who Choose to Work Longer.** Working a few additional years can have a significant impact on an individual's retirement income by helping to ensure they have funds to last a retired lifetime. Currently there are a number of disincentives for retirees

choosing to work longer, such as the tax treatment of social security benefits and restrictions under some defined benefit (DB) plans.

- **Encourage Auto-Enrollment of Existing Employees and Auto Escalation.** The Pension Protection Act of 2006 enhanced the ability of employers to auto-enroll employees in retirement plans, and as a result many more employees are saving for retirement. Encouraging employers to enroll existing employees will further expand the number of individuals saving for retirement. In addition, encouraging the automatic increase of employee contributions can help improve the long term retirement security of employees.

- **Enhance 401(k) Incentives and Enable Auto-IRA Features to Permit More Small Businesses to Offer, and More Employees to Take Advantage of, Workplace Retirement Plans.** Policies to enhance workplace IRA plans by permitting auto-enrollment and facilitating streamlined payroll deductions can increase the number of companies that offer plans. Similarly, increasing tax incentives for start-up costs and/or small business contribution matches will increase the number of employees saving for retirement.

- **Explore the Creation of Auto-Rollover Options and Other Mechanisms to Prevent Leakage from the Retirement System, including the Provision of Advice and Education.** Despite significant tax penalties, in too many instances when an individual leaves a job, retirement funds are taken as a cash payment. While this may benefit an individual in the short term, it can severely impact their long term retirement security. Promoting access to advice and education at this pivotal time will result in more knowledgeable decisionmaking. Auto-rollover and other mechanisms that prevent leakage (e.g. penalty refunds) from the retirement system should also be evaluated in the context of industry concerns regarding (1) diminished expectations for low-value accounts and (2) ensuring that fiduciary obligations are met.

- **To Address Significant Market Downturns Allow Portfolio Recovery “Catch Up” Contributions On Defined Contribution (DC) and IRA Plans to Help Participants Enhance Savings and Explore Options to Maintain Employers’ Support of DC and DB Plans.** Recent market downturns have significantly reduced retirement savings of virtually all Americans. Promoting policies to enable individuals to make “catch up contributions” for a period of years will help participants regain their retirement asset values and promote better savings behaviors. Many employers are facing difficult budgetary choices, which sometimes results in freezing a DB plan and/or a suspension of DC contributions. Exploring options, such as tax incentives, to maintain plans during critical times should be considered.

- **Provide Additional Tax Incentives for Lower Income Households to Encourage Savings.** Savings rates among lower income households continue to remain low in the United States and well below levels that can help individuals ensure an adequate retirement. Expanding the Saver’s Credit could help increase savings behaviors among this segment of the population.

## *II. Optimizing Individuals’ Return on Saving and Investing*

- **Encourage Greater Use of Investment Advice and Explore Policies to Enhance Plan Sponsors’ Choice in Investment Options.** Sound investment decisions can maximize an individual’s retirement savings. There is a potential for further gains through better use of investment advice, and by promoting policies that provide for more diversified, dynamic asset allocation, more institutional products, and exploring other ways to help individuals make better investment decisions.

- **Encourage the Introduction of Insurance, Annuities, and Other Savings Products to Help Individuals Better Manage Their Retirement Needs and Risks by Providing Regulatory Flexibility and Innovative Tax Incentives.** Our diverse workforce and constantly changing demographics require a broad portfolio of savings products to help all individuals save for their retirement and then to manage effectively their assets in retirement. Appropriately addressing such complex issues as longevity, market risk, and health care costs in retirement, will require a constantly evolving set of solutions. Greater regulatory flexibility and innovative public policies that foster this next generation of products will permit the introduction of products responsive and efficient for meeting the retirement needs of the American people.

## *III. Helping Individuals’ Manage Their In-Retirement Risks*

- **Improve Management of In-Retirement Risk by Enabling DC Sponsors to Offer Default Options for Guaranteeing Income.** As important as saving for retirement, the management of savings once an individual retires is just as critical. For example, allowing plan sponsors to offer a default guaranteed income option can help improve individual retirement outcomes and manage their in-retirement risks.

In addition, access to advice and education will help plan participants make the correct election based on their specific needs.

CONCLUSION

The Roundtable stands ready to work with policymakers to preserve and expand the current workplace-based retirement system to help strengthen retirement security for all Americans. Creating policies that help promote and develop workplace-based retirement solutions will enable the financial services industry to better meet the long-term retirement needs of hard working Americans. The Roundtable encourages Congress and the executive branch to consider not only traditional programs, but also innovative solutions that will increase opportunities for Americans to save, protect, and grow their retirement savings.

[Whereupon, at 11:55 a.m., the hearing was adjourned.]

