Statement of Senator Gordon H. Smith
The National Summit on Retirement Savings
Wednesday, March 1, 2006

Thank you very much. It is a pleasure to be with all of you this evening to talk about the important topic of retirement savings.

First, I'd like to thank the Labor Department for all of their hard work in organizing the Saver Summit. Today Americans are saving less than ever before. Therefore, highlighting the need for all of us to save more is vitally important.

I'd also like to thank all of you for participating in the Saver Summit. I commend each of you for taking time out of your busy lives to help us in developing solutions to assist Americans in overcoming their savings obstacles.

I'd like to recognize three Saver Summit delegates who are from my home state of Oregon:

- Sheri Fitts with US Bank
- Mindy Harris with the Department of County Management, Multnomah County and
- Joe Brislin with TOC Management Services

I'm very proud that you are representing our state. Thank you to Sheri, Mindy and Joe – and each of you – for your dedication and hard work!

As Chairman of the Senate Special Committee on Aging and a member of the Senate Finance Committee, I have spent a great deal of time examining the issue of retirement savings and security. In fact, last April I held an Aging Committee hearing that focused on savings in the context of employer-sponsored retirement plans. And the bottom line is Americans are simply not saving enough for retirement.

We must be especially concerned with this trend because Americans are living longer than ever before. A person who retires at age 65 can expect to live another 18 years. And by 2040, the typical 65 year old will live for 20 years. However, even though we are spending more time in retirement, most Americans are saving less than ever before – and many Americans are not saving at all! Our personal-savings rate has declined dramatically over the last two decades and today is less than zero. This a very disturbing trend that needs to be reversed to ensure that our seniors are financially secure during their retirement years.

Another significant trend is the shift from defined-benefit 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.

Defined-contribution plans are superior to defined-benefit plans in many ways. For example, defined-contribution plans tend to be much easier for employees to understand. However, the shift to defined contribution plans will require many employees to take a more active role in preparing for retirement. For example, employees covered under a defined-contribution plan, such as a 401(k) plan, must generally decide whether to participate, how much to contribute and how their contributions should be invested.

To address these trends and others, last June I introduced a bi-partisan retirement savings and security bill with Senator Kent Conrad of North Dakota. This legislation will increase Americans' retirement savings, encourage the purchase of lifetime annuities and simplify the retirement plan rules.

First, the Smith-Conrad bill encourages employers to adopt automatic enrollment in 401(k) plans. In order to participate in most 401(k) plans today, employees must fill out a form and actually sign up. However, under automatic enrollment, employees are automatically enrolled in their employer's 401(k) plans unless they opt out.

Automatic enrollment has been shown to increase participation rates in 401(k) plans significantly – especially among low and moderate income individuals. For example, a study of employees who earn less than $20,000 showed 401(k) participation rates going from 13 percent to 80 percent when the employees were automatically enrolled. The impact of this simple change is amazing!

The Smith-Conrad bill also expands the Saver's Credit, which is a tax credit for certain low and moderate-income individuals who contribute to workplace retirement plans and IRAs. So, for example, if you are single and make $15,000 a year and you put $1,000 into your employer's 401(k) plan, you'll receive a credit towards your federal taxes of $500.

The Saver's Credit has been hugely successful in encouraging savings and is used by more than five million Americans each year. Unfortunately, the Saver's Credit is set to expire in 2006. Therefore, the Smith-Conrad bill extends the credit through 2010. The bill also modifies the credit so that more Americans will benefit.

The Smith-Conrad bill also allows up to $500 in unused health benefits in an employer health flexible spending account to be contributed to a retirement arrangement, such as a 401(k) plan or an IRA. This change would encourage increased retirement savings by creating an additional source of contributions.

In addition, the Smith-Conrad bill directs the Treasury Secretary to draft rules permitting individuals to elect to have all or a portion of their tax refund paid directly to an IRA. Tax refunds are often the largest non-paycheck payments that Americans receive and a direct payment opportunity will make it easier to save such funds for retirement.

The House and Senate comprehensive pension reform and tax budget reconciliation bills contain similar proposals to these – and others from the Smith-Conrad bill.

These provisions will do a lot towards ensuring that all Americans are financially secure during their retirement years. Therefore, I will work hard to make sure that these proposals are in the final conference reports.

Although the focus of this Summit is retirement savings, I'd be remiss if I didn't highlight a second key component of the Smith-Conrad bill – incentives for lifetime payments. Since Americans are living longer and healthier lives, not only must we be concerned with building a sufficient nest egg, we must also protect against the risk of exhausting our retirement income. Life annuities help retirees ensure that they will not outlive their retirement savings. Therefore, the Smith-Conrad bill encourages annuitization of a portion of Americans' retirement savings.

Beyond my bill, one other issue that I wanted to address is the need to make the pension provisions of the 2001 tax act permanent. The important retirement savings and pension reforms contained in the 2001 tax act -- from catch-up contributions to expanded IRAs and 401(k)s -- have proven extremely successful. For example, the number of participants in 401(k) plans increased 23 percent between 2000 and 2004. Unfortunately, however, the retirement savings reforms of the 2001 tax act are scheduled to sunset at the end of 2010, frustrating long-term planning that is critical for both individual savers and employer sponsors of retirement plans.

I look forward to working with the leadership to make the pension provisions permanent.

Thank you for the opportunity to speak with you this evening.