

STATEMENT OF SENATOR GORDON H. SMITH

U.S. Senate Special Committee on Aging
“Saving Smartly for Retirement:
Are Americans Being Encouraged to Break Open the Piggy Bank”
July 16, 2008

Good morning and thank you all for being here today.

These are tough times for American families. Gas and food prices are at record highs – making it difficult for many families to fill up their cars and pay for essential groceries like milk and eggs.

The current economic environment also makes it difficult for many families to pay their bills on time or at all. Many people are faced with missing one or two payments that they have every intention of making up the next month. But the next thing you know, they are in a hole trying to dig their way out of debt – and just don’t have the cash to do it.

Given how common this scenario has become, I’m not surprised that many Americans are looking to their retirement savings to help them make ends meet. Fidelity has seen an increase of 16 percent in 401(k) hardship withdrawals in comparing the first quarter of 2007 to 2008.

And according to a survey released in February by the Transamerica Center for Retirement Studies, at the end of last year, 18 percent of workers had loans outstanding from their plans, up from 11 percent in 2006.

Although I understand the reasons, this trend concerns me as tapping into 401(k) savings today can have a significant impact on one’s level of income at retirement age.

According to Vanguard, an employee who takes out two loans totaling \$30,000 from their 401(k) and pays them both back in five years will have almost \$40,000 less in their 401(k) after 30 years than an employee who takes no loans. Considering the median 401(k) account balance in 2006 was about \$66,000, \$40,000 is a lot of money to most Americans.

This leads me to my final point, one I have made many times before – Americans need to save more for retirement. For most of us, our 401(k) will be our primary source of retirement savings – and \$66,000 is certainly not enough money to retire on.

I’ve been working over the past few years on ways to help Americans increase their retirement savings. I’m pleased that Mark Iwry (ee-vree) and David John from the Retirement Security Project are with us today to share their perspective and ideas on this topic. Mark and David came up with the concept of the “automatic IRA,” which Senator Bingaman and I then developed into legislation. Our auto IRA bill would allow those employees not covered by a qualified retirement plan to save for retirement through automatic payroll deposit IRAs.

The auto IRA bill is currently under consideration by the Senate. I hope my colleagues will join me in pushing for its must needed passage.

Again, I thank all of the witnesses for coming today. I look forward to a productive discussion. With that, I'll turn it back to Chairman Kohl.