U.S. SENATE COMMITTEE ON

Finance

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Remarks of Sen. Chuck Grassley
Chairman, Committee on Finance
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Thank you very much for that kind introduction, Secretary Combs. And thank you for inviting me here today. The topic's importance has stood the test of time. One of the oldest American sayings is: "A penny saved is a penny earned." Those are wise words. Unfortunately today, it seems like many of us have forgotten them. Recent data on national savings shows that our savings rate is at record lows. As a nation, we must reverse this trend. We must re-focus on becoming a "Savers' Society." The good news is that we have a strong economy – by far the strongest economy in history -- and growing stronger every day.

Unemployment is at historic lows. More Americans are working than ever before. Interest rates and inflation are low, and I could go on. In addition, tax revenues coming into the Treasury are at all-time record highs. But just because we're doing very well doesn't mean that we can't do even better. Our challenge is to convert all of the positive economic trends into positive savings trends.

By building a "Savers' Society", we can grow the economy even stronger and faster than we are today. And just as importantly, we can help ensure that all Americans have the opportunity for a financially secure future. You might ask what role federal policymakers have in creating a "Savers' Society". As Americans, we value personal freedom and responsibility. We reject mandates, and prefer voluntary systems and personal choice. Therefore, we do not tell people that they have to save. But that doesn't mean that we shouldn't encourage savings.

One key way to do that is by not punishing those who save and invest through punitive tax rates. Lower rates on capital gains and dividends that we enacted in 2003 have spurred economic growth, investment, and tax revenue. It is critical that we foster a "Savers' Society" by extending capital gains and dividends tax relief. It is also critical that we have rules and incentives in place to foster the sponsorship of employment-based retirement plans. A key part of that is making sure that the rules work and that they are permanent and certain. In 2001, we enacted far-reaching retirement and education savings reforms. We increased 401(k) and IRA limits, made retirement funds more portable, and enhanced the treatment of 529 college savings plans.

Unfortunately, these bipartisan reforms are scheduled to expire at the end of this decade. We must make these changes permanent, and we must do this as soon as possible. Otherwise, the power of these savings reforms will be crippled by the uncertainty of whether the tax benefits will still be there when people need them most. We also need to provide certainty in our pension rules. Today, traditional defined benefit plans, cash balance plans, and other hybrid pension plans are stuck in legal limbo. Both the House and Senate have passed bills to remove the uncertainty clouding these pension plans. I look forward to working with my fellow conferees to get a bill to the President before the April recess that will address these issues.

We also must confront the reality that more and more Americans will be relying on 401(k) plans for retirement income. As the migration from traditional pensions to 401(k)s continues, we must recognize that traditional pension plans have many advantages over 401(k)s. Importing those good aspects into 401(k)s is vital if 401(k)s are going to be a retirement plan, and not just a supplemental savings plan.

Traditional pensions have many attractive features – automatic participation, professional investment management, and often lifetime payment options. Replicating these features in 401(k) plans is a positive trend, and the House and Senate pension bills take steps in that direction by encouraging automatic enrollment. We must do more, however.

Already, there are a new set of issues that Congress should look to confront in the retirement savings area. With the baby boomers on the cusp of retirement, we need to focus more attention on how retirement plan assets will be distributed in retirement to ensure that they last a lifetime. Related to that are issues of longevity and increased life expectancy. We are living longer, and that is a good thing. But we also must all learn to effectively manage financial security as we hopefully continue to live longer and longer lives.

Also related to these issues is "phased retirement" – a term referring to the relatively new phenomenon of individuals who prefer to phase gradually into retirement. It is critical for our economy as well as for retirement security that we find ways to allow those beyond normal retirement age to continue working if they wish and to coordinate their retirement assets in a way that makes sense for them. These are big issues without simple solutions.

That's why we need to begin to roll up our sleeves now to work together to meet these challenges. We also need to make sure that retirement plans are there for everyone. If we're truly going to create a "Savers' Society", then we need to make sure that every American has access to a real and meaningful retirement plan. It's not right for companies to eliminate or refuse to provide retirement plans to their rank-and-file workers while those sitting in the executive suite get special "executive-only" pension plans that can be worth millions.

If we all have an equal stake in building a "Savers' Society", then we can make it a reality. Increasing savings means increased financial security for Americans and stronger economic growth ahead. That's a true "win-win-win". We have a lot of work ahead of us, and it is experts like you here in this room who we need to help us meet this national challenge and achieve a national victory. Keep up the good work, and please keep in touch with me and my staff. Thank you.