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Statement

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Subcommittee on Oversight
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Hearing on

Oversight of Various Pension Issues

by

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Testimony Summary

- Government is grappling with mounting financial pressures on the Social Security system. Employers, encountering competitive forces and trying to manage a diverse work force, are revamping traditional pension programs. These forces underscore the need for individuals to play a major role in providing for their own retirement. Fortunately, individuals have more opportunities than ever to save for themselves, either through work-based retirement-savings plans or through tax-deferred individual retirement accounts (IRAs). For a variety of reasons, however, many people have failed to take full advantage of these tools.
- As a first step toward building public understanding of the retirement-savings issue we need to clarify what today's workers can expect from government and employers concerning retirement, and what individuals must demand of themselves. The simple fact is that for most people, Social Security and employment-based pensions alone do not provide everything that is needed for a secure retirement—and they surely won't suffice in the future.
- Numerous public and private agencies have joined forces to help Americans prepare financially for retirement. These diverse partners have created and field-tested many of the resources that will be needed to make saving a national priority in the years ahead.
- The Employee Benefit Research Institute (EBRI) and its American Savings Education Council (ASEC) affiliate, have developed "Choose to Save ™," a media campaign for spreading the word about retirement savings. In its inaugural effort, EBRI and ASEC joined forces with one television station and three radio stations in Washington, D.C., to air a series of paid public service announcements urging people to save for retirement. The campaign will culminate in a prime time news special to be broadcast Friday, June 12, 1998.
- EBRI and ASEC also sponsor, with Mathew Greenwald Associates, the Retirement Confidence Survey, an annual survey of American workers' and retirees' attitudes and behavior concerning retirement saving and planning. This year's survey is scheduled for release June 2, 1998.
- Separately, the U.S. Department of Labor (DOL) and the U. S. Department of Treasury launched a Retirement Savings Education Campaign in July, 1995. One part of the campaign, a unique public-private sector partnership, was the creation of the American Savings Education Council. The campaign's signature brochure, "Top Ten Ways to Beat the Clock and Prepare for Retirement," describes basic steps individuals should take to ensure their financial security.
- A broad coalition of government, business and consumer organizations has launched a grassroots education project called the Facts on Saving and Investing Campaign. The campaign's slogan: "Get the facts. It's your money. It's your future." Spearheaded by the Securities and Exchange Commission, the campaign published "The Facts on Saving and Investing," which explains the need for increased financial literacy. The campaign also has assembled a "Financial Facts Tool Kit," which includes a variety of educational materials on how to get started in developing a financial plan, how to understand investment choices, how to manage money and investments, and how to get more information on saving and investing.
- A number of programs seek to increase financial awareness among young people and children. The Jump$tart Coalition, a group of about 20 federal agencies, universities and non-profit associations, seeks to improve understanding of personal finance among young adults. Separately, the American Bankers Association sponsors an annual "National Teach Children to Save Day," in which bankers around the country visit elementary schools to teach children about the importance of saving money. Last year, more than 2,500 bankers made 5,000 presentations to 125,000 students. Observing that many women are more economically vulnerable than men, the Girl Scouts of the U.S.A. have developed "Money Smarts," a comprehensive personal finance project and resource guide for girls.
- The Pension Benefit Guaranty Corporation, which ensures that more than 42 million workers who are enrolled in 50,000 defined benefit pension plans have some pension protection, publishes "Your Guaranteed Pension."

Testimony

Chairman Johnson and members of the Subcommittee, my name is Dallas Salisbury. I am President and CEO of the Employee Benefit Research Institute (EBRI) and also serve as Chairman and CEO of an affiliated organization, the American Savings Education Council (ASEC). It is a pleasure to be here this afternoon to discuss pension and retirement income savings issues. I first had the privilege of appearing before this Subcommittee 22 years ago, and congratulate the Committee on its longstanding work toward strengthening the American retirement system.

EBRI's mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions for or against legislative proposals. ASEC's goal is to make saving and planning a vital concern of Americans.

