Statement of Senator Gordon H. Smith
Aging Hearing – The Role of Employer-Sponsored Retirement Plans in Increasing National Savings
April 12, 2005

Thank you all for coming today.

Today's hearing will focus on a very important topic – the role of employer-sponsored retirement plans in increasing national savings. We are going to hear from two distinguished panels of witnesses who will provide us with their insights on whether the current employer-sponsored retirement plan system effectively increases national savings and how the system can be improved.

The average life expectancy of Americans has been steadily increasing. For example, the average life expectancy of Americans born in 1960 was about 70 years. Yet, in 2003, life expectancy was about 77. And although Americans are living longer than ever before, most Americans continue to retire before age 65.

At the same time, the personal-savings rate in the United States has declined dramatically over the last two decades, reaching about one percent of personal income in 2004. The decline in our savings rate is a disturbing trend because as the length of retirement grows, Americans must save more – not less – to ensure a financially secure retirement. The need to increase our savings was also emphasized by Chairman Alan Greenspan of the Board of Governors of the Federal Reserve System during his testimony before this Committee last month on the economics of retirement.

Many refer to retirement income as a three legged stool: Social Security, employer-sponsored retirement plan and personal savings. Although there has been a tremendous amount of focus on Social Security lately, we all know it takes all three legs to keep the stool balanced. Therefore, as pensions are the second largest source of income among the elderly, the goal of this hearing is to focus on ways to increase savings in employer-sponsored retirement plans, and thus improve the stability of America's retirement system.

Currently, savings and participation rates in employer-sponsored retirement plans are low. In 2001, only about 58 percent of households with an employed head of household under the age of 64 included at least one worker who participated in an employer-sponsored retirement plan. In addition, about 37 percent (or 28 million) of such households did not own a retirement savings account of *any* kind. With respect to the amount of retirement savings Americans have accumulated, among the 47.8 million households that owned a retirement savings account of any kind in 2001, the median value of such accounts was only $27,000.

Besides low savings and participation rates, another important trend with respect to employer-sponsored retirement plans is the shift from defined benefits plans to defined contribution plans.

Over the last several years, the number of defined benefit plans has dropped dramatically, while at the same time, the number of defined contribution plans has increased. In the context of savings, this shift is significant because coverage under a defined contribution plan generally requires employees to take a more active role in preparing for retirement. For example, in general, employees must decide whether to participate in the retirement plan, how much to contribute to the plan and how their contributions should be invested.

In response to these trends, I plan to introduce legislation shortly that is aimed at increasing savings and participation rates in employer-sponsored retirement plans. For example, the bill will include a provision intended to encourage sponsors of 401(k) plans to adopt automatic enrollment, in which a percentage of each employee's salary is placed in an individual account without requiring the employee to take any action. Therefore, instead of requiring employees to actively enroll in a 401(k) plan in order to participate, under automatic enrollment, employees will be automatically enrolled unless they elect otherwise as is generally done under DB plans. Automatic enrollment has been shown to increase participation rates in 401(k) plans significantly – especially among low and middle income individuals.

In addition, with increased life expectancies, it is also important for individuals to preserve their income throughout their retirement years and not outlive their savings. Therefore, my bill will also provide incentives to ensure income preservation throughout one's retirement by encouraging employers to offer and employees to select distributions from defined contribution plans and IRAs in the form of lifetime annuities.

I would like to thank all of the witnesses for coming today and I look forward to hearing your testimony. I'll now turn to my colleague Senator Kohl for his comments.