



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

Following are the prepared remarks of Sen. Chuck Grassley, chairman of the Committee Finance, for the “Conversation on Coverage,” a public policy forum designed to find new ways to expand coverage for the millions of low and moderate wage earners who do not have pensions or retirement savings plans to supplement Social Security.

Prepared Remarks of Sen. Chuck Grassley Before the “Conversation on Coverage”  
Thursday, July 22, 2004

Thank you for inviting me here today to give the opening remarks at the “Conversation on Coverage.” It is nice to see so many friendly and familiar faces here in this room – people who have dedicated their lives to the cause of helping all Americans achieve a secure retirement. The “Conversation on Coverage” is an important conversation for us to have. It is a conversation that begins with a simple question: “How do we get more Americans – and eventually all Americans – access to a retirement plan?” This is not just an “inside the beltway” conversation – to be had here in this room, but without any real import to folks out in the country. This is a conversation that is relevant in every community in America – from our biggest cities to our smallest towns in places like my home State of Iowa.

A retirement plan is a key that opens the door to financial freedom. A retirement plan offers a promise of living one’s golden years free of the fear of poverty or being a burden on children or other loved ones. We must make access to retirement plan coverage a national priority – a true priority that trumps partisanship and political gamesmanship. We have a track record here in Washington of being able to address pension issues on a bipartisan basis, of bringing people of different views together for the good of all.

That is why I applaud the work being done here at the “Conversation on Coverage.” This “Conversation on Coverage” is an effort by a group of people – representing a range of persons and views – to continue that spirit, to share ideas, to hear each other out, and I commend you for doing it. The people in this room have the expertise to build on the successes of the current system. The people in this room have the expertise to help solve the problems plaguing our pension system. The people in this room have the vision to help realize the goal of retirement plan coverage for every American. But we also know that there are very real, very critical problems facing our pension system and that more than talk is needed. We also need action – and we need to act promptly. For a long time, we have been talking about the impending retirement of the baby boom generation and what that would mean for our country. Well, that talk is being replaced by the reality that the

baby boomers are about to begin retiring in mass numbers. The first of the baby boomers – born in 1946 to men and women building a new life after the struggles and hardship of the Second World War – will turn 65 in 2011. Many of those baby boomers are beginning to retire today. So in fact, the retirement of the baby boom generation is upon us. What does this mean? Are we ready for it? These questions face us. And on a more specific level, there are other questions – what will the effect of this generational event be on our labor markets? Our financial markets? Our economy as a whole?

And of course, even more important, at the personal level, millions of Americans will ask themselves, Am I prepared for retirement? Will I be able to maintain my standard of living? Will I be able to live the lifestyle that I have always imagined for myself? We face these questions at a time when we have uncertainty – too much uncertainty – about the foundations on which Americans have planned for their retirement for generations. We have all heard the analogy of our retirement system as a three-legged stool – Social Security, employer-provided retirement plans, and private savings. Well, we all know that Americans are not doing enough personal savings, and that we need to everything we can to encourage more savings.

We also know that there are questions about Social Security, and that is an issue that Congress will have to address at some point soon – and I hope sooner rather than later. While we look at ways to improve those two legs, we also need to be sure that the critical third leg – workplace retirement plans – is as solid as possible. Yet there are also a lot of questions about our employment-based retirement system. Unfortunately, the future of that system – which has been critical in helping millions upon millions of ordinary Americans achieve a secure retirement – is clouded with uncertainty. And we all know what the end result of that uncertainty is – fewer Americans covered by a retirement plan. I believe there is a great deal we can do to remove this uncertainty, however.

With the uncertainty removed, I think we also will be able to see clearly that there is an awful lot that works right in our pension system, and that we've done some great things to improve that system in recent years. First and foremost, we need to make permanent the positive retirement savings changes that we enacted in the 2001 tax bill. The 2001 tax bill made wide-ranging improvements and reforms to our retirement savings laws. And if there was an overriding theme to the changes we made, it was to expand coverage and increase retirement savings.

I believed that the retirement savings provisions were critical and fought hard to have them included in the bill that the President signed into law. As a result, we

- o increased retirement plan contribution limits and allowed new catch-up contributions for older workers,
- o made portability improvements that allow workers to move retirement plan assets more easily when changing jobs or going through other life transitions,
- o created the savers' credit to help low- and moderate-income workers,
- o established a tax credit for small businesses that start retirement plans, and
- o provided a host of other changes designed to simplify retirement plan rules and provide safeguards and protections for workers and participants.

