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PLANNING FOR RETIREMENT PROMOTING SECURITY AND DIGNITY OF AMERICAN RETIREMENT

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PLANNING FOR RETIREMENT PROMOTING SECURITY AND DIGNITY OF AMERICAN RETIREMENT

FRIDAY, AUGUST 23, 2002

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Boise, ID

The committee met, pursuant to Notice, at 10:07 a.m., in the MK Auditorium, 720 Park Boulevard, Boise, ID, Hon. Larry E. Craig presiding.

Present: Senator Craig.

OPENING STATEMENT OF SENATOR LARRY E. CRAIG

Senator CRAIG. Let me call this U.S. Senate Special Committee on Aging hearing together this morning, and thank you all very much for coming out. It's a distinct pleasure to be chairing this hearing on planning for retirement here in Boise and to be with some of my friends, including those who have represented Idaho on an important cause: Promoting the security and dignity of American retirement.

Discussing retirement security is essential for Idahoans and Americans of all ages. It's never too early and never too late to plan and to save. The traditional way of looking at retirement income security has been to picture a three-legged stool consisting of personal savings and employer-sponsored pension and Social Security.

Essentially, in light of today's concern, it's important to examine the way current rules are working to support this three-legged stool. A great deal has already been accomplished by President Bush and the Congress in a bipartisan fashion to help Americans plan for a better retirement, including the 50 billion in bipartisan tax relief for Americans to invest in their retirement security, phasing out the death tax, substantial increases in contribution limits on individual retirement accounts and 401(k) plans, catch-up IRA and 401(k) contributions for those age 50 and older—this especially will help women who have taken time away from paid work forces to raise a family, to be a caregiver—new tax credits to help small businesses offer their employees pension plans, and faster vesting to give workers earlier ownership of their retirement assets.

Earlier this year, President Bush called on Congress to pass a corporate accountability law to act against those who had shaken confidence in our markets.

Just last month, Congress responded with a bipartisan bill which the President signed on July 30. For those of you who watch the market closely, I would like to think that what the Dow did yesterday is beginning to reflect some of the actions we have taken as it broke 9000. The new laws call for more complete disclosure, accounting reforms, and new and stiffer penalties. Its purpose is to expose and punish misstatements and misconduct, and defend the interest of all Americans who have worked, saved, and invested.

In Congress and the White House, unwavering commitment continues to safeguarding Social Security. We must and we will keep the promises of Social Security and that have been made, and protect the beneficiaries who depend on it.

Social Security taxes more than cover benefits. Benefits are safe and will not be cut a penny. This generation of seniors and those near retirement can count on and continue to believe that Social Security is a strong, well-funded system.

There is more that we can do and I think more that we must do. Already the House of Representatives has passed the Pension Security Act of 2002. This bill will ensure that workers are informed, protected, and empowered, and would apply the same standards of fairness and management and to rank-and-file workers. I cosponsored a similar bill in the Senate. The Senate is expected to turn to pension protection legislation in the coming weeks as we return.

It is my hope that we can work again in a responsible, bipartisan spirit to build on the reforms in the House bill and create a more solid foundation for employee pension plans.

Next, to protect Social Security for the long term, Congress needs to get other spending under control and return to balanced budgets and running surpluses. That really is key to a stronger Social Security and a reformed Social Security. For a record 4 years, Republican Congress has succeeded in balancing the budget. Today's budget deficits have been caused, in part, by the war on terrorism and the current recession we're in, but we will beat this recession. We hope we see the signs of recovery now on the horizon. We must do whatever is necessary, of course, to win the war on terrorism and to create a stable homeland security program for all citizens.

Beyond that, we must have the spending discipline to balance the budget once again, to build the surpluses that will protect Social Security. Government must support policies that promote and protect savings and planning for retirement.

There is another side to the story. The most important step in a secure retirement is for each and every one of us to take stock of our current situation, our future needs, and start putting money aside.

Savings is the path to true independence and a secure future for all Americans, certainly for all Idahoans.

I want to call your attention to several charts that I have here, but chart one that shows the recent dramatic decline in personal savings in our country.

Americans now save at a rate very near an all-time low. Savings is hard work and we all know it. There's always a priority for the money in our hand or in our check. But, the time we spend today thinking about our future is time well spent.

I think also this savings chart is probably reflective of other reactions and realities. When you have rapid growth in investments or equity in a home, that quickly translates through in your mind to a form of savings, as it is, or assets gained, and you're probably inclined to save a little less. Or you could see a higher rate of return by investing in the stock market, and of course it just so happens that the period of time reflected on that chart was a period of time of rapid growth in the stock market, and that may have also reflected upon a decline of savings. But we still recognize savings to be a very important part of an overall retirement plan.

I want to call attention now to two pie charts, and these are probably the most important. They show the relative strength of the parts of the three-legged stool, both for retirees today and in another generation, if we do nothing further to prepare. On these charts you'll notice that the three legs of savings, pension, and Social Security are included, but there is also a fourth part, the space that fills in a gap left by the other three. This represents earnings, reflecting the fact that many seniors do continue to work along with living on their retirement investments, some because they want to, but too many because they have to. If you look at the earnings pie in that chart, over the time, if you do nothing now to prepare for the future, it is clear that in the future and by 2040, you'll have to be anticipating that you'll need to be back in the work force working more than you might otherwise have expected to if you have not planned appropriately.

The share of seniors' income that must be supplied by earnings has shrunk over the last generation, owing to the past success of Social Security and growing pension income, but if personal savings remains at their historic lows and if we fail to prepare for Social Security running out of money after the year 2040, seniors will have to work more hours and more years to make up the difference. To build a better future, we need to plan ahead, become better educated, and save more as individuals here in Idaho and across the Nation.

As a ranking member of the Senate Special Committee on Aging, I have instructed the committee staff to conduct five retirement income security forums this coming week across our State: One in Lewiston, one in Coeur d'Alene, Idaho Falls, Pocatello, and Twin Falls.

This hearing and that series of forums are what I think is a good start for helping to raise the importance of saving and planning for retirement security. It's an issue that I believe in strongly. It's an issue that I will work over the next 6 years to draw greater awareness to here in Idaho and across the country as either the Chairman or the ranking member of the Special Committee on Aging.

Today we're going to hear from Idaho's delegates to the National Summit on Retirement Savings meetings in Washington held earlier this year at the U.S. Department of Labor. So I now turn to the panel who I'm pleased that have joined with me today, and we will take testimony and comment from them, and I'll ask them some questions, and then we will turn to you in the audience for any questions that you might have or comments that you would wish to make.

First let me introduce to you Alan Winkle. Alan is the Executive Director of the State of Idaho's Public Employee Retirement System, and as you've watched that over the most difficult times of the last year, it has, in general, survived very well and been managed well, with good judgment by all appearances, to create stability at a time when others were taking substantial losses in investments in the market.

The other delegate, a friend of mine of longstanding and someone who advises citizens as an investment advisor from Kuna, Doug Dorn. Doug has helped a good many people over the years plan for their future and for their retirement.

We've added to the panel an expert, a perspective that I think is critically important as we look at Social Security, and this is James Hamilton who has worked with several national organizations, and as a Congressional staffer on retirement issues is really viewed as an expert in this field.

So to all of our witnesses today, I wish to express my thanks for you coming and spending some time with us. For all of those of you who have chosen to take time out of your schedules to spend time with us today, let me once again express my appreciation.

So with that, let me turn to our panelists, and first to you, Alan. Again, thank you for being with us.

We hope you will pull that mike down so that everyone can clearly hear you, and we would ask you to begin your testimony.

STATEMENT OF ALAN WINKLE, EXECUTIVE DIRECTOR, PUBLIC EMPLOYEE RETIREMENT SYSTEM, STATE OF IDAHO

Mr. WINKLE. Thank you, Senator Craig, and also thank you for sponsoring me as a delegate to the 2002 National Summit on Retirement Savings. It really was a great experience to hear the many distinguished speakers: President Bush, Alan Greenspan, Senators Kennedy and Johnson, and of course Senator Craig, Congressmen Pomeroy and Johnson. They really are leaders in the pension field and the examination of our current situation. Some of it was sponsored by the Secretary of Labor Elaine Chao, and her staff put on a very informative conference and good, thought-provoking sessions on retirement in general and planning for that retirement.