Since 1978, EBRI has conducted hundreds of studies that have documented the important role of pensions in our retirement income system. Our work on small employers and pensions underlines the importance of administrative simplicity, contribution flexibility, and rules that can be clearly understood by the average plan participant. This Committee has taken steps in recent years to make plans more approachable for small employers, and I commend you for continuing that important work. Later this month we will complete analysis of our 1998 Small Employer Retirement Survey (SERS), and I will make our findings available to the Committee at that time. I am hopeful that these findings will assist your efforts to increase small employer sponsorship and coverage rates.

Last year, Congress recognized the need for retirement education with the passage of the Savings Are Vital to Everyone's Retirement Act of 1997 (SAVER). The Act, as you know, aimed to increase efforts to educate Americans about the importance of saving and planning for retirement. Signed by President Clinton on November 20, 1997, SAVER called for the White House/Congressional National Summit on Retirement Savings to spearhead a broad-based public effort involving both the public and private sectors in helping Americans achieve their dreams for a financially secure retirement. Follow-up summits in 2001 and 2005 will gauge our progress and explore new issues and strategies.

Government, bracing for the retirement of the baby boom generation, is grappling with mounting financial pressures on the Social Security system. Employers, encountering competitive forces and trying to manage a diverse work force, are revamping traditional pension programs.

These forces underscore the need for individuals to play a major role in providing for their own retirement. Fortunately, individuals have more opportunities than ever to save for themselves, either through employment-based retirement savings plans or through tax-deferred individual retirement accounts (IRAs). For a variety of reasons, however, many people have failed to take full advantage of these tools.

As a first step toward building public understanding of the retirement savings issue, then, we need to clarify what today's workers can expect from government and employers concerning retirement, and what individuals must demand of themselves. The simple fact is that, for most people, Social Security and employment-based retirement plans alone do not provide everything that is needed for a secure retirement—and they surely won't suffice in the future.

How Do Individuals View Retirement?

While the evidence is compelling that individuals must carry a substantial part of the burden of providing for their own retirement, many people seem almost willfully ignorant of what they must do to make their retirement dreams a reality. How can we understand this pervasive lack of planning and saving in the face of our strong desire for a comfortable and secure retirement? In 1995, the Widmeyer Group convened a series of focus groups to explore how individuals view retirement-planning issues. It found a public that is troubled and hungry for reliable information but unsure of where to turn for help.

"Caught between expectations and current realities," many of the focus group participants look to the future with "grand hopes and deep fears," Widmeyer reported. "Retirement for many may be the number one savings priority, but it is not immediately pressing and is therefore the easiest item to put off."

When forced to face the issue—for instance, when shown how much they will need to save each year to be able to provide themselves an adequate income—most people "listened intently and then appeared truly alarmed, taken aback, and even depressed." But they don't know what to do about their concerns.

"Participants almost unanimously expressed interest in obtaining positive, practical, and concrete information," Widmeyer said. But "they don't know where to turn, whom to trust, and how to proceed. They want to find a credible financial advisor, but they are wary of people who stand to gain from their savings. They are also scared by the complexity of certain financial information."

The challenge of SAVER, then, is to find ways to channel such fears and uncertainty into constructive planning for the future. But first, we must assess where we stand today when it comes to preparing for retirement.

If workers are to assume more personal responsibility for providing for themselves in retirement, they must understand at least the basics of saving and investing.

A number of surveys have shown, however, that many lack the knowledge they need to be effective investors. In 1996, the Retirement Confidence Survey found that only one-third of workers have a high degree of financial knowledge, while 55% have a moderate level and 11% have a very low level of knowledge. The survey found, in particular, that:

- Only 44% of those polled knew that a male retiring today at age 65 can expect to live to age 80, on average.
- 61% knew that the U.S. stock market has provided a greater return over the past 20 years than U.S. government bonds.
- Just 53% knew that employer stock typically is more volatile than a diversified portfolio of stocks.
- Only one-half knew that the probability of losing money on an investment goes down the longer one holds the investment.
- Fully 86% knew that the average person retiring today will need 60%–80% of his or her working income to maintain the same standard of living.