Those provisions – which were developed through years of bipartisan work – will expire in

2011 if Congress does not take action to permanently extend them. Without such a permanent extension, our entire retirement system is facing damaging and unnecessary uncertainty. We should not wait until the eleventh hour to permanently extend these provisions. We should all be able to agree that retirement savings is a national priority, and extend these bipartisan provisions as soon as possible. But the need to extend these temporary provisions is not the only source of uncertainty in our retirement savings laws. Today, our pension system is confronting uncertainty on a variety of other fronts as well.

Much of this uncertainty is having a direct, negative impact on defined benefit pensions. For decades, defined benefit pensions were the backbone of our employment-based system. With the advent of defined contribution plans, companies and workers have more options in retirement plan design. More options and more flexibility is a good thing. It is good for workers and it is good for plan sponsors. There are pros and cons to all of the various types of retirement plans we have today, but one thing should be clear – we need all of these types of plans to help us reach our goal of delivering pension coverage and retirement security to all Americans. On that score, we cannot turn our back on defined benefit plans. Defined benefit pensions are an integral part of our retirement system, and must be preserved. Time is of the essence as we see these plans increasingly disappear from the pension landscape. And recent data on defined benefit plan sponsorship is alarming.

The total number of defined benefit plans insured by the PBGC dropped from about 114,000 plans in 1985 to 32,000 plans in 2002 – an approximately three-quarter decline in defined benefit plan sponsorship. Anecdotal evidence indicates that this trend is only continuing – and is likely even accelerating! We must act aggressively to resolve the uncertainty facing defined benefit plans. This uncertainty stems from a number of different sources – a temporary interest rate that is used to calculate pension funding requirements, debate about reform of the pension funding rules, and ongoing dispute over the application of age discrimination laws to hybrid style pension plans, such as cash balance plans. I believe that all of these issues can be resolved in a way that strengthens workers' retirement security, that gives employers the certainty they need to design plans that fit the needs of their workforce, and that improves our retirement system.

But it is going to take a lot of work. And it is going to take a lot of will to rise above narrow differences for the common good. In Congress, we will need to do that hard work, in that spirit, and I am prepared to do it. But it also will take all of the people in this room – working together, bridging differences – to help us resolve the issues confronting our pension system. As probably everyone here realizes, this has been a very tough year to move legislation. The pension bill that temporarily replaced the 30-year Treasury rate has been one of the only major pieces of legislation to make it to the President's desk. While I was disappointed that bill was only a short-term, temporary fix – a band-aid really for our pension system – it was a very important band-aid, and I'm glad that we were able to get it done. Next year, however, with the election behind us, I am hopeful that we can begin to address the pension issues that we are confronting.

This September, the Finance Committee will hold a hearing that I hope lays the groundwork for action next year. We will look at the uncertainty created by the current environment and the effect of that uncertainty of pension sponsorship and workers' retirement security. Looking ahead to 2005 and the next Congress, the expiration of the temporary 30-year Treasury rate replacement

at the end of next year will have to be dealt with again – and hopefully this time in a permanent manner. I am hopeful that the need to address the interest rate issue will create a pension vehicle that can serve as an impetus for action to address outstanding pension issues.

As part of such a bill, I also hope that we can finally enact the Enron-inspired participant protections that have been included in the Committee's NESTEG bill. These participant protections are too important to be allowed to languish any longer. It has been nearly three years since the collapse of Enron, and participants still have not been ensured their basic right to diversify company stock held in their retirement plans. I also believe that it is vitally important that we try to achieve a resolution of the age discrimination issues that have been plaguing the pension system. I believe that we can resolve these issues in a way that is fair to participants and plan sponsors, and that the end result will be a stronger pension system. Without the ability to develop innovative new pension designs (including hybrid-style pension plans), I fear that we are headed toward a one-dimensional pension world where the vast majority of workers do not have access to a pension plan other than a 401(k) plan.

While 401(k) plans are a vital and irreplaceable part of our retirement system, we need an array of pension tools for workers if we are to meet the retirement income challenges that lay ahead for our nation. I know we have the ability – working together – to find common sense solutions to the problems facing our pension system. And the people in this room should not underestimate their importance in this process and in ensuring the strength of our national retirement policy. The role you have is vital. You must continue to educate Congress and other federal policymakers on the importance of pension and retirement issues. You must continue to be advocates for a strong national retirement policy. This is a true national challenge that we face. Working together, I know we can improve the retirement security of millions upon millions of Americans across the country. Working together, I am confident that we can ultimately achieve the goal of pension coverage for all Americans. I will look forward to hearing the results of this "Conversation on Coverage." I know that the ideas that come from this event will help advance the cause of pension coverage.

In closing, let me say thank you again for inviting me to kick off the "Conversation on Coverage." It is going to take some big minds to solve the retirement and pension issues facing us – and I know that there are some very big minds here in this room! I look forward to continuing to work with all of you to improve our pension laws. And I'll be happy to answer any questions you have.