I'd like to also recognize members of the PERSI staff that are with us today and thank them for their support.

I came away from the Saver's Summit I think with several messages. The first one is the reality that we are in a retirement savings crisis. The boomers are fast approaching retirement, and they really are ill-prepared for providing that secure income for the rest of their lives. They will be living considerably longer than their grandparents, will be in better health throughout their retirement years. This means, however, that the boomers will be more active, but will they have the retirement income to support that lifestyle. There are some estimates that retirees will need more than 100 percent of their current income to support them in retirement because of this active lifestyle.

Second, as Senator Craig pointed out, the U.S. savings rate is at an all-time low, and if you recall a couple of years ago it actually dipped to a negative savings rate for a short period of time. Many

Americans don't have access to an employer-sponsored retirement plan. Those that do don't take advantage of that savings vehicle. Workers tend to wait to save and they lose that value of compound interest. According to the President's speech, the average 50-year-old has less than $43,000 saved for retirement.

Third, it isn't easy to plan or save for retirement. I think Dr. Alan Greenspan put it best in his lead statement that he made, and if you listen to it, it's complex as probably Alan Greenspan is, but it does hit all of the elements I think that you need to consider.

He says: One of the most complex economic calculations that most workers will ever undertake is, without a doubt, deciding how much to save for retirement. At every stage of life individuals ought to make judgments about their likely earnings before retirement and their desired lifestyle in retirement. Also implicit in such decisions are assumptions about respective rates of return, life expectancy, and the possible accumulation of a nest egg for one's children. The difficulty that faces individuals in making these projections and choices is compounded by the need to forecast personal and economic events many years into the future.

Just think of all the variables that are in that statement and what needs to happen for an individual to plan for their retirement successfully. It simply is not easy.

The delegates were given a task to design programs to motivate employees to save now. The slogan our particular group selected was "It's never too late to save," and that was specifically targeted at boomers who may think that it simply is too late; therefore, I'm going to do nothing.

We really believe that a strong education program and support for the saver is needed, and in the summit, we learned how to approach the various generations to incentivise their savings. An idea is to use our education system for possibly one of the most vital areas: Preparing our children for future life and personal financial literacy. The Federal Government or other organizations are in a position to help develop curriculum for teachers to teach such financial literacy courses. I have a private interest there because hopefully as a teacher, which represents a large portion of our work force, as they would get more involved in teaching financial literacy, hopefully they would get more involved in their own financial literacy.

So in schools though, I've seen recently a computerized doll that gives high school students a good dose of reality in raising a baby. It wakes up in the middle of the night, it cries, it needs to be held or whatever. A similar reality check for financial literacy may be a progression of courses that addresses the financial life of a student: Balancing a checkbook, managing credit cards, smart shopping, paying bills, investment interest, those kinds of things that may be common sense approaches to the appropriate topics.

I've probably had more than my share of experience with people who have not saved sufficiently for retirement. I have staff members who deal daily with PERSI members who have to make choices whether they can eat or whether they can purchase medications. PERSI is a good retirement system; however, it cannot make up for poor choices and poor planning by employees early on in their career.

Public employees in Idaho have a very good plan that offers a defined benefit plan and a 401(k) plan for voluntary contribution, as well as an outstanding education program. We put considerable effort into motivating our members to become engaged in planning for their own retirement.

As I learned from the other delegates at the conference, education is a never-ending process. People must be constantly reminded to save, to plan, and to monitor the process. At PERSI we have somewhat of a captive audience with about 65,000 members at our 650 employers across the State. It is apparent from the data at the summit that the need for education is much greater in the general population. Workers need to start by doing something:

Putting a small amount in an IRA. If they have access to a 401(k), put in something, start now. Take courses on financial planning through the community schools, at BSU, at junior colleges, from the Internet, anywhere. Maybe start an investment club with your friends. Simply, become informed.

The need for savings is becoming more and more complex. As you have heard, the three-legged stool that has been the model for savings for many decades:

Employer-sponsored pensions, personal savings, and Social Security.

According to a recent AARP study, entitled "Beyond 50"—the three-legged stool may be replaced by a four-legged stool. It has the four legs as: Savings, and that includes both the corporate company savings and personal savings; Social Security, a very necessary leg to the stool; Medical insurance, a new leg we have not heard from before. Medical expenses are becoming such an important part of retirees' financial plan that they must be considered seriously.

Finally, working as a fourth leg to the stool. More retirees are continuing or returning to work in some fashion. They either work because they have to for the income or for the medical benefits, or maybe because they want to for the social activity and the self-worth.

The new phrase that we're contending with is called "phased retirement." It embodies that issue. It's a transition now from retirement, to employment, to retirement, and that concept of simple retirement as before is now blurred. There is no bright line.

As I mentioned, PERSI is a very good retirement system. Most State and local plans provide this defined benefit payment which does provide a lifetime of payments to a member who retires based on their salary and service. We're also very fortunate to have a defined contribution plan, a 401(k). We believe we've captured the benefits of both plans. The 401(k) is funded by a unique gain-sharing concept where you gain in good years. Excess assets from the defined benefit plan can go to member accounts as well as be apportioned to the employers and retirees.

Employees can also make voluntary contributions to their accounts and employers can contribute also. We have about 53,000 employees who have accounts in the 401(k).

Currently, about 5,000 employees are contributing over a million dollars per month to the 401(k). We worked very closely with an interim legislative committee and the IRS to make this program a success. I think we have an advantage over private industry plans primarily because we're not covered by ERISA, which gives us some more flexibility in how our plans are designed and administered.

In talking to one Congressional staffer, he says he looks to the public sector as sort of an incubator to see what happens in a more deregulated environment. On the other hand, by nature of government, our whole operation is in the public eye. Our board of trustees takes their fiduciary responsibilities very seriously in the management of our plan for the sole benefit of the beneficiaries and no other party. Our board meetings are open to the public and members at all time. Documents are generally public records. All of our audits and actuarial evaluations are open to the public.

Maybe in both cases this type of deregulation and openness could be a model for private sector plans to address some of the problems we have seen recently.

However, we too struggle with our education and getting members engaged in the retirement process. For the long term, they need to be engaged in the market trends, be it up or down. We have found that the more personal the education and more frequent, the better. Of course, that means it's more expensive, but we have a very creative staff of trainers who keep the message exciting, engaging, and appropriate for the audience.

We also provide a list of fund options that includes a what we call total return fund, and actually about 75 percent of the 401(k) money is in this total return fund. It is co-invested along with the PERSI assets, which means we offer an option that makes it very easy for the beginning saver to get invested in the market. Although it is a single option, it provides members with a fully diversified portfolio among some 26 professional investment managers.

We also have ten other options that cover both active and passive asset classes. However, with much of the assets invested in a total return fund, we feel that our employees are very well diversified and have made a good step forward in planning for their retirement.

To sum up, I thought the Saver's Summit brought home to all of us how critical it is for government, employers, and workers to participate together in finding solutions to the savings crisis. The recent increases in the deferred savings limits by EGTRRA legislation, the Federal Government has made a good step forward in allowing workers to save more for their retirement. Human nature appears to be our next challenge. The goal would be to educate and motivate citizens at all points in their life to save for retirement. PERSI is certainly willing and ready to help in this effort by sharing what we do and providing services that may help accomplish this goal.

Thank you, and I would certainly stand for any questions at the appropriate time.

Senator CRAIG. Alan, thank you very much for that analysis and your recollection to your experience in Washington.

Now let me turn to Doug Dorn. I mentioned he has been a senior consultant, is at this time, and has spent 30 years in the investment community and in the consulting field, and I think that brings to this audience a real opportunity.

Doug, we look forward to your comments. Please proceed.

