Remarks by Congressman Earl Pomeroy
February 28, 2002

Several years ago, I joined then Congressman Harris Fawell as an original cosponsor of legislation which called for three White House Summits on the vital, if then unsung, issue of retirement savings. We directed the convening of three such Summits over ten years because we knew the issue was only going to grow in importance for America's families, and that it would evolve in unpredictable ways which warranted treatment as a dynamic ongoing national priority.

It was our hope that the national spotlight a White House Conference would generate, coupled with the energy that would be created by assembling national leaders in the retirement security area, would create momentum and generate ideas for this national imperative. I believe this second Savers Summit will meet the highest hopes former Congressman Fawell and I had as we worked on this legislation.

I commend the Administration, particularly Assistant Secretary of Labor Ann Combs, for preparing and conducting such an outstanding Summit. I also commend each of you for the considerable efforts you have made to participate and make this event a success. You brought to this Summit your considerable expertise. Your ongoing leadership in the retirement savings arena will mean a great deal to advancing retirement savings and building financial security for Americans.

In the next few minutes, I would like to briefly outline my view of the components of a national retirement income security strategy, and identify public policy issues presented by each which will require our collective attention now and in the years to come.

Blueprint For Financial Security In Retirement - The United States retirement income system consists of several independent components enacted at different times over many years. Either by design, or more likely, by fortunate accident, the various parts of our system complement one another and work as an integrated approach. The foundation is the public pension program - Social Security - augmented by workplace pension plans and defined contribution plans, and individual retirement savings.

This combination of public and private approaches to retirement income security has proven successful because, as a system, it has provided the following: universal coverage, basic income guarantees in retirement even for low wage earners, strong incentive for personal responsibility of wage earners to acquire private retirement savings, and a significant role for employers in providing retirement programs as an employment benefit.

Social Security - Social Security is the foundation of retirement income for America's families. Social Security covers 96% of the workforce, and provides covered retirees a defined benefit payment each month for as long as they live.

For most recipients, their Social Security check is a vital part of their income in retirement. In fact, 64% rely on those payments for most of their income and, for 29%, those checks represent 90% or more of their monthly income. Without this program half of those 62 and older would have income under the poverty level.

I have real questions about proposals to reduce the guarantees in Social Security through structural reforms providing for private accounts. Americans already have loads of risk when it comes to retirement income. Risk of not having workplace retirement savings; risk of not saving enough; risk of investing in ways that fail to generate the expected return; risk of spending assets intended for retirement on some other purpose — emergency or otherwise; and increasingly risk of outliving retirement savings. Social Security offsets these risks very effectively, at least in terms of bottom line income in retirement years. Changes which, in the end, add further risks to Social Security, do not represent a strategically sound move for this foundation of retirement for Americans.

One place privatizers and system protectors can find common ground involves an aspect of fiscal prudence core to the future solvency of Social Security regardless of how the program is structured. Spending the cash coming in from Social Security payroll taxes on unrelated functions of government will make it harder to meet the commitments of this program to future retirees. Budget projections show we are on track to spend $1.5 trillion coming in for Social Security on other government expenses over the next ten years. This is unacceptable. We all need to pull together with urgency — to end deficits in the general fund of the federal government so Social Security revenue can be held strictly for the benefit of Social Security.

Workplace Defined Pension Plans - Defined benefit pension plans, like Social Security, deliver predictable income throughout the covered retirees retirement years.

I believe this format continues to offer a great deal in advancing retirement income security and am not prepared to accept the notion that defined benefit pensions are an idea whose time has come and gone. The place to start is by trying to keep the plans we have. The federal government should help rather than hinder employers trying to keep their pension coverage for their workers.

We began by making overdue benefit updates in Portman-Cardin, and now we have to fix an inappropriate reserving requirement which, if not addressed, will make the cost of pension coverage unnecessarily expensive.

I believe there is more we can do to increase the appeal of defined benefit plans to employers who do not presently offer this coverage. I recognize pensions will occupy a relatively small part of the overall picture, but those who are covered find the coverage to be very important. It only makes sense to try and expand the number in the workplace covered with lifetime pension coverage.

Workplace Defined Contribution Plans - Defined contribution plans have become the primary vehicles for workplace retirement savings. The tremendous growth of plans, covered individuals, and assets saved, all reflect what a tremendous success the 401(k) and other DC plans have become. We must be clear-eyed, however, about evaluating whether these vehicles will, in the end, deliver the retirement income security for participants through their lifetimes that we hope for. In making this evaluation, we must look at workers' participation rates, and whether those who do participate are accumulating the balances required for meaningful retirement income.

Participation - Not surprisingly, participation rates by employees with defined contribution retirement savings opportunities varies directly with whether incentives are provided in the form of an employer match.

With a match, more than 70% participate, substantially fewer when no match is provided. The lesson we need to consider here as we deliberate post-Enron reforms is to avoid measures which may reduce or end the match provided by a number of employers to their workers. Such a result would be a setback rather than an advance in retirement savings.

I commend the Administration for advancing a number of well considered reforms in this area and expect they will receive bipartisan support as they move in the legislative process.

Rates of Savings - Questions exist in my mind about whether those who do participate in a 401(k) are saving enough. A recent Congressional Research Service (CRS) report revealed that of the 39% of the workforce who had a DC plan, the average balance was $34,700, with the median balance being $14,000.

Fortunately, account balances are considerably larger on average for older workers rather than younger ones, so the picture may not be as bleak as these numbers would indicate. All the same, however, we are counting on DC plans to deliver a lot of retirement security for Americans. We need to carefully evaluate what the savings balances being achieved will actually deliver in this regard.

Investment Advice - In the breakout group I attended yesterday, there was strong consensus that folks needed more information on retirement savings and the workplace was the most effective place to deliver meaningful information.

Expanding the information actually delivered in the workplace through the investment advisor legislation introduced by Chairman John Boehner makes sense to me. Legitimate concerns have been raised about the prospects of abusive sales activity occurring, and I have developed a few consumer protection amendments to help address these issues. In my view, insufficient information is the greatest concern for those facing bewildering investment choices.

Matching Nest Egg to Longevity - To date, most of the attention to retirement savings involves the phase of activity associated with growing the retirement nest egg.

Matching saved assets to income needs in retirement through appropriate asset draw down will represent another important phase of issues. This is a tricky proposition for a retiree with finite assets, but nothing but unknowns in terms of life expectancy or the potential of long-term care costs. I believe lifetime annuity products will continue to become more popular as individuals look for retirement income security through these vehicles.

Congress should consider developing incentives for people to protect their retirement income through annuities. It would, in all likelihood, be a lot cheaper than providing full public services for aged retirees who have outlived their assets.

Private Retirement Savings - Sixty-one percent of workers do not own a retirement savings account of any kind -- be it an IRA, Keogh account, or 401(k) account. The fact that nearly two-thirds of American workers lack any type of retirement savings account indicates that there is a need for greater awareness among the public about the importance of saving to prepare for life after they have stopped working. This begins with financial literacy education in the schools.

Financial literacy and worker investment education and advice must be the ongoing focus by the Administration and Congress alike.

Social Security, tax incentives for workplace pension plans and defined contribution plans, and tax incentives for individual retirement savings are complementing strategies to deliver retirement security. We need to promote each in addressing retirement income security.