THE IMPACT OF THE FINANCIAL CRISIS ON WORKERS' RETIREMENT SECURITY

FIELD HEARING

BEFORE THE

COMMITTEE ON EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

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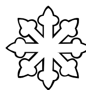

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THE IMPACT OF THE FINANCIAL CRISIS ON WORKERS' RETIREMENT SECURITY

Wednesday, October 22, 2008
U.S. House of Representatives
Committee on Education and Labor
Washington, DC

The Committee met, pursuant to call, at 10:00 a.m., in room 250 of Legislative Chamber, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, San Francisco, California, Hon. George Miller [chairman of the committee] presiding.

Present: Representatives Miller and Woolsey.

Staff Present: Rachel Racusen, Communications Director; Meredith Regine, Junior Legislative Associate, Labor; Michele Varnhagen, Director of Labor Policy; Alexa Marrero, Minority Communications Director; and Jim Paretti, Minority Workforce Policy Counsel.

Chairman MILLER. The Committee will come to order. And a quorum being present, the hearing of the Committee will cone to order.

And I am going to recognize myself in a moment for an opening statement, as soon as I get it together here.

And I want to begin by thanking the City of San Francisco and the Board of Supervisors for making this chamber available for this hearing. And I want to thank all of the witnesses for agreeing to appear today. And I certainly want to thank my colleague from the north base Sonoma County, Congresswoman Woolsey for joining us on this hearing that I think is terribly important in terms of the financial future of America's families and workers.

And I will at this point recognize myself for the purposes of making an opening statement.

Today this Committee is holding our second hearing to examine how the current financial crisis is affecting retirement savings, one of the many issues creating enormous anxiety for Americans in our ailing economy. We started this investigation last week as part of a series of hearings the House is conducting to investigate the causes of the financial crisis and what additional steps are needed to protect homeowners, workers, families and retirees.

What we heard confirmed that while this crisis may have started on Wall Street, it's main street that stands to suffer the most. Peter Orszag, the Director of the Congressional Budget Office, told us that American workers have lost more than $2 trillion in retirement savings over the last 15 months, an astonishing lost that

could lead workers to delay their retirement, change their situation with respect to their families, their spouses and others.

Yesterday the Center on Retirement Research found that almost $4 trillion has now been lost retirement savings; $2 trillion in 401(k)s and IRAs and $2 trillion in defined benefit plans. So we see that the situation is worsening on a week-by-week basis and, again with devastating impact on so many people who have already retired or those who are close to retirement.

And clearly the experts that we heard from last week, and we will hear some of it again this morning, that those workers who are the closest to retirement could suffer the most from this financial tsunami.

A survey released last week by AARP found that one in five middle-aged workers stopped contributing to their retirements plans in the last year because they had trouble making ends meet. One in three workers has considered delaying retirement.

A new poll by Washington Post ABC News also captured this growing strain on older workers. More than 60 percent of respondents aged 50 to 64 were not confident that they would be able to save enough money to carry them through the retirement, a steep drop in confidence that cuts across America of all income brackets.

Overall, less than half of all respondents said they will be able to save enough for a secure retirement. But while the housing and financial crises are intensifying, retirement security, we also know that workers' retirement savings have been declining for some time. Rising unemployment, stagnating wages and benefits, and a shift away from more traditional defined-benefit pension plans have been making it much harder for workers to save for retirement while juggling other expenses.

Now the number of investors taking loans on their 401(k) accounts is increasing. And hardship withdrawals are also increasing. T. Rowe Price estimates that 14 percent increase in the hardship withdrawals just in the first eight months of 2008. And, all the signs point toward an increased frequency of 401(k) loans and hardship withdrawals in the coming year.

Even more troubling is that just this week our Committee obtained preliminary estimates showing that the Pension Benefits Guaranty Corporation, the government agency that insures private sector pension plans, lost at least $3 billion in equities in this last fiscal year. This dramatic loss represents a swing of more than $6 billion from the previous year. It is likely that the agency's losses will be substantially worse once the numbers from September are reported.