STATEMENT OF DOUG DORN, INVESTMENT ADVISOR, KUNA, ID

Mr. DORN. Thank you, Senator Craig. I shared that experience with Alan Winkle at the Saver's Summit and it was very enlightening. I won't go through the details, because Alan has done a wonderful job of doing that. I kept thinking, however, there was a little bit of preaching to the choir, as there were 400-plus people as delegates, all from the retirement industry, whether they be actuaries or investment managers or insurance people. The speeches were wonderful, very enlightening, but really the highlight of that type of a meeting is that you have the nonprescribed times when you sit down to have dinner and there may be four or five or six people at the table, many of which or all of which you don't know, so the conversation's informal, is very, very enlightening, and you find that the ideas that are running around in your head and your experience are shared by others.

There were lots of programs that were discussed. I tended to focus on one, and it goes back to my background and my personal experience. I was talking to some friends the other day and all of a sudden it dawned on me when we were talking about the stock and bond market and this is my fifth decade in dealing with this, because I started in the 1960's, so I get to count all of the decades. But it's a marvelous place where people can invest their moneys, but we've lost sight of the goal. Some people think it's a place to get rich.

It's not a place to get rich. The stock market is the place to get a little higher return than normal for a little higher risk than normal, and if you treat it anything other than that with greater expectations, you will fall under Mr. Greenspan's trap of unsustainable expectations. Those we have seen in the last 2½ years are very well adjusted for.

The particular area that I have been interested in is the conversion of corporate ERISA plans into, a smaller extent, some Taft-Hartley joint-negotiated plans, and to a much smaller extent than that some government plans; the conversion from defined benefit plans where you work a prescribed number of years and earn certain scores and then you get to retire on a guaranteed income, the conversion of those kinds of plans to 401(k)s, 457s, et cetera, generally known as defined contribution plans.

Now, in the industry these are called, these kinds of plans, the defined contribution plans, are called "shoot-yourself-in-the-foot plans." Folks, we've shot ourself in both big toes in the last 2 years and the problems are coming home to roost.

Now, if you are a participant in a 401(k) or other type of defined contribution plan is your only vehicle for retirement, there are two factors that will explain 90 percent of the level that you have at the point of retirement to generate income to buy groceries with, and I'll tell you what those two factors are. One is the year your mother chose to get pregnant, to have you. The second one is the level of the stock market and the bond market 65 years later. I suspect that you, as an individual, have very little control over either of them. Therein lies the problem.

If you retired in 1974 on a defined contribution plan, you had about 50 cents on the dollar; in 1981, about 65 cents on the dollar;

1991, about 65 cents on the dollar; and 2001 or 2002, it's not unusual for people to have 50 cents on the dollar. Now, all through ERISA, when our Federal legislation passed that, all through the conference's notes you will—believe it or not, Senator, I read them cover to cover, but it was almost 30 years ago—but there was one phrase in there that just stuck in my mind because in 1974 I was a junior portfolio manager in a great, big organization, and everything that we did for 2 years was wrong and everything we bought went down. It was a tough time in doing that. I always remembered that experience. The phrase in the conference notes was "retirement with dignity." Fifty cents on the dollar does not mean living in a tent in the Owyhee Desert and eating cat food. That is a very important thing.

Now, I do believe—and I am not a behavioral psychologist—but I think that there are a lot of folks out there in the work force who choose a particular career in a particular industry and company because one of the features of working in that industry and that company is that they offer a defined benefit plan. I do believe that people will work and they will stay in their job because they know at a certain point in time they will have a guaranteed benefit to them.

When we passed ERISA in 1974—President Johnson signed it on Labor Day—that was in response, if you recall, Senator, to the failure of the Studebaker corporation when they just closed their retirement window, they just shut their window and said, Sorry, we're out of money. The Congress decided this was not a proper thing to be doing; hence, we got ERISA.

We've now had ERISA for 28 years and I do believe it has gone a long, long way in securing millions of people's benefits. But we're now 28 years later and there are certain facets that have happened. Many corporations that have offered defined benefit plans have chosen to terminate those plans and they have done it for a myriad of reasons.

They are most often heard to be the ease of Administration. Yes, it's easier to turn everything over to somebody that administers a 401(k) plan. That's easy, and I understand that.

They say the lower cost of running the plan. Depending upon how you do your arithmetic and who is paying the cost, it could be a lower cost, but I do believe there's a shift from the corporate sponsor to the participant.

One big item and I'm sorry for the accounting jargon for you, but there's a thing called unfunded vested liability which becomes a liability on the corporate balance sheet. That is a big number. I've often joked that U.S. Steel Company really is a giant pension fund that runs a steel company to support it.

When you make pension contributions, it runs through the accounting and it becomes a hit on the income statement, and that affects earnings per share.

People in the financial, people in corporations, worry about that kind of thing. There is tremendous fiduciary liability placed upon the directors and the officers of the company, and there is an onous payment now of twenty some dollars per head that started out at $2 a head in 1974, payment to the Pension Benefit Guarantee Corporation which guarantees these pension benefits. So it's become very expensive to run these plans, so corporations, for whatever reason—and I don't believe that it was some kind of a evil thing to get at their employees; it was a function of the regulations—they have terminated these plans, substituted 401(k)s, and now we have the circumstances we're in as we sit today.

I sincerely believe that we should provide some type of mechanism that tries to get to the bottom of the motivation of why these conversions happened, whether or not we can do something with the regulations and the onus in running these plans that would curtail that conversion and promote the combination of plans such that Alan explained at PERSI, which is a combination of a floor plan defined benefit and over the top of that a savings plan. That makes a lot of sense. But to run solely on the defined contribution plan is just too full of pitfalls. You cannot control the markets and the markets will determine how you live.

One of the other factors that goes into that discussion is participants have said, We don't want to be part of your defined benefit plan. We want to have our own plan so we can be the master of our own destiny.

Well, you just did it, folks. Four bits on the dollar and that doesn't make it. That's not saying that we should be everybody's keeper, but availability of plans is another item. So to those folks that wanted to be the master of their own destiny, I would only remind them of Mr. Greenspan's wonderful comment—and then, incidentally, the Dow was at 6000 and change when he said that we are maybe in a period of "unsustainable exuberance."

So, thank you, Mr. Chairman.

Senator CRAIG. Doug, thank you very much. We appreciate your comments and your observations that obviously have come from years of experience.

Now let me turn to James Hamilton, a consultant on Social Security and general retirement issues in Washington, DC., and thanks for being a part of our hearing this morning.

STATEMENT OF JAMES HAMILTON, EXPERT ON RETIREMENT ISSUES

Mr. HAMILTON. Thank you, Senator. It's great to be here. I appreciate the opportunity to visit your State again, so it's good to be back.

Over the last 11 years I've worked on Social Security retirement issues, first as a staff member for a Democratic member of the U.S. House of Representatives, and subsequently as project manager at a number of nationally renowned public policy organizations in DC., and over the last decade I've developed a little bit of an expertise on the Social Security retirement program. I've spoken to audiences around the country, primarily trying to raise awareness about the long-term solvency issues surrounding the program and how we can do things now to protect current retirees and those who will retire in the future.

I want to make one thing clear at the outset here, that those of us who have worked for or with Members of Congress and those of us who have worked with or for the Administration know for a fact that benefits for today's seniors and those who are approaching retirement are in no danger of being cut. No one would tolerate such cuts, and no current trend or policy would cause them. It's very important to make that clear up front. President Bush actually instructed his Commission on Social Security that began meeting a little over a year ago, bipartisan commission actually entitled the Commission to Strengthen Social Security, President Bush specifically instructed the commission members to only consider proposals that would keep current benefits safe.

While the system is solid for today's seniors and near-retirees, we do need to talk about the longer term. Today, the average Social Security retirement beneficiary receives about $900 per month. Combined with the low savings rates that we've talked about earlier that's across all demographic groups and low or nonexistent pensions from work, the average retiree is getting by but not doing well in retirement. That's why efforts need to move forward now to strengthen the program for today's retirees to make sure it will still be around for today's workers and their children when they begin their own retirements in the future.

Senator, it was 67 years ago this month that Congress first enacted the Social Security retirement program. It was a time when one might hear Fibber McGee and Molly, or Amos and Andy, or Kate Smith on the radio, but it was also a time when, as President Roosevelt noted in his 1937 inaugural address, one could see one-third of the Nation ill-housed, ill-clad, and ill-nourished. It was a time when Americans needed the assurance that they would not spend the last years of their lives in poverty.

