

**TESTIMONY OF PAMELA PERUN
POLICY DIRECTOR
ASPEN INSTITUTE INITIATIVE ON FINANCIAL SECURITY
BEFORE THE
HOUSE SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR AND PENSIONS
NOVEMBER 8, 2007**

Thank you, Mr. Chairman.

My name is Pamela Perun, and I am the Policy Director of the Aspen Institute Initiative on Financial Security – or IFS. It is an honor to be here today.

The mission of Aspen IFS is to promote increased savings in the United States so that all Americans can save, invest, and own – from cradle to grave.

As part of that process, we have worked, and continue to work, closely with the financial services sector. Our Advisory Board consists of leaders of Bank of America, H&R Block, Goldman Sachs, and ING, among others. We specifically reached out to the private sector because we believe that rather than creating an entirely new savings system at taxpayer expense, we should partner with existing companies that have a long-term interest in sustained financial relationships with individuals.

Last May, after three years of work, Aspen IFS issued its report, *Savings for Life*. Included in that report is the proposal about which I will speak today: America's IRA. And, I would ask that the America's IRA chapter of that report be included in the Record at the end of my statement.

Mr. Chairman, I do not need to tell you, but it is worth reiterating: at any given moment, 59 percent of Americans who make less than \$50,000 per year do not have access to pension benefits on the job.

That is, 62 million Americans are working hard every day and making less than \$50,000 a year, but when they retire, the only protection they may have is Social Security.

Social Security is a vital program that provides a solid foundation for retirement security. But it is not – and never was – intended to be the only source of a person's retirement income.

For millions of Americans, a private pension and private IRAs help to supplement Social Security. But, far too many Americans – hard-working Americans – have no supplement at all. For fully one in every five Americans aged 65 and older, Social Security is their sole source of income.

Congress has tried to rectify this. As our recent report -- *Towards a Sensible System for Saving* -- documented, there are now no fewer than eight different vehicles specifically designed for retirement savings. And yet, pension coverage rates have not budged for decades. In fact, a

study we recently conducted with the Center for Retirement Research at Boston College found that pension participation in 2004 was actually lower than it was in 1979.

It is time to accept the fact that a significant portion of employers cannot or will not sponsor a plan, no matter what the incentives or mandates. It is time to think differently – it is time to find alternative ways to use employers to facilitate retirement savings.

That is what we have tried to do with our proposal – known as America’s IRA.

America’s IRA would be available to any worker without an employer-provided pension plan. It would work just like any other IRA – a private sector account opened at a private financial institution, with a cap placed on the amount of permitted annual contributions.

But, here’s the difference – and here’s the important point: America’s IRA would have additional features designed to encourage new savings by those who are saving very little today.

Specifically, for individuals with incomes under \$30,000, the government would provide a “starter” contribution to encourage the opening of the accounts.

Then, to replicate the employer contributions that successfully encourage 401(k) savings, a government matching contribution – placed directly into an individual’s IRA -- would be available to savers with incomes under \$50,000.

We do not, like other proposals, impose any mandates on employers.

A mandated product may expand coverage, but it does nothing to ensure that there will be an adequate level of savings at retirement. Our America’s IRA proposal is the only plan that seeks to ensure not just that more people have IRAs, but that the balance in those IRAs at retirement will be big enough to make a difference.

It does us very little good to say that more people will have IRAs if there is almost no money in them. That is why the start-up contributions and matching funds in our proposal are so important.

While we do not support mandates, we do believe there is a role for employers. They should be encouraged to voluntarily participate in an employee’s pension savings. For example, federal law should be changed to allow employers to make matching contributions to employee IRAs without incurring the legal burden of plan sponsorship.

Our underlying goal is to make it easier for Americans to save. Mandates will not work – but simplified voluntary cooperation will.

And just how well will this work? We used our financial models to see what would happen to a 35-year old worker who makes \$20,000 a year. We assumed he or she would contribute to an America’s IRA only 4 out of every 5 years and would contribute just 3 percent of his or her income – about \$50 a month at the start. This modest individual contribution and

the modest government match will result in that worker having over \$133,000 at age 65 -- over \$60,000 in today's dollars.

That is a significant supplement to Social Security. If converted to an annuity, it is nearly \$500 more per month in today's dollars. And, it would begin to make true retirement security a reality for millions of Americans.

For low- to moderate-income workers, their America's IRA savings, combined with Social Security benefits, would come close to replacing 80 percent of pre-retirement earnings -- the target for a safe and secure financial retirement.

Now I understand in this age of massive budget deficits, there is some concern about the cost of our proposal. And we acknowledge there will be a cost. But we believe this cost is necessary to achieve the ultimate objective.

Government contributions to encourage savings and to encourage people to save their own money are the linchpins of a successful savings policy and the key to helping low-income families attain adequate retirement savings. In fact, research demonstrates that workers -- even low- and moderate-income workers -- can and will save if given the right opportunities and incentives.

In exchange for a ten-year cost of \$42.5 billion, the total asset accumulation in America's IRA at the end of that 10-year period will be more than \$100 billion.

And let's put this cost in context. According to the Joint Committee on Taxation, over the next five years, the tax-preferred treatment of employer-provided pensions plus existing Individual Retirement Accounts -- which largely benefit middle and upper-income Americans -- will cost the federal government \$701.4 billion. America's IRA would only cost the equivalent of about 3 percent of that total.

The bottom line is that the benefits -- for individuals in terms of greater retirement security, and for the economy as a whole in terms of increased national savings -- far outweigh the costs.

Finally, Mr. Chairman, I realize that this is not within the jurisdiction of this Subcommittee, but I want to just briefly mention the other retirement income proposal included in our report, *Savings for Life*. It is a proposal we call, Security Plus.

I mention this because while it is important to find ways to increase the number of Americans with retirement savings, it is also necessary to start thinking about what happens with those savings once a person reaches retirement age.

Security Plus would make it easier for all Americans to turn their savings into income that will last throughout their retirement, by allowing retirees to convert up to \$100,000 in savings into a lifetime annuity. The annuities would be underwritten by the private sector, but

the federal government would select annuity providers through a competitive-bid process and would distribute the annuity payments each month through Social Security checks.

Mr. Chairman, building enough savings for a comfortable retirement is an essential part of the American Dream. For too many Americans, however, that dream has been deferred. America's IRA would put it back within reach.

Thank you.