In February 1997, the National Association of Securities Dealers Inc., (NASD) reported survey results showing that, while 63% of Americans know the difference between a halfback and a quarterback, only 14% can distinguish between a growth stock and an income stock. Moreover, NASD said, while 78% can name a character on a television situation comedy, only 12% know the difference between a "load" and "no-load" mutual fund.

Not surprisingly given such findings, some individuals fail to follow basic rules about diversifying their portfolios, and many appear to invest too conservatively. Surveys by Hewitt Associates and the Profit Sharing/ 401(k) Council of America suggest, for instance, that between one-quarter and one-third of all retirement plan assets are invested in stock issued by the participants' employers. (In some cases, this may not reflect the plan participants' decisions, however. Frequently, employers only make matching contributions in the form of company stock).

In a 1996 study of the retirement plans of three large companies, EBRI found that even though equity investments have consistently outperformed other kinds of investments over long periods of time, anywhere from 17%-34% of plan participants under age 39 had invested none of their funds in stock.

Many people are concerned about their own lack of understanding when it comes to managing their retirement funds. The 1997 Retirement Confidence Survey found that while 44% of the people who are saving for retirement are very confident that they are investing wisely, 48% are only somewhat confident. What's more, 31% said they do not enjoy making investment decisions about retirement savings. The survey contains a core set of questions that is asked annually and is used to track key attitudes and behavior patterns over time. The 1998 survey is scheduled for release June 2, to coincide with the National Summit on Retirement Savings.

Financial Education Activities

How, then, can we give today's workers the knowledge and help they need to make sure their retirement savings will grow enough to meet their future needs?

Numerous public and private agencies have joined forces to help Americans prepare financially for retirement. These diverse partners have created and field-tested many of the resources that will be needed to make saving a national priority in the years ahead.

EBRI and its affiliate ASEC have developed "Choose to Save™," a public service media campaign to spread the word about retirement savings. In its inaugural effort, EBRI and ASEC joined forces with one television station and three radio stations in Washington, DC, to air a series of paid public service announcements urging people to save for retirement.

WJLA-7, the local ABC affiliate, produced the television announcements. Specific advertisements were geared to each of the three major groups—"strugglers," "impulsives," and "deniers"—who currently are failing to save enough for retirement. The campaign also touted the "Ballpark Estimate," a one-page form ASEC developed that enables individuals to make quick and easy estimates of what they will need to save and invest each year to meet their retirement objectives.

WJLA-7 also prepared its own weekly news stories on the retirement savings issue, and hosted two town hall meetings, portions of which will be included in a prime-time news special to be aired Friday, June 12.

The Washington area Choose to Save™ campaign was underwritten by Fidelity Investments. The public service announcements are generic, and are available for use in other media markets.

ASEC's Web site, which includes an interactive version of the Ballpark Estimate along with other retirement-related resources, is <www.asec.org>. The Choose to Save™ Campaign maintains its own Web site at <www.choosetosave.org>. The EBRI Web site is <www.ebri.org>.

Separately, the U.S. Department of Labor (DOL) and the U. S. Department of Treasury launched a Retirement Savings Education Campaign in July 1995. One part of the campaign, a unique public-private sector partnership, was the creation of ASEC. The campaign's signature brochure, "Top Ten Ways to Beat the Clock and Prepare for Retirement," describes basic steps individuals should take to ensure their financial security. It also recommends a number of other informational resources.

DOL also offers two other publications that give workers information about their pensions: "What You Should Know About Your Pension Rights" and "Protect Your Pension."

These and other publications are available through the agency's toll-free Publication Hotline 1-800-998-7542 and on the Internet at <www.dol.gov/dol/pwba>.

In April 1998, a broad coalition of government, business, and consumer organizations launched a grassroots education project called the Facts on Saving and Investing Campaign. The campaign's slogan is "Get the facts. It's your money. It's your future."