These estimates raise serious questions about a controversial new investment policy that the agency recently approved that shifts assets from fixed income securities into more risky securities like real estate.

At this time of severe economic uncertainty, it's crucial that this agency be a responsible steward of these funds which pay pensions to workers whose retirement plans have already been terminated. They already have received up to a 50 percent hit in their retirement benefits as part of the PBGC program and now to see that program launch investment in risky securities raises some very,

very serious questions. We will be hearing from the Director of the PBGC, Mr. Millard on Friday in our hearing in Washington, D.C.

More than ever before there is an urgent need to help Americans strengthen their retirement savings. Taxpayers subsidize 401(k) plans by $80 billion annually. For a taxpayer investment of this size, we must ensure that the structure of 401(k)s adequately protects the nest eggs of participating workers. At a minimum, we know that a much greater transparency and disclosure in 401(k) investment policies are needed to protect workers from hidden fees that could be eating deeply into their retirement accounts. And with seniors poised to suffer the most from the current economic turmoil, we must suspend the unfair tax penalty for seniors who don't take the minimum withdrawal from their depleted retirement accounts, like 401(k)s.

Last week Representative Rob Andrews of New Jersey and I called upon Secretary Paulson to immediately suspend this unfair penalty during this economic crisis. We will also push to enact legislation based upon a bill Representative Andrews recently introduced so that the seniors who have seen their current retirement saving evaporate don't get penalized for trying to build that savings back up.

Today our Committee will hear additional ideas about what we can do to strengthen and protect America's 401(k) pension plans and other retirement plans. We will also hear from Roberta Quan and Steve Carroll, two retires who are grappling with the significant losses in their retirement savings. And I'd like to thank them for sharing their personal stories, and all of our witnesses again for joining us today.

As other committees' have revealed, many of the Wall Street titans responsible for this crisis have still escaped with their plush perks, their lavish spa trips, their golden parachutes intact and that is an outrage and it's outraging the American people, and it's driving them to anger. For too long the Bush Administration anything goes economic policy allowed Wall Street to go unchecked. As we look at what we can do to rebuilt workers' retirement savings and our nation's economy, the Democratic Congress will continue to conduct the much needed oversight on behalf of the American people and the security of our financial institutions. Being able to retire after a lifetime of hard work has always been the core tenet of the American dream. We cannot allow that promise of a secure retirement for workers to become a casualty of the financial crisis.

And, again, I want to thank all of you for participating in this hearing in San Francisco today. And with that, I would like to recognize my colleague Lynn Woolsey for whatever opening statement she may have.

Congressman Woolsey?

[The statement of Mr. Miller follows:]

Prepared Statement of Hon. George Miller, Chairman, Committee on Education and Labor

Good morning.

Today this Committee is holding our second hearing to examine how the current financial crisis is affecting retirement savings—one of the many issues creating enormous anxiety for Americans in our ailing economy.

We started this investigation last week, as part of a series of hearings the House is conducting to investigate the causes of the financial crisis, and what additional steps are needed to protect homeowners, workers, and families.

What we heard confirmed that while this crisis may have started on Wall Street, it's Main Street that stands to suffer the most.

Peter Orszag, the director of the Congressional Budget Office, told us that American workers have lost more than $2 trillion in retirement savings over the last fifteen months—an astonishing loss that could lead workers to delay their retirement. Yesterday, the Center on Retirement Research found that $4 trillion in retirement savings has been lost. Over the last year, $2 trillion in 401(k)s and IRAs and $2 trillion in defined benefit plans has been lost.

Several experts also told us that workers closest to retirement could suffer the most from this financial tsunami.

A survey released last week by the AARP found that one in five middle-aged workers stopped contributing to their retirement plans in the last year because they had trouble making ends meet. One in three workers has considered delaying retirement.

A new poll by the Washington Post/ABC News also captured this growing strain on older workers.

More than 60 percent of respondents ages 50 to 64 were not confident that they'd be able to save enough money to carry them through retirement—a steep drop in confidence that cuts across Americans from all income brackets.

Overall, less than half of all respondents said they will be able to save enough for a secure retirement.