Oddly enough, the United States was the last of the Western nations to establish an old-age pension program. Its operation was relatively simple. Workers would pay a small tax at that time, it was no more than $30 per year and that would be matched by their employer. When it came time for them to retire, the workers could depend on a government pension that would be there for them until they died. Interestly, the program could have been funded by general revenues, but President Roosevelt insisted that the payroll tax be included from the beginning to give Americans a sense of ownership in the program. His actual words were: We put the payroll tax in so that no damn politician could ever change the program.

Since 1935, the program has kept millions of seniors out of poverty, and in doing so it has become one of the most successful government programs ever put into operation. Now, the government's dirty little secret in 1935 and something that most Americans don't know even today is that most of the revenues generated from the payroll tax, from FICA taxes, are paid out immediately as benefits to current retirees. There are no individual Social Security accounts owned by or set aside for individuals accumulating cash balances out there somewhere, nor have there ever been. The program has never operated that way. Social Security has always been a pay-as-you-go system of transfer payments, not a true pension system.

The program operated in this way since 1930's, and as long as there were many workers paying taxes to provide benefits to a small number of retirees, the program worked well. The country has changed dramatically over the last seven decades, and the program, the Social Security retirement program, has not kept pace.

In 1935, the technical experts who advised the President and Congress on the creation of the retirement program believed that the United States population would level off at 150 million by 1980. They believed life expectancy would stay around 64 years of age, as it was in 1935. They believed the cost of living would increase slowly over time.

Just as it would be difficult today to find George Burns or Gracie Allen broadcasting live on the radio, it would be difficult to find anyone who would tell you our population growth has been stagnant. The Census Bureau reports that we are currently approaching 290 million Americans. Life expectancy for most Americans is near 80, and the fastest-growing age group is the over–85 group. Of course, we all know the cost of living, particularly costs associated with health care, are sometimes more than seniors can bear.

But these changes didn't happen over night. In 1955, 8.6 workers paid their FICA taxes, paid their payroll taxes, to provide benefits for each retiree, so taxes could remain fairly low.

In 1999, 3.4 workers were needed to provide benefits for one retiree. So the payroll tax has continued to increase over the years.

In 2034, the ratio will be two workers for each retiree.

On the face of it this might not seem very bad, but remember for the first several years of the program, a worker would never be asked to pay more than $30 in their payroll taxes to support the program. As more people retired and fewer people entered the work force, maintaining a constant level of benefits required the payroll taxes be increased from time to time. Today, the average earner has to pay almost $2,000 per year, and that's the worker's share only, to support the program. Now, adjusting for inflation, $30 in 1935 equals $391 today. So, clearly, the demands of the program have far outpaced inflation.

The tax burden hits low and moderate income Americans the hardest, the very ones FDR most wanted to help, and sadly three-quarters of Americans actually pay more in FICA taxes, more in payroll taxes, than they do in Federal income tax. Put simply, the retirement program has been a success and will continue to provide for today's seniors, but for today's younger workers it has failed to keep pace with the changes in American life. Under current law, unless major tax increases and benefit cuts are enacted, benefit payments will outpace income from payroll taxes in about 15 years. At that time, the system will start becoming dependent on the repayment of accumulated IOUs from the Federal Treasury. In a generation, the current system will be completely unsustainable.

This ever-increasing tax burden is one of the main reasons various individuals and organizations have sought changes over the last decade to strengthen and modernize the program. Americans will only stand for so much when their taxes are concerned. So to think about the future of Social Security and ways to strengthen it, I cite Senator—a letter or actually an opinion piece from your former colleagues Bob Kerrey and Warren Rudman, former Senators, in the Washington Post from last Monday, August 12.

The Senators said, "In just 6 years, the baby boomers will begin receiving Social Security checks. Then, the number of workers whose wages are taxed relative to the number of beneficiaries who receive the proceeds of the tax will begin to decline sharply. Before

Tiger Woods turns 50, they say, the number of beneficiaries will grow by at least two-thirds while the number of workers will barely budge.

Doing nothing means deep benefit cuts or steep payroll tax increases for future generations, which is why the Social Security trustees warn that prompt action is essential."

In the past, Congress consistently has proposed raising taxes, lowering benefits, or some combination of the two to address funding shortfalls. Because we agree that we don't want current or near retirees to suffer benefit cuts, we further can see that tax increases will only prevent low and moderate workers from participating in the American dream. Our options are pretty limited. But, as Senators Kerrey and Rudman noted in their piece last week, if we do not have the political will to solve the Social Security problem now, we can't hope to do so when the baby boomers start collecting benefits, not just for Social Security, but for Medicare and Medicaid as well.

The problems facing our health care programs are much more daunting than Social Security. These three programs together are expected to double as a share of the economy within 30 years, putting unthinkable pressure on tax rates, the economy, and the budget.

Now, discussions like this one today are the first step to finding workable solutions to the problem. Please note that I said "problem" and not "crisis", because, clearly, the diminished confidence Americans have for the Social Security program is a problem, but the longer we wait to address the questions that I've raised here, the closer we come to general economic crisis.

Now, over the last decade, many individuals and organizations have begun an effort to strengthen the current Social Security retirement program by adding personal retirement accounts to the program. More than two dozen countries around the world are already doing this with mostly positive results, and if Australia, Chile, the United Kingdom, Sweden, many of the former Soviet republics and even the People's Republic of China are in agreement on this issue, perhaps it's something the American people should spend some time examining as well.

I won't go into a lot of detail, we can talk about it during the question and answer time, but when we look at the three-legged stool that all of us have mentioned, when personal savings are at such a low rate, when income from a company pension, a 401(k), is not something that all of us share in, and again, the average monthly benefit for Social Security retiree is $900, we can see that the golden years of retirement might turn into years of brass and tin for many Americans.

If we start letting current workers put a portion of their Social Security taxes into personal accounts that they own, we can expect markedly positive results over a person's working lifetime. Such accounts, by the way, made up of a mixed portfolio of half stocks and half super-safe government bonds, earn an average of 5 percent per year. Even Series I U.S. savings bonds earn 3.4 percent after inflation. That's far better than what the current Social Security program pays, as a matter of fact. Wealthy Americans earn this kind of return every day, and it's time we let workers of all income levels share in this.

I'd say two things by way of closure, Senator: Many will tell you that the addition of optional personal retirement accounts to the program is a risky scheme, that most Americans aren't smart enough to manage their own accounts, or that an economic downturn will hurt low and moderate income Americans hardest.

Some will say that there's nothing wrong with a Social Security retirement program that a good tax increase won't fix.

I disagree. It's easy to scare senior citizens by telling them that efforts to strengthen Social Security could reduce their benefits. It's equally easy to cause panic among Americans by playing on their fears, especially during economic times like we're facing right now. But if we tell Americans the truth, I believe they will recognize it and figure things out for themselves.

Finally, there have been any number of polls over the last many years that have tested the public's willingness to look at optional personal retirement plans. One of the most recent polls was taken, actually, it was released July 29, less than a month ago, by the Cato Institute back in Washington. It shows that even with a downturn in the stock market and its corporate accounting scandals, 68 percent of likely voters continue to support allowing workers to invest a portion of their Social Security taxes in personal retirement accounts. The survey's findings were particularly revealing because the poll was conducted during a week when the Dow Jones stock index dropped almost 700 points.

Apparently, retirement accounts are not a panacea, but they offer the promise of financial security to millions of Americans who currently have no hope of retiring to any level of comfort. They are accounts controlled by the individual, owned by the individual, and upon reaching retirement, that individual will have more to show for a lifetime of work than $900 a month.

The current Social Security retirement program promises a basic level of support. Building on this program, personal retirement accounts will give workers the option of doing a little bit better and perhaps go farther in giving them the kind of assistance that FDR hoped for back in 1935.

Thank you, Senator. I'd be happy to take questions at your leisure.

Senator CRAIG. James, thank you very much for those observations and your experience over the years working with Congress on a piece of public policy that is near and dear to everyone, our Social Security system. Ladies and gentlemen, I would ask a few questions and then I want to open it up for you to have the opportunity to ask questions of me and/or the panelists before we adjourn here, because I think that's an important part of this kind of dialog as we begin to, I hope as a country, focus more attention on retirement needs and plans.

