

Testimony of the Honorable Earl Pomeroy (D-ND)

Good afternoon. Mr. Chairman, thank you for the opportunity and the privilege of appearing before you this afternoon to discuss what I believe is one of the foremost public policy challenges of our time -- ensuring the retirement security of older Americans. I salute you, Senator Grassley and the other members of the committee for your attention to this matter and for the initiatives you have put forward to advance this critically important cause.

As a nation, and family by family, we face unprecedented challenges in trying to achieve financial security in retirement. The face of America is aging, and the challenge of providing a secure retirement for the baby boom generation is one of the biggest domestic policy challenges facing our country. There are 76 million members of the baby boom generation in this country, a quarter of whom (18 million) are already at least 48. By the year 2006, 44 percent of U.S. workers will be 45 or older and the number of younger workers will shrink by nine percent.

Not only are more Americans nearing retirement, but we are also living longer in retirement. In 1935, the average life expectancy in this country was 61 years. Today, a 65-year-old American man can expect to live on average another 15 years; a 65 year old woman, another 19 years. A critical component of retirement policy must be to ensure that older Americans don't outlive their income in retirement.

Although Americans are living longer in retirement, as a nation we are not fully prepared for it financially. For most of the post-World War II period, personal savings rates in this country averaged almost 8 percent. In recent years, however, personal savings rates have fallen dramatically, and are estimated to have been at about 2 percent during 1999. Not surprisingly, then, fully thirty percent of Americans have not begun to save for retirement, and 51 percent have never determined how much they need to save.

The Importance of Defined Benefit Plans

Just as today's workers must evaluate their own retirement security, so must policymakers assess the viability of the nation's aging-related programs and policies. In particular, I believe that Congress should strengthen the ability of the current private pension system to provide adequate retirement income security. Currently only half of all American workers are currently covered by an employer-sponsored pension plan. In my view, increasing the availability of and participation in employer-sponsored retirement plans should be one of Congress' first retirement policy priorities. Specifically, I believe that Congress should recognize the critical role of defined benefit pension plans in providing a secure stream of income in retirement.

Over the past two decades or so we have witnessed a dramatic decrease in the number of defined benefit plans as compared to defined contribution plans. Private workforce participation in defined benefit plans declined from 39 percent in 1975 to 23 percent in 1995-- a decline of over 40 percent. Furthermore, the number of defined benefit plans dropped from 114,000 in 1987 to 45,000 in 1997.

The shift away from defined benefit plans has been accompanied by a corresponding growth in defined contribution plans. In 1980, defined contribution plans represented 38 percent of all employer-sponsored retirement plans. By 1995, this figure had risen to 64 percent.

As someone who has devoted much of my time and attention in Congress to retirement policy, I believe that the combination of a defined benefit pension plan supplemented with a defined contribution savings plan is precisely the retirement arrangement we want for all American workers. I am also a strong

believer in the strengths of defined benefit plans. In my view, defined benefit plans offer some distinct advantages both for participants and for advancing sound retirement policy. Specifically, defined benefit plans protect workers' retirement income security by providing benefits to all eligible workers, protecting workers from investment risk, preventing leakage, and by providing lifelong, guaranteed benefits.

The Defined Benefit Revitalization Act

Despite the many advantages to workers of defined benefit plans, federal law does not encourage, and in some cases actually discourages, employers from maintaining them. I have drafted legislation, which I will introduce within the next few weeks, to address this problem. The working title of my legislation is the "Defined Benefit Revitalization Act"

Reversing the trend in defined benefit plans will take some time -- and I believe Congress must start now. Passage of the proposals in my bill will demonstrate the government's commitment to changing the atmosphere surrounding DB plans, encouraging companies that do not have DB plans to adopt them, and encouraging companies that already sponsor DB plans to keep their plans and use them to provide future benefit improvements to their workers.

Many of the provisions in this bill have been put forward in other bills by Representatives Portman and Cardin, Nancy Johnson, Senators Graham and Grassley, and the Clinton Administration. To their excellent proposals I have added others.

I would like to focus, however, on one provision in my legislation, which addresses phased retirement. As currently drafted, my legislation would allow employers to voluntarily provide in-service distributions (in the form of an annuity only) to workers age 59 ½.

The Benefits of Phased Retirement

I believe that by facilitating phased retirement, my legislation will benefit workers in two important ways. First, it will expand options for the growing number of workers who are not ready to retire at today's average retirement age of 62. Secondly, it will improve the economic security of older Americans by allowing them to maximize their pension benefits while continuing to earn income in the final years before full retirement.

Many older Americans who want to continue working for their employer find it makes more sense to switch jobs simply so that they can continue working and receive a pension benefit. Other workers retire from their employer, start receiving pension benefits, only to be rehired, either as a full-time employee or as an independent contractor. While these arrangements have allowed some workers to take advantage of partial retirement, I believe permitting in-service distributions from defined benefit plans at age 59 ½ should also be an option available to employers.

My legislation will also benefit employers by allowing them the flexibility to use phased retirement to retain older workers. We are currently experiencing the longest economic expansion in our nation's history, and the record-low unemployment levels reflect that. In today's tight labor markets, employers must be able to access non-traditional labor sources to keep their business going. In this environment, facilitating phased retirement will provide vibrant and healthy senior citizens of the opportunity to contribute to the economic vitality of this country and share their expertise and positive work ethic with younger workers.

Not surprisingly, employers have expressed a keen interest in phased retirement as a method of retaining skilled older workers. In a survey conducted of 586 large employers in 1999 by Watson Wyatt, sixty percent of employers reported they were having difficulty attracting workers. Fully 70 percent agreed that implementing a phased retirement program is a viable strategy for addressing labor shortages.

Sixteen percent of employers surveyed reported that they offer phased retirement, while another 28 percent said they are interested in establishing such programs in the next two to three years.

Employers that currently offer phased retirement report that it enables them to retain skilled workers. Retaining older workers rather than replacing them with younger, less-skilled workers gives employers several advantages, including the retention of institutional knowledge and specialized skills as well as lower hiring and training costs.

While the concept of phased retirement is attractive, federal law currently discourages it by prohibiting in-service distributions from defined benefit plans. As a point of contrast, in-service distributions from 401(k) plans are permitted without penalty once a participant reaches age 59½

Mr. Chairman, Congress recently recognized the changing nature of the workforce and of retirement by passing legislation to eliminate the Social Security earnings test for beneficiaries age 65 and older. I strongly supported that legislation, and I also believe it is time that Congress took a similar step to facilitate phased retirement in the employer-sponsored pension system by examining phased retirement proposals.

In closing, Mr. Chairman, I would just like to thank you again for the opportunity to join you here this morning. I believe that through innovative approaches such as facilitating phased retirement, we can advance our national retirement policy in a way that will bring tangible results to the nation's older workers. I look forward to continuing our close bipartisan, bicameral cooperation on retirement security issues.