Spearheaded by the Securities and Exchange Commission (SEC), the campaign published "The Facts on Saving and Investing," which explains the need for increased financial literacy. The campaign also has assembled a "Financial Facts Tool Kit," which includes a variety of educational materials on how to get started in developing a financial plan, how to understand investment choices, how to manage money and investments, and how to get more information on saving and investing.

The SEC also holds periodic investor town meetings aimed at increasing financial literacy. At a recent town meeting in Connecticut, for instance, SEC Chairman Arthur Levitt conveyed basic tips to investors on how they can make informed decisions, monitor their current investments, and avoid investment problems. U.S. Senators Christopher J. Dodd and Joseph I. Lieberman addressed issues before Congress affecting individual investors. Connecticut's Banking Commissioner John P. Burke described individual investor protection efforts in the State of Connecticut. In addition, there were seminars following the town meeting, including one entitled "Women and Retirement: The Difficult Road Ahead" presented by ASEC and The National Center for Women and Retirement Research.

More information on SEC activities is available at the agency's Web site <www.sec.gov>, or by calling 1-800-732-0330. The Alliance for Investor Education also maintains a Web site on the Facts on Saving and Investing Campaign at <www.investoreducation.org>. Individuals who want more information or are seeking help because they have had trouble with an investment can write to the Office of Investor Education and Assistance, Mail Stop 11-2, 450 Fifth Street, NW, Washington, DC 20549.

One useful tool included in the Financial Facts Tool Kit is *The Consumer's Almanac*. Developed by the American Financial Services Association (AFSA), this 32-page booklet is designed to help individuals organize their finances, incorporate long-range goals such as financing retirement or paying for children's education into family budgets, and manage credit wisely. Information is available from the AFSA Education Foundation at <www.afsaef.org> or (202) 223-0321.

A number of programs seek to increase financial awareness specifically among young people and children.

The Jump$tart Coalition, a group of about 20 federal agencies, universities, and non-profit associations, seeks to improve understanding of personal finance among young adults. The coalition's initiatives fall into three broad categories.

First, the coalition is evaluating current and future levels of financial literacy among young adults. An initial baseline survey, administered to 1,500 twelfth graders in March and April 1997, showed a serious lack of knowledge about personal financeæstudents scored, on average, just 57.9%. Less than 15% said stocks are likely to have the highest growth over 18 years, while over one-half (54.7%) said a U.S. Government savings bonds would and one-quarter (27.8%) said savings accounts would. Over one-half (51%) said bank certificates of deposit are not protected by the federal government against loss, and nearly 20% thought U.S. Savings or Treasury Bonds are not protected. Nearly a one-third (30%) said retirement income received from a company is called Social Security. Similar tests will be repeated every two years for the next decade to determine whether students' knowledge is increasing.

Second, the coalition is disseminating teaching guidelines for grades K-12. Over 20 representatives from elementary schools, middle schools, business, and others provided written advice on the guidelines. In addition, a panel of five teachers from across the United States provided additional input for the guidelines based on their classroom experiences.

Third, the coalition is operating a national clearinghouse that can serve as a one-stop source for high-quality teaching materials that will help educators teach the skills covered by the coalition's guidelines. The information will be disseminated primarily via the World Wide Web, but print materials also will be available via mail, telephone, and direct contact at exhibits, seminars, and conferences.

More information about the Jump$tart Coalition can be obtained by contacting the American Financial Services Association Education Foundation at (202) 296-5544. The coalition's Internet address is <www.jumpstartcoalition.org>.

Separately, the American Bankers Association sponsors an annual "National Teach Children to Save Day," in which bankers around the country visit elementary schools to teach children about the importance of saving money. Last year, more than 2,500 bankers made 5,000 presentations to 125,000 students. The American Bankers Association Education Foundation can be reached at 1-800-338-0626, and it maintains a Web site at <www.aba.com>.