Let me ask this generic question of all of you witnesses: With your experience and the work you've done, if I ask you what would be the single most important piece of advice you would offer of those in the audience today, what might it be?

Mr. HAMILTON. I think you said it very well in your opening remarks: It's never too late to start saving.

Senator CRAIG. OK.

Mr. DORN. That's an absolute truism. I think it's relatively obvious to everybody that that needs to be done.

I will, if I might, Senator, follow that up with an axiom of economics, and it says that you will get more of what is subsidized and you will get less of what is taxed.

Senator CRAIG. All right. I think I understand that message.

Mr. WINKLE. I would agree also. It's to start saving now. I think with the Federal Government advances, there are many vehicles available to almost anyone, so tax-deferred savings is available in some form, be it a SEP, be it an IRA, be it something. So people can do something now.

Second, I would add to that educate yourself. Be a planner. It's not necessarily that people need to be an investment guru to enter the market. There are a lot of index funds out there, very simple, very easy to get into. But educate yourself as a planner. Be your own best retirement planner.

Senator CRAIG. OK. Keep the mike, if you will, Alan. Let me ask this question of you: As you mentioned, public sector retirement plans are different from ERISA type plans, and for a good reason. Much of the legislation now being considered in Congress is inspired by a need to respond to problems that have appeared in the private sector plans, but it's unclear how much distinction will be drawn between public and private sector plans as these bills move forward. How much of a concern should this be to Congress?

Mr. WINKLE. Thank you, Senator. Yes, this is of great concern as a pension administrator to us, and I believe it should be to the Congress.

First, public pension plans don't hold their own company stock by nature. They can't go bankrupt as has been experienced in the private sector.

Second, I think State and local plans are developed, they're monitored in an open, public environment. Unlike the private pension plans who are solely regulated by the Federal Government, public pensions are an array of State and local laws that really provide rigorous regulation, public accountability, and I think strong protections for the participants.

Last, I think the public plans are crafted around unique needs of the members, the taxpayers, and the sponsoring units, which are much closer to local issues than the Federal Government.

Therefore, I guess I encourage the Congress and particularly the Senate as they look at these protections they are adding, that really public plans are different, have different levels of protections already, and are responding to a different constituent group than private plans. We would request that the manager's agreement that is resulting from the Enron legislation, Senate bill 1971 and 1992, apply only to ERISA plans and not to the public plans.

Senator CRAIG. OK. Appreciate that.

Doug, you mentioned several reasons why you believe the use of defined benefit plans has declined, so let me ask a couple of questions off of that comment.

Are there government disincentives to use defined benefit plans that could be reduced?

Mr. DORN. Yes, sir.

Senator CRAIG. And they might be?

Mr. DORN. I think you would categorize as hassle factor.

Senator CRAIG. Yes.

Mr. DORN. But it is a hassle factor.

Senator CRAIG. Single greatest problem?

Mr. DORN. I think reporting, the form 5500's. They're redundant, they're expensive to prepare.

Senator CRAIG. OK. Over the past 20 years employer health insurance spending as a share of total benefit spending has gone from 27 percent to 42 percent.

Is the rise in cost of health care another possible reason why employers might be more likely to provide what they believe is a lower-cost defined contribution plan rather than a defined benefit plan?

Mr. DORN. I believe that that does come into play.

Senator CRAIG. Yes.

Mr. DORN. There is one very, very large problem which was pointed out to me by an actuary that I've known for years the other day. Take a person who is 10 years from retirement and they have a retirement health care plan. One of the provisions is you have to retire before you're eligible for that plan, and this person gets sick and this person has a disease that requires constant care, and expensive medication. That person has only one choice, and that is to stay in that job. So for 10 years that person sits there and warms the chair, is probably unhappy in their job, which isn't good for them and is not a very useful and productive employee for the employer, but he has no choice so he sits there. That is an item that really should be addressed because it hurts everybody all the way around.

Senator CRAIG. Good advice. Probably spells for fairly high degrees of nonproductivity.

Mr. DORN. I would expect very, very high.

Senator CRAIG. Do you have any other recommendations for encouraging employers to offer both let's say defined benefit and defined contribution retirement plans?

Mr. DORN. Well, now, here's the libertarian in me that's going to come out.

Senator CRAIG. I knew it was there somewhere, Doug.

Mr. DORN. Yes. I think there's a certain amount of responsibility we all have to take for ourselves, but as I not jokingly suggested to you that when you subsidize, you get more out of it; what you get taxed, it's less.

It's very, very difficult. I'm 63, I'm retired, but I don't take Social Security because if I earn any money, I have to give it all back. What kind of deal is that? I worked hard to get this benefit and I want it, but you're penalizing me if I do something constructive. So that's a bad issue.

But in terms of the retirement itself, when one asks themselves why, if you're an employer and I was the chairman of the board of my company for 22 years, so I know, I've been there. I have people that come to me and they say, I have skills and I want to come to work for you; and we settle on a salary level, but to that salary level I have to add 30 percent because that's the cost of providing benefits; whereas I, if I, being self-employed now, I earn any money, I get to give the government 15 percent right off the top in employment taxes even though I no sooner withdraw it. So that's just inequitable.

The libertarian in me says why should employers have to provide retirement benefits? Why should they be providing health care benefits when their primary notion is to have a productive worker and have them produce a widget and pay them for their production of the widget?

Give them a paycheck and then say, Take care of yourself. I don't mean that in a harsh way, Take care of yourself. If you have the money and the tax system is such that you are able to do that, you will take care of yourself.

If you take the little model, take the dentist down on the corner. If he gets out of dental school and decides that he wants to be a sole practitioner, he's subject to one set of rules that say how much he can set aside for retirement. If he's in a partnership, it's a different set at a different level. If he chooses to be an S corporation, that's a different level. A C corporation, that's a different level. They all come under different rules. So what you end up doing is you end up organizing your own professional activity around a tax code so that you can fund a retirement benefit, all at different levels. To me, that makes no sense. An individual is an individual.

Who does it matter who he works for as to how much he ought to be able to put away for retirement? That should be simplified.

Senator CRAIG. Point's well made. Of course as James knows, once the government does something and health care benefits is a product of World War II, and benefits with frozen wages and all that began to grow out of that, we have constituencies built and it's very difficult to begin to backtrack from those until you're at near crisis and the public senses that a need is necessary.

James, a couple of questions of you: I'm pleased that we agree that for today's seniors and those near retirement, nothing in the Social Security system will change, nor does it need to change.

You know, in this case, promises made to these hard-working Americans and Idahoans is being kept and will be kept, and I am one of those that says to a certain age group and when I am asked these questions, I say, How old are you?

And then they tell me.

I say, OK, the check's in the mail. If they're younger than that age, I say, Well, let's talk about it. Maybe we have a concern here.

What I hear you saying is today's younger workers need to be given the option of changing some of how they will participate in Social Security. Do I hear you right?

Mr. HAMILTON. Yes, sir. That is correct. It's something that for most Americans 40 and under, 45 and under—I choose 45 to hesitate. As I get closer to my 40th birthday, I'm more mindful of saying 45.

Senator CRAIG. Right.

Mr. HAMILTON. But there's something that I believe. There was a poll that was done a few years ago that asked workers 45 and older if they had the opportunity to get back, to give up, just give up all claim to all of their Social Security retirement benefits but then had the opportunity to start paying into a personal retirement account, would they do it, and the majority said, "Yes."

Folks that are in the tail end of the baby boom as I am, and the Generation X and Generation Y and whatever the next generation is going to be called, we need the opportunity to do a little bit better. The rate of return for me on what I will pay in during my working lifetime, Social Security retirement, is negative point six, and the younger person is the worse that rate of return is going to be. But again, I'd stress that that should never have anything to do with current retirees.

My parents in their late 1970's are very dependent, actually as most seniors are, on their Social Security.

Senator CRAIG. Getting a phenomenal return on their investment.

Mr. HAMILTON. Absolutely.

Senator CRAIG. When we're talking about Social Security survivor benefits are a safety for the poor and we discuss a future program, how do we, in your mind, shape those out?

