

**CAN INDIVIDUAL RETIREMENT ACCOUNTS FOR ALL
WORKERS BE EFFICIENTLY AND EFFECTIVELY
IMPLEMENTED AND ADMINISTERED?**

**Statement of:
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Mr. Chairman and members of the Committee, let me first take the opportunity to thank you for the invitation to testify on this most timely topic. I want to make clear at the outset that the views expressed are my own and do not represent any client or group. These are views garnered from my 30 years of government experience with this program and the experience working with other social security programs around the world over the past five years. I also would like to congratulate you on the timely nature of this hearing. As the debate about Social Security reform intensifies, and I believe the arguments are becoming less inflammatory and more informative, this is a critical time to begin extensive discussions about whether there is an effective and efficient way to collect contributions for individual retirement accounts and to maintain accurate records about these accounts and the earnings they accrue. This issue is especially important when we discuss the maintenance of individual accounts for relatively low income workers, a group that are often overlooked when discussing individual accounts.

Even if the most optimistic pundits are correct and a solution to the pending insolvency of the current Social Security program is reached by the end of this year, it is likely that there would be another year before any collections for individual accounts would begin. It would be tragic if decision makers failed to include mandatory individual accounts as a part of the Social Security solution because they believed, based on inaccurate information, that individual accounts for low income workers were administratively too cumbersome or too expensive. Unfortunately, there are a number of commenters, some highly respected, who are publicly making this claim today. Whatever you believe to be the correct solution to the current solvency issue, it is imperative that a clear and accurate examination of the feasibility and cost of establishing, maintaining, and updating individual worker accounts should be done, and done now.

Let me say at the outset that I believe that establishing, maintaining, and updating of individual worker accounts can be done and can be done effectively and efficiently. I strongly believe that mandatory individual funded accounts should be a part of the reforms to our Social Security program, because I believe this is the only way to restore confidence in this program which is the bedrock of retirement planning for our country.

I believe the most effective and efficient way to accomplish the creation of this type of individual account would be through the existing IRS/SSA/Employer collection and recordkeeping process. The framework and workpower are in place and these new individual accounts could be added to the existing process with a minimum of additional cost. In many ways, I believe that adding this new role could actually help to improve the existing process. I want to note that I have not discussed this approach recently with either of the federal agencies. I am confident that the capable managers and staff in both organizations, with the proper time and resources, can produce several options for consideration. Since any solution including individual accounts would likely involve private sector custodians, I believe it would be beneficial to ask for proposals from a workgroup representing at least these three entities. I do not want to prescribe in detail the operation of this process, but suffice it to say that the percentage of employee/employer payroll to be designated for individual accounts would be collected and recorded in the existing income tax/FICA withholding and recording process and that portion would be forwarded on a schedule to the appropriate fund custodian(s). Obviously, the number of approved custodians and the opportunities for change in custodians by workers, would determine to a degree, the complexity and cost. The cost of the procedure would also vary depending on whether a charge for the service would be

made per individual account, per employer, per custodian, or if the cost is so minimal that it might be absorbed by the existing process or by the government.

I see no problem with a flat across the board percentage charge or even with the government absorbing the cost on a start-up or a continues basis. This is especially true if we are talking about a mandatory process for all workers. I strongly believe that a mandatory savings component should be a part of the solution to the future of Social Security. I believe it must be mandated for the sake of low income workers. Voluntary IRA's simply have not been a powerful enough incentive to attract low income workers to choose saving over the other pressures on their tight budgets. In this area I would also like to suggest that as you consider the design of our future Social Security program that you strongly consider some kind of subsidy for low income workers to ensure that they are able to afford individual retirement accounts to supplement a basic Social Security payment. A funded mandatory pension tier will not only take pressure off of the current unfunded liabilities, but I believe by increasing our overall savings rate, we will be add' to the prosperity of our future economy as a whole.

When I mention improvements to the current process, I am thinking particularly of the W2 and the about to be fully implemented SSA Personal Earnings Benefits Estimates (PEBES) for all workers. This PEBES process has not yet been implemented for the entire workforce. I know that several Senators have expressed concern about some aspects of the information in the PEBES forms. The prospect for including information about individually owned retirement accounts in a similar format would provide another incentive for workers to track and validate their overall retirement contributions and hopefully to seek corrections for any erroneous reports. While the percent of incorrectly reported earnings in any given year is relatively small, this small percent against such a massive total volume can mask the severe problems for individual or small groups of workers or employers.

Another area worth exploring is the viability of establishing an insurance fund for approved pension funds in the new system. Depending on the volume of investment managers to be approved, it might be worthwhile to set aside a very small portion of funds to build an insurance pool. This pool would be used to offset the impact on individual workers should a specific pension fund fail to meet minimum standards. Obviously, we should try to avoid this potential to the extent possible by careful but not over regulation. A regulatory approach somewhere between that of the United Kingdom and that of Chile would seem to be in order.

A final point, I believe that to be viable our Social Security system for the coming century must have a very carefully designed regulatory oversight body. At least in the initial stages, this system may have to have limits in the number of investment options and the opportunity to alter choices of investments. The designers must carefully set out the goals for such an oversight group. A look at the experience of the Federal Retirement Thrift Investment Board shows that such a body can function effectively and without the threat of political manipulation of the funds. It would also be advisable to review the role played by the National Finance Center of the Department of Agriculture and the audit function performed by the Pension and Welfare Benefit Administration of the Department of Labor.

Mr. Chairman, upon looking closely at the desirable administrative structure for an effective and efficient Social Security system of the future, especially one that includes mandatory funded individual accounts, it is not likely that a "privatized" process would be viable. Rather, we should rely on several government organizations that we have mentioned today to perform those tasks that they can best perform. On the other hand we should provide workers with the opportunity to benefit from privately managed individual accounts so as to allow the best return on their retirement investments within a relatively safe environment. For economic as well as political reasons the investment of these individually owned accounts should be by professionals. While the administrative costs for the investment function exceeds that for the current trust fund bond operations, the net benefit to the worker

is significant.

I have not provided specific numerical estimates or comparisons of costs for the various functions I have discussed. These numbers are readily available to the Committee. I simply want to urge you to move expeditiously to charge someone, whether it is GAO or another body, to begin to document the options available and the relative merits of each as well as the cost considerations. If this is done Mr. Chairman, I am confident that we can establish a Social Security system for the future which will provide a better basis for retirement. Safe individually owned and funded accounts will not only restore confidence in our Social Security system, but will also rescue the current system from the path of insolvency and boost the overall savings rate of our economy. I believe that a strong bipartisan approach along these lines should also go a long way in restoring the trust in our government institutions. Employing private sector management and techniques in the investment area where they are most appropriate will allow all workers to benefit from the fruits of the market economy.

Thank you again for the opportunity to be here. I would be pleased to answer any questions you may have and to work with the Committee to further this effort.