RetirementUSA

Working for a **Universal**, **Secure**, and **Adequate** Retirement System

Statement of Retirement USA
Submitted to the Subcommittee on Health, Employment, Labor, and Pensions
On "Retirement Security: Challenges Confronting Pension Plan Sponsors, Workers and Retirees
June 14, 2011

We are pleased that the Subcommittee on Health, Employment, Labor, and Pensions is holding this hearing today on retirement income challenges. Retirement USA is a national campaign working to address the challenges facing the nation's private retirement system and to promote the development of a universal, secure, and adequate retirement income system that, in conjunction with Social Security, will provide future generations of workers with sufficient income for retirement. The Pension Rights Center, a nonprofit consumer rights organization, is submitting this statement on behalf of the five organizations convening Retirement USA -- the AFL-CIO, the Economic Policy Institute, the National Committee to Preserve Social Security and Medicare, the Pension Rights Center, and the Service Employees International Union -- and our 23 supporting organizations.

In recent months, attention has been focused on the long-term federal deficit facing the country. Retirement USA is concerned about another kind of deficit – the massive and growing **Retirement Income Deficit** that is facing millions of Americans. The Retirement Income Deficit is the gap between what people have currently saved for retirement and what they should have saved by today to be able to meet a basic level of sufficiency in retirement. This deficit is traceable principally to the freezing and termination of private pension plans, the failings of 401(k) plans, and the overall low coverage rates in employer-sponsored retirement plans.

The Center for Retirement Research at Boston College last year calculated the Retirement Income Deficit **at $6.6 trillion**. To put it in perspective, this is more than four times the size of the federal deficit in 2009. To arrive at this number, the Center on Retirement Research used the same conservative methodology they used to calculate its National Retirement Risk Index. They looked at households in their peak earning years, between 32 and 64 years old, assumed that people would continue to earn pensions and contribute to 401(k)s, and factored in the value of home equity for retirement income.

We are concerned that proposed cuts in Social Security, Medicare and public plans will only worsen the massive Retirement Income Deficit already facing American workers – and will particularly affect future generations of retirees.

What is needed to address the Retirement Income Deficit?

First and foremost, policymakers must keep Social Security strong. All of the participants in Retirement USA are committed to protecting and improving Social Security. Social Security is the economic lifeline that millions of Americans rely on to survive. For the average worker, Social Security provides only slightly more than $14,000 a year. Fully one out of five retirees relies on this steady stream of income for all for all of their income, and two-thirds rely on it for more than half of their income. Social Security is doing an unparalleled job of providing a basic foundation of income for retirees. Cutting Social Security benefits – for example, by increasing the statutory retirement age or changing Social Security's indexing – would increase the Retirement Income Deficit that millions of Americans are already facing – and decimate the retirement prospects for future retirees.

Second, there should be no cuts to Medicare benefits. Voucherizing Medicare will put health costs out of reach for millions of Americans who are already faced with inadequate retirement income. Privatizing Medicare will not control costs. It will simply make healthcare unaffordable and reduce the income that people need to make ends meet. Cuts in Medicare will only make the Retirement Income Deficit worse.

Third, Congress should not undercut state and federal pension plans that have provided critical benefits to millions of teachers, firefighters, and other public servants who have worked to make our society a better place. The average public-sector employee earns a pension of about $22,000 a year, modest benefits that enable retirees to keep spending on goods and services in their communities – thereby helping to strengthen the economy. Despite the financial crisis and the deepest recession in 75 years, state plans are as well-funded as corporate pension plans. Efforts to weaken public plans, especially by turning guaranteed pension plans into 401(k) plans, will only make the Retirement Income Deficit worse.

Fourth, employers, employees, and policymakers must work together to fix pension problems for private-sector workers. As it is, only 50 percent of the private workforce is covered by any kind of pension or savings plan on top of Social Security. In addition, far too many companies are freezing, terminating, or cutting back on defined benefit plans – pension plans that typically provide guaranteed lifetime income to retirees. Most private-sector retirement plan participants are in 401(k) plans. The problem is that, even in the best of circumstances, these plans only work if people are able to set aside significant amounts of money, make the correct investment choices, keep the money locked in until retirement, and then figure out how to make the money last for the rest of their lives. Even before the recession, retirement savings were low. In 2007, half of all families with 401(k)-type plans or IRA accounts had less than $45,000 saved in these accounts. For families that are headed by older workers, the median account balance was just $98,000.

All the participants in Retirement USA believe in a two-tiered approach to addressing the challenges of the private system. First, we want to do everything possible to encourage and stabilize defined benefits plans, strengthen protections in 401(k) plans, and improve coverage in existing plans.

However, in the long-run, to truly address the need for supplemental income on top of Social Security, Retirement USA believes that we need to start developing a visionary approach to economic sufficiency in retirement. To that end, we have developed 12 principles that incorporate the best parts of defined benefit pension plans and 401(k) savings plans, and include some additional features. We believe these principles should underlie a new system that supplements Social Security.

There are three overarching principles that we believe should guide the reshaping of our pension system for future generations of workers. These are:

1) **Universal Coverage**. Every worker should be covered by a retirement plan. A new retirement system that supplements Social Security should include all workers unless they already are in plans that provide equally secure and adequate benefits.
2) **Secure Retirement**. Retirement shouldn't be a gamble. Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.
3) **Adequate Income**. Everyone should be able to have an adequate retirement income after a lifetime of work. The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

Other principles include

- **Shared Responsibility**. Retirement should be the shared responsibility of employers, employees, and the government.
- **Required Contributions**. Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower-income workers.
- **Pooled Assets**. Contributions to the system should be pooled and professionally managed to minimize costs and financial risks.
- **Payouts Only at Retirement**. No withdrawals or loans should be permitted before retirement, except for permanent disability.
- **Lifetime Payouts**. Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.
- **Portable Benefits**. Benefits should be portable when workers change jobs.
- **Voluntary Savings**. Additional voluntary contributions should be permitted, with reasonable limits for tax-favored contributions.
- **Efficient and Transparent Administration**. The system should be administered by a governmental agency or by private, non-profit institutions that are efficient, transparent, and governed by boards of trustees that include employer, employee, and retiree representatives.
- **Effective Oversight**. Oversight of the new system should be by a single government regulator dedicated solely to promoting retirement security.

Social Security, of course, meets all of the core Retirement USA principles other than "adequacy." Social Security benefits for the average retiree are less than the federal minimum wage. All of the organizations participating in Retirement USA believe that if there were the political will to do so, expanding Social Security to provide an adequate level of income would be the most efficient and effective way of strengthening workers' retirement security.

But our groups recognize that our tradition of providing retirement security in America has been a mix of public and private systems. For that reason, our principles focus on features that we believe must be part of a new private system to supplement Social Security. There are proposals and programs both from this country and overseas that meet our principles that we would be pleased to share with Subcommittee members.

We hope that you will consider options for developing a new private retirement system for the 21st century. This would be the best way of meeting the needs of employees – and ultimately of employers and society as well. We look forward to working with you to meet the retirement income challenge.