Mr. HAMILTON. There are certainly financial concerns about the long-term sustainability of survivors' benefits and disability benefits and so on, but the current debate actually is not about those at all. In none of the legislation that has been introduced over the last several years, none of the legislation that has been introduced in this Congress would touch the disability or survivors' programs or any of the other Social Security programs.

So a lot of opponents of personal retirement accounts say that the personal retirements accounts would cut into that. It's just not the case.

Senator CRAIG. Uh-huh. Uh-huh. Other expressions I've heard in the last good number of months of course with the focus we've had post-9/11 and the amount of money spent by Congress on, if you will, antiterrorism or terrorist-related activities and the cost of those and the deficit that is emerging out of that, do you have any express concern about Social Security and Social Security benefits?

Mr. HAMILTON. None. The Federal Government will continue paying the Social Security benefits that are promised. It's something that it would be better for the United States, for all of us, if we can get back into a situation where we're balancing the budget and running surpluses.

I point out in conversation that I am a Democrat, but I'm a Jeffersonian Democrat.

Senator CRAIG. That's why you're here.

Mr. HAMILTON. That's why I'm still here.

Senator CRAIG. Not true.

Mr. HAMILTON. But it's something that I feel very strongly, that fiscal responsibility is our first responsibility.

Senator CRAIG. Thank you. Well, I think all of us are frustrated at this moment and I think what you will see next year coming out of a new Congress, no matter who's at the helm of both Houses, is a redirection in spending because of what's happened and the economy and the post-9/11 activities.

Ladies and gentlemen, let me turn to you now for the balance of our time together, and you can make a comment if you wish but I would trust you would keep it brief; but most importantly, if you have questions of myself or these three panelists, I think the auditorium is such that we can all be heard reasonably well, but please speak up. I would appreciate it if you would state your name and your comment and/or question. Thanks. We have a mobile mike.

Thank you. Please.

A VOICE. Thank you, Senator. I appreciate your holding these. My compliments to Mr. Winkle and PERSI. My wife is a member and it's a very good plan. I appreciated Mr. Dorn's comments and Mr. Hamilton's comments.

I have a comment: I had a decision, and thanks to Congress, they helped me make that decision a couple of years ago when they took away the penalty for retiring and drawing Social Security. I'm taxed on my Social Security, but I don't lose 50 cents on the dollar. I think that was a good move on the part of Congress and the President to sign that into law, because now as a consequence, I not only draw Social Security, but I also pay in to it.

Senator CRAIG. Pay in to it, that's right.

A VOICE. So as our Nation gets older, our health is much better at this age than our forbearers were, and I think you'll see more people continue to work, which will contribute back into that Social Security system.

I guess my real concern, Senator, is the corruption that we've seen with corporations and it's now coming to light. Is it possible that that could also extend into the pension plans?

As an example, I'm a retiree of U S WEST which is now Qwest, and I don't know how they were able to do this, but they took $100 million from the pension plan last year and put it over somehow into their bottom line. Maybe Arthur Andersen was their accountant, I don't know.

But I guess the question I have, Senator, is as you look into cleaning up and making accountable those who are responsible for the corporations, are you going to also get involved at all with the pension plans and so forth to make sure that those can't be corrupted as we've seen happen with Enron and WorldCom, et cetera, et cetera? That's my question.

Senator CRAIG. Let me turn to my professionals here to react to that. I will make this comment, and I think it's reflective of the concern you might have: Depending on the companies that have the bad actors—we've got about 16,000 registered, publicly held companies with the SEC—my guess is you're going to be able to count on maybe both hands and your toes the bad actors. The rest of them are working pretty hard to do things right, and I think that's going to prove out.

But about 3 months ago I was at a gathering of energy groups in California. I went down to speak to all of the energy producers in California, and there were three Enron subsidiaries at that table, still openly functioning, profitable, cash-flowing companies, and were still doing so. They were under the umbrella of bankruptcy and openly thinking they would be spun off in time. They did make one comment and maybe you all can react to it better than I because I'm not an expert in this area at all. I said, You're an Enron subsidiary. How are you doing?

They said, Well, frankly, we're doing very well.

We've got to where we're still producing power, we're still collecting bills, we've got a cash-flow. Our problem was that when we went under the Enron umbrella, we became part of their financial structure, they sucked our retirement systems and all of that, so we have employees without retirement systems, and that's what we've got to get back and that's where you could probably help us, Senator, so on, so on, so on.

Now, that alarmed me some, but it was part of that financial rearranging that Enron leveraged and/or played with and/or mismanaged.

Reaction, gentlemen, and what is your understanding of the question?

Mr. DORN. Well, to specifically answer your question, I'll start this out. ERISA's full of regulations that protect you when you're backed up by the Pension Benefit Guarantee Corporation for which you will be guaranteed a minimum benefit. Now, unless you're a very, very highly compensated person within the company, more than likely your benefit is covered by the PBGC, so personally you probably ought not worry about that.

There is the big question that's going on in terms of earnings that are from pension fund returns, and this is being discussed. This is an extraordinarily complicated accounting factor, but there is opportunity to play shell games particularly when you get acquisitions and mergers, because you get an asset-rich company and really they buy the company for the pension fund assets, which they can then take back out again.

Senator CRAIG. OK.

Mr. DORN. This is extremely complicated, but within ERISA the rules are very strong, and be mindful that ERISA created a new level of fiduciary responsibility, and that responsibility does not stop at the corporate veil for the directors and the officers.

It goes right through to the picture hanging over the fireplace in their living room. So that has a lot of teeth in it. You can play the Enron games, that's one thing. You start playing with a pension fund, that's a different set of rules. But that certainly is something that we need to look and see what the experience over the last 28 years has been.

Now, I would suggest to you that for a person who wants to play a game and create a big liability, an unfunded pension liability in their company even though they know they're going bankrupt, then bankrupt the company, they put that pension liability to the PBGC.

I look at Jones and Laughlin Steel and there's a whole list of them that it's almost bankrupted, and that is an accounting practice that's come out where you have that option as an employer, and it seems to me that the fairness of that is up to question.

Senator CRAIG. Any other comment to that question?

Mr. WINKLE. Just a quick, Senator. I think we're seeing several areas. Disclosure is one of the primary areas where the new legislation that you're considering is coming out, far more disclosure on pension fund benefits, funding, and all of that. I would highly recommend that.

Second, the separation of the pension fund and the fiduciary responsibility to the members from the corporate bottom line, and that is coming through a different mode of accounting practices and those are being approved also.

So I think those types of things are very heartening but they're being addressed, and hopefully we'll see some of those come through that will protect the assets much better, and as I said before, hopefully the openness can be modeled somewhat after the public sector.

Senator CRAIG. Another comment, Doug?

Mr. DORN. Yes, sir. I've been aware of a circumstance when you have a defined benefit pension plan in the corporation, the ultimate fiduciaries are the pension committee of the board.

There's been a lot of discussion lately about outside directors, being a majority of the board versus a minority of the board. I would think that if one were to loosen up some of the onerous features of running a defined benefit pension plan and make it easier to run, the tradeoff may be that you have the pension committee which is dominated by outside people. If you have that, outside people on the pension committee, then these games can't get played, but typically those people are inside people. Would be a good tradeoff.

Senator CRAIG. Further questions? Yes, sir.

A VOICE. Yes, I have a question.

Senator CRAIG. Just a moment. Let's go here and then we'll come to you. Go right ahead, sir.

Mr. MENTZER. Do I stand?

Senator CRAIG. Don't need to.

Mr. MENTZER. My name is Terry Mentzer and I'll get my first Social Security check on September 11, and unlike Doug Dorn, why, I will be able to keep it all, so I have a couple of just real quick comments to make.

I instinctively recoil against allowing Social Security trust funds to be invested in the stock market, particularly when the P/E ratios of both the Dow and the NASDAQ remain at almost twice historic levels. Just seems like that's a one-way path down the toilet.

Second is that I would encourage the government to try to find ways to stop raiding Social Security trust funds.

