

United States Senator Bob Graham
Testimony before the
Special Committee on Aging
June 17, 1999

Senator Grassley, thank you for holding this hearing. Your leadership was invaluable in the legislation that led to the SAVER Summit, and I am glad to be participating in this follow-up event to that Summit. You have been a champion of this cause at every step of the way.

Being prepared for retirement -- financially, physically and emotionally -- is of underappreciated importance to many Americans in their working years.

For today's testimony, the focus will be financial preparation, and retirement education --- what families need to effectively prepare for a financially secure retirement..

The government has two roles in this effort: outreach to the American public on the importance of preparing for retirement, and fostering an environment that encourages Americans to save and businesses to provide retirement benefits to their employees.

As a lifelong resident of Florida, I have seen firsthand the benefits of early and prudent preparation for retirement.

I have witnessed the emotional strain, and physical consequences, of not planning ahead and exhausting one's resources early into the retirement years.

I've hosted two "Retirement Summits" in my home state. The first, in 1998, in Tampa. The second, this past May, in Jacksonville.

You would expect that a "Retirement Summit" in Florida would attract quite a few retirees. You'd be right.

But equal in number at those summits were young professionals -- people in their 20's, 30's and 40's. And, I'm proud to say, some high school students who are already thinking about their future.

The SAVER Summit brought to light the extensive work needed to make the United States a nation of savers.

Our federal government should serve as a role model for getting information to the public on the need to prepare early. The Department of Labor has created very effective resources, like the "Top Ten Ways to Beat the Clock and Save for Retirement." I look forward to hearing Leslie Kramerich discuss the Department of Labor's current efforts. I know that retirement education is one of Secretary Herman's top priorities.

Congress can help as well. Over the past several years, Senator Grassley and I have introduced bipartisan pension reform legislation, joined now by 14 cosponsors, aimed at enhancing our nation's readiness for retirement. Senator Breaux has been an original cosponsor since the very beginning of this bipartisan effort, and I am very pleased to have Senator Collins as a cosponsor this year as well.

The Pension Coverage and Portability Act was developed using the lessons that Americans taught us at

our Retirement Summits.

We learned that:

we need to create an environment that encourages more small businesses to offer retirement plans ;

we need to ensure that women are financially secure in retirement;

we need to adjust pensions so that savings, like employees, can move job to job;

we should protect retirement assets in company pension plans from malfeasance;

we should promote retirement education initiatives which encourage workers to save earlier and save more;

finally, we need to reduce regulatory burdens. Businesses hesitate to start retirement plans because they fear the administrative complexity associated with pensions.

Our bill addresses these goals in several ways:

1) We make it easier for small businesses to start retirement plans. The statistics tell how much work has to be done. 51 million Americans have no retirement plan through their employer. Many of these are in businesses of less than 100 workers. 80% of firms with more than 100 employees offer retirement benefits. For firms with less than 25 workers, only 17% offer a plan.

We need to reduce administrative burdens and expenses for small businesses that want to offer retirement benefits. Thanks to Senator Max Baucus' hard work on this issue, our bill includes a tax credit to encourage employers to start a plan.

2) In some ways, women face extra challenges in preparing for retirement. They have longer life expectancy; they are often in lower-paying employment sectors; and they are often out of the work force for some amount of time for caregiving responsibilities. In our legislation, we shorten the vesting period for the 401(k) employer match from five years to three years so that women have a better chance of retaining benefits, even if they need to leave the workforce after a few years for child care, or elder care, responsibilities.

3) Senator Jeffords has been the force behind the pension portability section of our legislation. He recognizes that America is becoming a more mobile society. The average employee will have seven to nine different employers in a lifetime. It would be helpful to take your retirement assets with you each time you move from one company to another.

Second, lack of pension portability forces a tremendous amount of retirement money out of the retirement system each year. Statistics from 1996 indicate that when a job change occurs, 33% of retirement benefits are rolled into an IRA, 7% are rolled into the new company's plan, and 60% of benefits are cashed out and spent -- most likely lost from the retirement stream forever.

4) The security of assets in a retirement system is strengthened by allowing firms to invest more money than currently allowed by law into their defined benefit pension plan. This ensures that sufficient assets are available when workers retire.

5) We reduce administrative complexity by allowing well-funded pension plans to use the previous year's data to determine the current year's contribution.

6) And - the topic of the hearing today: we encourage retirement education. Senator Grassley has led the way in ensuring that American workers have the tools they need to plan for a successful retirement.

American workers have a responsibility to become actively involved in their own retirement planning. Receiving regular statements from your employers (once a year in a defined contribution plan, once every three years in a defined benefit plan), outlining your retirement benefits, helps to:

- 1) more accurately estimate specific retirement needs;
- 2) highlight the power of compound interest, thus encouraging more savings

I firmly believe that the federal government should serve as a role model, and we encourage federal agencies, like the Department of Labor, to continue their efforts. I also support new initiatives, such as the Small Business Administration making a concentrated outreach in the area where there are the fewest pensions: companies of less than 100 employees.

Even areas that are not specifically under the "retirement education" title are intrinsically linked with the need for retirement education. I'll give one example.

I cited the figure earlier that when employees change jobs, 60% of retirement assets are cashed out and spent. If a worker knew the consequences of taking that money out of the retirement system, he or she might refrain from doing that. For example, \$900, \$1200, or \$1800 don't seem like they would go far to finance a retirement at age 25. However, if that money was allowed to grow with compound interest over four decades it would be a huge step forward for retirement security. Considering you are likely to change jobs six to nine times, if you lose a couple hundred, or a couple thousand, dollars each time, you have seriously impacted your retirement years.

There is much more on which we can focus, but I know some of those issues will come up in questions, and I look forward to exploring those challenges at that time.

Senator Grassley, Senator Breaux, thank you again for asking me to join you, and for your tireless advocacy to prepare all generations for a healthy, secure, rewarding retirement.