Statement by Steve Carroll

U.S. House Committee on Education and Labor
Honorable George Miller, Chairman

"The Impact of the Financial Crisis on Workers' Retirement Security"

October 22, 2008
San Francisco, CA

Thank you Chairman Miller and Congresswoman Woolsey for providing this hearing. It is reassuring to me that you are determined to develop legislative relief to all of us citizens who have trusted our institutions -- who have operated strictly within the rules government and financial institutions set for us -- and who now find our much anticipated "golden years" rapidly morphing into years of ash and tears -- all through no fault or misdeeds of our own. My story is straightforward and will be short.

In 1972 Chuck Maisel, who is here today, and I formed a partnership as expository writers. Although we have written in myriad formats our specialty grew to become the verbal content of educational exhibits and museums. In short we planned the visitors' experience for each project. Over the years we bought home offices together and developed a mutually satisfactory long-range economic security plan: We paid cash for everything where possible including our home and vehicles. We strictly avoided credit-card interest fees by paying each account in full each month. We selected Kaiser Health Plan for wholly reliable health insurance coverage for life for both of us. And we invested earned income in IRA's since 1974. Financial advisors urged us to put our IRAs in mutual stock funds. We followed that advice but have been under-whelmed by the mutual funds performance/risk ratio.

Just before retirement, in 2005 we sold our mortgage-free home of many years for a very good profit and we purchased a smaller, much less expensive home. Being quite conservative in money management, we declined advice from two financial advisors who urged us to buy stock. We didn't want to gamble security for riches so we placed the remaining profits wholly in AA and AAA rated bonds. The bonds are "laddered" to reach maturity regularly at various times. Additionally, we contracted a forty-year, 6.5% mortgage on our retirement home – from which we planed to be carried out in a hearse and a scholarship we have funded at Sonoma State University would inherit both the house and the our residual investment. The home loan is secured by our retirement investments. With careful budgeting, we could live on the interest of our prudently purchased bonds through our "golden years. At the time we developed this plan, we were told that, in case of the bankruptcy of any of the bond issuers, we would receive reimbursements for our bonds from the remaining assets before stockholders – and our bonds had AA and AAA ratings.

In the interim Chuck turned 70 in 1997, so he had to begin selling his IRA stock. I will reach 70 in 2011. At this time we have the option of converting the IRAs into money market funds, but the net loss would be horrendous and he would have to pay taxes on the amount of sale. Working in concert with our financial advisor, we decided to leave the IRAs as they were until the stock market rose again. In the interim, we would coast nicely on the interest from our bonds. On Monday, September 22nd our investment broker at Morgan Stanley called to advise us that if we sold our Washington Mutual (WaMu) bonds we would lose 45% of our investment. But, in light of the US Treasury's recent history, WaMu would be shored up like Bear Stearns, AIG, Freddy and Fannie. If we held on to our bonds, the worst that could happen was that WaMu would declare bankruptcy, in which case we, as "bondholders" would be reimbursed after first tier debt holders were compensated. We "prudently" hunkered down.

Wham! The FDIC seized WaMu, sold its **assets** of over $300 billion including, I suppose, our $100,000 and left us with nothing after the assets were sucked out of WaMu. FDIC then sold those assets to JP Morgan Chase for $1.9 billion. What a deal for Morgan Chase!! We bondholders are left with zero, and who knows who will get the $1.9 billion? As the "thin cats" at J.P. Morgan trot down the road with our money, we seem to be left empty-handed thanks to the FDIC's precipitate action.

Chuck and I, like millions of other citizens, face ugly circumstances for our future. We hope we still will receive interest payments from our other bonds – unless FDIC pulls another midnight raid. But even so, our monthly budget has been severely depleted for life. We still have our IRAs. But, as they are in mutual stock funds they are so far down in value that selling any of them right now, as the law requires of Chuck, the loss is an enormous percentage of the investment –- and then he will be taxed on the total income from the sale to boot! We urge you to develop relief from the sell-and tax rules that destroy the security IRAs were to create.

Finally, of course, we hope that WaMu bondholders can recoup some of our losses in future market relief legislation so that our home, which was bought by the rules and with great prudence, does not end up on this depressed market competing with those of sub-prime borrowers and speculative flippers while we search for living space under an overpass.

Thank you for hearing my remarks. I will answer any questions I can.