Third, Alan Winkle's comment about teaching kids to be wise consumers ought to be a major national priority. All you have to do is watch TV and see More Furniture For Less and Nexium ads and just tidal waves of this stuff. They're marketing to morons with money, and I find it offensive that, as Americans, we even tolerate that. I wish there was some rating system to get people to look at savings and put their money into other things, rather than responding to these type of temptations.

My last comment would be to Senator Craig: You could run for president and win, I think, if you would introduce legislation to require all Federal telephones to be answered by a live human being. [Laughter and applause.]

Senator CRAIG. Before I turn to James, who's our authority on Social Security, I will do that if we will demand that all private corporate telephones be answered by a live person too.

Mr. MENTZER. Yes.

Senator CRAIG. I hate running through the system to get to a computer, only to get to a computer.

James, respond to those concerns about Social Security if you would, please.

Mr. HAMILTON. The trust funds are—it's such a controversial topic, it really is.

First of all, there are a lot of organizations out there all across the political spectrum—liberal, conservative, whatever—that will game the system, trying to scare people that trust funds are being raided and that if you will send us money, we will fight that.

The thing is that since 1935 and you can go back and read the original legislation, the law requires surplus funds to be invested in special government treasury bonds. What that, in essence, is, it's an accounting tool to keep track of the money. I'm not an accountant, I don't follow the funds very closely that way, but the bottom line is that last year, for example, sir, the Social Security program ran $140 billion surplus. More payroll taxes came in than were paid out.

Something has to be done with the funds, and it is basically credited to the Social Security trust funds and that money is used for other purposes, and——

Senator CRAIG. Within government.

Mr. HAMILTON. Within government, thank you, Senator. There are bonds that are literally printed out saying that the Social Security trust funds are owed X number of billion dollars, and I've seen pictures of the bonds that are printed out. It is something where that the full faith and credit of the Federal Government is back there to pay back those funds.

Now, is that the best way of handling it? I personally don't think so, but that's the way the law was written in 1935, and it's been that way ever since.

Now, as far as investing the trust funds in the stock market, such as that, oddly enough, in the last Presidential election there was some talk about this very thing and actually the idea has been circulated for quite some time, and right now, none of the legislation that has made any headway would do that at all. It would be a matter of your personal retirement account being managed much like a 401(k) or an IRA where you're not playing, by the way, you're not playing the stock market. You're not day trading, sitting at your computer with your personal retirement account, which is another concern that you didn't raise but I think it's important to stress that, that it would be managed by professional managers of Fidelity or Smith Barney or whomever. That would not be something that I'd be sitting at my computer back home, seeing what the stock market did that day, and do I need to move my funds real quickly.

I don't know if I addressed all your questions there or not, sir.

Senator CRAIG. One of the design concepts that's being talked about now for plugging in at, say, 45 years and younger if we were to reshape the Social Security system is not unlike what we do with Federal retirement systems: While you have a personally named account, it's yours, and a certain percentage of your income or, taxes in this instance, would go into it. It would then be invested by a team, if you will, a professional board of mixed and diverse talents, into categories. It could be a high-risk category which would be predominantly stocks; it could be a medium-risk category which would be a blend of let's say government instruments and CDs and some stocks; or it would be a very conservative category which would be all CDs or government bonds. At least the experience in the Federal retirement system is that that not only is good and has security, but you get a much higher rate of return.

Now, only a piece of that would be—you wouldn't be playing it, but you would have times in which you could say, I want to move categories, into different categories. To the guy that played it conservative all the years until a few years ago when I put half of it into a more vulnerable market, I've lost a little money out of my 401(k) program within the Federal system over the last year, but it's also a long-term annuity, if you will, and you can't look at it for a short-term.

Historically, the other advantage to that that we're talking about, if you are 60 years of age and you die, that's it. All that money you put into Social Security is gone. You can't retrieve it for your wife or for your children. It was not an asset. But, in time out there, 30, 50, 60 years down the line as we work our way into a system with the kinds that are being looked at today, it, in fact, would be your asset, and if you die at 60, it becomes a part of your estate which is then available to your heirs.

So that's another concept that we're looking at, and so there are a variety of areas, but again, it's not standing now and saying we're going to do it tomorrow.

It's literally standing on a peak and looking down the road 30 years and saying what is, by far, the better approach.

Last, let me also say when I became your representative and now your senator and started dealing with the Social Security issue, and I literally went out and read the law and backtracked and studied it to try to respond to the numerous questions asked about Social Security, I must tell you this: I have always been constantly surprised at what the public's perception is of Social Security and what, in reality, it really is by law and by character. Most all of that perception has been driven by special interest groups over decades of time that have been out there for a purpose of either trying to guard the system and/or play the emotion to make money for their own incomes and to sustain their own interests. I've always been amazed.

Enough said. Question here.

A VOICE. You asked what's the most important item for the panel, and I would say vote Republican in the form of Congressman Ron Paul.

Senator CRAIG. I don't think Ron Paul's a Republican.

A VOICE. He is.

Senator CRAIG. No, I know. I'm teasing you. I think he's a libertarian. Now, Dorn might vote for him.

A VOICE. Now listen, there's a Supreme Court ruling within the last 15 years or so that stated that the FICA taxpayer for Social Security has no legal right to that money at all, none whatsoever. It's been a slush fund, as you know, for 45 years, and it's been used any way they want; and when they need more money, they either tax or monetize the whole system to give us funny money.

I think with regard to retirement, I have a good example that I had myself. I retired from a successful surgical practice in Fidels County, FL, about 7 or 8 years ago, but I took my retirement benefits when I was only 50 years old. There was a provision in the tax code which waived 10 percent premature distribution penalty if you had in your ERISA plan an amount in excess of a certain amount—it was about seven or eight hundred thousand, $700,000—and thanks to President Reagan, I then paid my maximum tax of 28 percent.

The point I'm trying to make is that it's all right to save, but you don't know what kind of a tax hit you're going to get when you save. You have to have some predictability of what you're going to have to pay the Federal Government when you finally take your benefit. I was able to take a large lump sum distribution at 28 percent. If I were to do the exact same thing today, I would pay more than double that amount. I'd be paying—when Jimmy Carter left office, it was 71 percent I would have had to pay just at the time Jimmy Carter left office.

When Ronald Reagan left office, I paid 28 percent. So we've got a difference of 71 percent on my lump sum distribution, all the way down in 1989 to 28 percent. I tell you, that's a big difference.

Senator CRAIG. Right. Your question?

A VOICE. Properly invested, it was able to allow me to retire early.

The question is why don't we put some kind of a cap on the tax that can be hit on Social Security to provide an incentive for people to put more money either in Social Security or in their retirement benefits? If you know at the end of the tunnel you're going to pay, say, 10 percent or 15 percent or some solid amount, say, on your retirement benefit, whether it's an ERISA, a 401, or whatever, if you know there's a cap on it, it will provide you the incentive to save. What good does it do to save if you have to pay 71 percent?

Senator CRAIG. Let me respond to your question, and then because I want to pick up a couple of more and we're running out of time here.

We could do that.

A VOICE. The other thing you see——

Senator CRAIG. No. Let me answer your question. I'm sorry. We've got a time factor here.

We could put a cap on, and it would be good for just the length of that Congress and just that vote. Taxes are statements of law, and what one Congress does another Congress can change immediately with a 50-plus-one vote at the House and/or the Senate.

Now, what we hope we can do and what we should be doing as it relates to taxes that relate to your retirement or anyone's retirement, we ought to create stability in those so that you can plan against them or plan with them, if you will. Obviously you were fortunate enough, you recognized it, you made a judgment call and did what you did at the time, clearly to your benefit, and those taxes since that time have obviously crept upward again. But that is, in fact, the reality of what we deal with.

Folks like permanency when they're planning and look outwards at mileposts in which they make judgment calls against to direct their income and/or their investments. While we strive for that, look what we did June before last when we passed the tax package. It's not permanent; it's, by definition, temporary. So as to say that, instead of making it permanent, we always view a tax law as a permanent law until changed, even if it's changed next year, and we create I think instability or indecision as it relates to those kinds of investment reactions. But, again, I never prejudge a future Congress, because they always change and attitudes change.

Yes.

A VOICE. Senator, Craig Naylor.

