

**Opening Statement of Senator Herb Kohl
Special Committee on Aging Hearing
Saving Smartly for Retirement:
Are Americans Being Encouraged to Break Open the Piggy Bank?
July 16, 2008**

Good morning. Thank you all for being here today. This morning we're going to talk about saving smartly for retirement. Less than thirty years ago, Congress created a new type of savings plan—the 401(k)—to help ensure Americans have adequate income in retirement. However, increasingly we are seeing 401(k) funds being treated as rainy day funds, as participants take out withdrawals and loans. Today, we will learn more about the financial repercussions of this practice, and examine policies that can best promote the original purpose of 401(k)s: the retention and growth of retirement savings.

First, let's look at the numbers. According to the Employee Benefit Research Institute, nearly one in five 401(k) plan participants have an outstanding loan. We will learn from Dr. Weller's testimony that loans and withdrawals are not only increasing in number, but that loan amounts are growing substantially as well. We can only expect that these trends will worsen as more people face economic hardships due to the housing and credit crises, and over the long-term, contribute to America's already poor record of saving.

I want to be clear that we are not saying that all 401(k) loans and withdrawals are a bad thing. Research has shown that making loans and withdrawals available for legitimate purposes can help encourage people to participate in 401(k) plans. However, loans and withdrawals can be ill-advised for several reasons, and we believe that participants should be aware of the negative consequences they may have on their retirement savings.

And frankly, I do believe that there are some ways of using 401(k) savings that are patently bad, such as the 401(k) debit card. By offering a 401(k) debit card, plans send the message that it is okay to use your retirement savings for everyday purchases, despite the fact that the high fees associated with its use will drastically diminish savings. When a participant can use his or her 401(k) to make casual everyday purchases like buying a cup of coffee, clearly that is a gross distortion of the plan's intended use.

I am also concerned about the high fees many plans charge their participants. These fees can significantly reduce the amount of savings Americans have when they retire. Last fall, I held a hearing to consider the impact of these 401(k) fees and promote their disclosure. Following the hearing, I introduced a bill with Senator Harkin that would require all 401(k) plan managers to reveal to both employers and workers how much they charge in administrative fees.

Considering the impact fees can have on savings over time, I am disturbed by recent advertising campaigns that encourage federal employees and retirees to move their retirement savings out of the Federal Thrift Savings Program and into higher-fee accounts. The TSP has the lowest administrative costs of any retirement program in the country and I think these misleading ads are a disservice to hard-working public servants. Therefore, yesterday I sent letters to the companies that we know are running these advertisements, asking them to reexamine this practice.

In just a moment, we will hear from several experts and industry officials about how loans and withdrawals can be used more responsibly. We will also hear from the manager of the largest retirement savings plan, the TSP, about their policy on loans and withdrawals. Following today's hearing, I plan to introduce a bill with Senator Schumer that will prohibit the use of 401(k) debit cards and to set a limit on the number of loans a participant can take.

In closing, the bottom line of today's hearing is that 401(k) and similar defined contribution plans were created to ensure that people would have adequate savings for retirement, not as a source of credit to use casually. The federal government provides \$325 billion in tax benefits over the next five years to encourage retirement savings each year. We have a duty to make sure that they are used properly so that all Americans can have a secure retirement.

I now turn to Ranking Member Gordon Smith for his opening statement.