Observing that many women are more economically vulnerable than men, Girl Scouts of the U.S.A. has developed "Money Smarts," a comprehensive personal finance project and resource guide for girls. Inquiries should be directed to Membership and Program, Girl Scouts of the U.S.A., 420 Fifth Avenue, New York, N.Y. 10018-2702.

Girls Inc., a research, advocacy, and educational organization, also is developing a money management curriculum for girls. The project is supported in part by $50,000 in profits donated by OppenheimerFunds from its book, *A Woman's Guide to Investing*.

The latter project was developed after a nationwide survey of 522 women conducted in March 1997 showed that 41% said learning about investing and money management is one of the most important skills a girl can acquire. Only 6% of the women felt they were very knowledgeable about investing, and 56% said they were not very knowledgeable.

Girls Inc. is based in New York, and can be reached at 212-689-3700 or via the World Wide Web at <www.girlsinc.org>.

The Pension Benefit Guaranty Corporation (PBGC), which ensures that more than 42 million workers who are enrolled in 50,000 defined benefit pension plans have some pension protection if their employers have financial difficulty and cannot fund pension plans or pay promised benefits, has published *Your Guaranteed Pension*. The publication can be obtained by writing to PBGC, 1200 K Street, NW, Washington, DC, 20005-4026 or calling (202) 326-4000. The agency's Internet address is <www.pbgc.gov>.

The Cooperative State Research, Education and Extension Service, U.S. Department of Agriculture, offers educational programs in personal finance with an emphasis on saving for retirement, through partner universities and county offices nationwide. Contact your local Cooperative Extension office, often located in courthouses, post offices, or other government buildings. The Internet address is <www.reeusda.gov/statepartners/usa.htm>.

The Internal Revenue Service has many resources to help taxpayers understand financial issues facing them in retirement. One good starting place is Publication 910, *Guide to Free Tax Services*. This and other publications can be ordered by calling 1-800-TAX-FORM (1-800-329-3676). The TTY/TDD number is 1-800-829-4059. The Internet address is <www.irs.ustreas.gov>.

The General Services Administration offers many free and low-cost publications about retirement planning. For the agency's free *Consumer Information Catalog*, call 1-888-878-3256, or write "Consumer Information Catalog," Pueblo, Colo., 81009. The Internet address is www.pueblo.gsa.gov.

The U.S. Federal Trade Commission offers advice on how to guard against fraudulent investment schemes. Write or call: Consumer Response Center, Federal Trade Commission, Washington, DC 20580, (202) 326-2222 or TDD (202) 326-2502 or visit the agency's Web site at <www.ftc.gov>.

Conclusion

No one can deny that Social Security provides the primary source of income today for over two-thirds of all retired Americans. For those no longer working, employment-based defined benefit pensions, employment-based defined contribution pensions, and individual savings outside of any tax-deferred arrangement, or through an IRA, provide additional cash income to supplement Social Security.

No more than 20 percent of all workers will ever work under one defined benefit pension plan long enough to get a sufficiently substantial pension to fully supplement Social Security. For the other 80 percent, the only hope of adequate supplementation is individual savings, hopefully with the added contributions of an employer to a money purchase pension plan, a 401(k), a 403(b), or some other type of defined contribution arrangement. First, consider the fact that two-thirds of retirees have little from the sources just mentioned, which underlines the need for education.

Then, consider the fact that Congress has already acted to raise the age for full retirement benefits under Social Security from age 65 to age 67, and the fact that more will have to be done to assure the system's future viability.

These facts combine to tell us that anything we can do as a nation to encourage employers to do more to provide pensions of any type, and to educate workers, should be done if we continue to have the policy objective of allowing individuals to retire with dignity.

I congratulate the Oversight Subcommittee for its ongoing work on this important topic. As previously mentioned, I first appeared before this Subcommittee in 1976, some 22 years ago, and I have always found it to be focused on providing a framework of policy that will allow Americans to fulfill the dream of a comfortable retirement. You have continued that positive movement today, and I thank you for allowing me to be a part of this hearing.