Senator CRAIG. I think it was on. Was it? OK.

A VOICE. As a member of the Idaho Financial Literacy Coalition, I'd just like to make a real brief comment in that any strategies or, you know, expected outcomes that we would like to see with respect to retirement goes back to the ability for each and every one of us to make our own decisions and to be financially literate.

I think that whatever we think about, that we need to go back on a comment that was made earlier, that we start educating our young people in our schools about the processes of, you know, whether it's retirement, whether it's credit management, whether it's home buying process, to enable them to have the tools to be able to make decisions. I would venture to guess that the majority of us in this room today never had that kind of training, and the best place to do it is in our schools, and if we started there, then it will enable us to make decisions that we can go ahead and secure our future.

But as you know, the Financial Literacy Coalition of Idaho is one of the most active in the country in terms of offering this kind of training, and we work hard with the State education system to embed this and continue to grow it in our school system. I think it's vital.

Senator CRAIG. I so much agree, and of course while we can promote it at the Federal level, it really is a State initiative that needs to be addressed because education is, without a doubt, critical here.

Another question, and I'm afraid time wise we're going to have to make this our last question. Yes. Ms. Seitz-Hart. Mary Ann Seitz-Hart.

Senator CRAIG. Yes, please.

Ms. SEITZ-HART. I'm representing myself today and glad to be here, and it's a struggle for me to be here. I've done a lot of work around my anger, and one of the things that I want to say is once again I notice the panel is all the same sex and pretty much not from the far end of the spectrum.

Thank God, I have spent time in aging, 14 to 17 years as a professional, and did preretirement planning, or I don't know where I'd be today.

One of the things that I'd want to say is does the idea that retirement is more than about money ever come up in these discussions? I'm delighted today to hear of the emphasis on education, but I would say one more time the chief educators are parents, and I don't know why either, but I forced my kids to learn about how the household ran so they'd be ready for life. I having spent time in aging, I believe I'm ready for retirement but not about money: Because I spent time with people who had a life experience and we had a process of sharing that with younger people which has been squelched in the name of insurance, which I believe is an industry based in fear.

I also have strong feelings about health care is really illness management.

Senator CRAIG. Sure.

Ms. SEITZ-HART. I have seen people who are connected to their benefits stay in their jobs become very sick.

Senator CRAIG. Let me respond to your question if I can, and the panel certainly can. Certainly retirement is not all about money, but if you are without money in retirement, it becomes all about money. You do have to feed yourself, you do have to clothe yourself, and most people like to provide their own shelter. Most assuredly, retirement is more about money depending upon the individual's dreams, choices, wishes, and aspirations, but that's really within the mind of the individual and what they wish to achieve with themselves. I'm not sure that we can instruct that through public policy.

Public law is to create safeguards and hopefully some direction as it relates to investment within both the private and public pension arenas, but beyond that, I'm not quite sure that I want to craft public policy that talks about dreams and aspirations. I think that's really within the mind of the individual, and certainly we all have different ones.

Health care, different story. We ought to be advocates of holistic approaches to health care and looking at wellness versus repairing broken parts, and I think health care is moving us in that direction, and public policy can be a part of that and should be.

That's how I would react. Would anyone else wish to make comment on that?

Mr. HAMILTON. I'll make it very quickly.

I'm pinch-hitting today in that another panelist that actually wanted to be here, Leanne Abdnor, who was a member of the President's Commission to Strengthen Social Security, and a leading spokesperson on women and retirement. I would say that I cannot be an expert as a woman, but I can certainly talk to the issue of women's issues regarding Social Security and that aspect of retirement security, and there are very special issues there.

Among them are survivors benefits. Women tend to live longer than men, and as a result, the quality of life issues—and it does come back to are you able to have enough money to provide health care. Are you able to not eat cat food. We always talk about that, but we talk about cat food because people have had to turn to that at different points, not everyone by any means, but it's something that is of grave concern.

The Social Security retirement program largely has lifted more women out of poverty than men, largely because more women live to reach retirement, live to retirement age.

So there are a whole host of the special issues, you're exactly right, ma'am, but I know if Leanne were here today, she would be able to maybe speak a little bit more knowledgeably perhaps, but there are a lot of concerns that need to be addressed and I think we could certainly speak to that if you would like afterwards.

Senator CRAIG. Please, anyone else?

Mr. DORN. Oh, I just briefly, and I don't mean to be sarcastic at all but we're speaking of cat food, and that comes from Dr. Maslow's theory of hierarchy of needs; and I suspect if you're sitting in a tent eating cat food, self-actualization is really not high on your order of thinking.

Senator CRAIG. We did hold a hearing and we will pursue the concepts that you're talking about in general. We held a hearing on women and women's retirement and women's retirement capability. I chaired that hearing a couple of months ago. We have a pamphlet out on it. We'll continue to pursue that as a part of the overall aspect of pensions.

Last question, gentleman up there, and then we must close it out. Yes, sir.

Mr. ARDEN. Thank you. I'm Jim Arden from Eagle, ID, and I've been retired for 10 years comfortably and I welcome all the information you have given us, but it's not new. I've heard this stuff years ago. My question is this: When are we going to start doing something about it instead of just talking about it?

Example, one final thing, is that I, 25 years ago, offered myself to the Boise School Board and the Meridian School Board to give free presentations of education on finances, insurance, everything. Guess what? They refused and they have never asked me to come by.

Thank you.

Senator CRAIG. Well, I thank you, and pursue them again. Maybe school boards of today are listening.

Mr. ARDEN. I'm retired now.

Senator CRAIG. Oh, all right. Then you would have more time to do it. No, most retirement people are more busy.

Mr. ARDEN. I have no time.

Senator CRAIG. That's what I thought you were going to say. That's what every retired person tells me. All of a sudden, their times are now consumed in more ways than they realize.

What we do here today really is threshold in the sense of trying to open up a dialog. Is the information new? No, it isn't new. Fundamental principles don't necessarily change. Honesty, transparency, openness, that's always been a part of good investing, and knowing what you're investing in, so that hasn't changed. Clearly, Congress's role in it in the immediate has changed some and public policy will sharpen a good deal, but as it relates as Doug had mentioned to ERISA laws, there's been a substantial protocol there and a legalness to it, and defined rules and regulations for a good, long while.

But I do believe what is important, and the reason that this has stimulated me is based on a variety of premises, but one dominant one: There are 50 thousand plus 100-year-old citizens in our country today. By the end of this century, based on current health trends, there could be as many as five million. Now, if that's true, then our current public institutions that relate to retirement and annuities are woefully underprogrammed and undershaped and misdirected. That will be true of health care, it will be true of private plans also.

Most people currently are outliving their retirement expectations, and this is just the beginning.

So while some of you may have heard nothing new, the one thing that you should hear is that you're probably going to live a good deal longer than your parents, and your children are probably going to live longer than you; and if you have parents that live to be 100 years old and you've taken care of your health, then you may well live to be 110 or whatever.

My point is quite simply this: It is time to once again as a public revisit the realities of the demographics of the aging processes in America and the institutions that support it, the institutions that help it, and most importantly, the private side of it that makes for that time on this earth a little better, at least from a financial point of view and hopefully from a personal perspective and a social point of view.

Gentlemen, let me thank you, all of you, for your time with us, for your willingness to go to Washington and listen and participate and contribute. James, thanks for coming out.

Mr. HAMILTON. Thank you, sir.

Senator CRAIG. We truly appreciate it to all of you. Thank you.

I will, and as will others, continue to pursue this area for the next long while, because we do think it is tremendously important. Whether it is simply the educational part or something that we might produce that sets you to thinking about your own pattern of activity and what you might do to improve your life and your life style, then it's been successful.

Let me thank my staff of the Aging Committee and those that work with us in shaping these. We'll do, as we mentioned in my opening statement, a series of these kinds of hearing and informational gathering sessions across the State. They will become a part of our public record in Washington as we move toward in the out years reform of the Social Security system, and as we look at all other avenues that public policy involves itself in as it shapes pensions and retirement plans.

Thank you all for coming out this morning. I appreciate it.

This hearing will stand adjourned.

[Whereupon, at 11:48 a.m., the committee was adjourned.]