But while the housing and financial crises are intensifying retirement insecurity, we also know that workers' retirement savings have been declining for quite some time.

Rising unemployment, stagnating wages and benefits, and a shift away from more traditional defined-benefit pension plans have been making it much harder for workers to save for retirement while juggling other expenses.

Now, the number of investors taking loans on their 401(k) accounts is increasing. And hardship withdrawals are also increasing.

T. Rowe Price estimates a 14 percent increase in hardship withdrawals just in the first eight months of 2008.

And, all the signs point to an increased frequency of 401(k) loans and hardship withdrawals in the coming year.

Even more troubling, just this week, our Committee obtained preliminary estimates showing that the Pension Benefits Guaranty Corporation—the government agency that insures private sector pension plans—lost at least $3 billion in equities in the last fiscal year.

This dramatic loss represents a swing of more than $6 billion from the previous year. It's likely that the agency's losses will be substantially worse once numbers from September are reported.

These estimates raise serious questions about a controversial new investment policy that the agency recently approved that shifts assets from fixed-income securities into more risky securities like real estate.

At this time of severe economic uncertainty, it's crucial that this agency be a responsible steward of these funds which pay pensions to workers whose plans have been terminated. The PBGC needs to be accountable to the millions of Americans who count on the agency to protect their retirement.

More than ever before, there is an urgent need to help Americans strengthen their retirement savings.

Taxpayers subsidize 401(k) plans by $80 billion dollars annually. For a taxpayer investment of this size, we must ensure that the structure of 401(k)s adequately protects the nest eggs of participating workers.

At a minimum, we know that much greater transparency and disclosures in 401(k) investment policies are needed, to protect workers from "hidden" fees that could be eating deeply into their retirement accounts.

And with seniors poised to suffer the most from the current economic turmoil, we must suspend an unfair tax penalty for seniors who don't take a minimum withdrawal from their depleted retirement accounts, like 401(k)s.

Last week, Rep. Andrews and I called on Secretary Paulson to immediately suspend this unfair penalty.

We'll also push to enact legislation based on a bill Rep. Andrews recently introduced, so that seniors who have seen their retirement savings evaporate don't get penalized for trying to build those savings back up.

Today our Committee will hear additional ideas about what we can do to strengthen and protect Americans' 401(k)s, pensions, and other retirement plans.

We will also hear from Roberta Quan and Steve Carroll—two retirees who are grappling with significant losses to their retirement savings. I'd like to thank them for sharing their personal stories and all of our witnesses for joining us.

As other committees' hearings have revealed, many of the Wall Street titans responsible for this crisis have still escaped with their plush perks, lavish spa trips and golden parachutes intact. This is an outrage.

For too long, the Bush administration anything goes economic policy allowed Wall Street to go unchecked.

As we look at how we can rebuild workers' retirement savings and our nation's economy, the Democratic Congress will continue to conduct this much-needed oversight on behalf of the American people.

Being able to save for retirement after a lifetime of hard work has always been a core tenet of the American Dream. We can't allow the promise of a secure retirement for workers to become a casualty of the financial crisis.

Thank you.

Ms. WOOLSEY. Thank you, Chairman Miller. And thank you for holding this hearing on the problem of retirement security during this financial crisis and in the United States in general.

I look forward, as you do, to hearing from our witnesses. And I agree with Chairman Miller that when we look for solutions to this mess we need to include solutions for those who are retired now and who are about to retire. These people are really hurting. They're being hit with higher prices for basic needs such as food and health care. And even before the catastrophic decline in the market, seniors were dipping into other resources to make ends meet.

The fact is that from 2001 to 2006 American aged 63 and older took $300 billion out of their home equity. Sadly some of them have lost their homes or in danger of losing their homes.

I, too, support the idea that we suspend the tax penalty for those who do not take a minimum withdrawal from their retirement accounts, but we need to do more, much more. We need to protect this population, nearly 40 percent of whom are likely to outlive their savings. And for those who have a sufficient time to salvage their retirement savings, we must develop better ways to help people save for that retirement.

But I hope when we explore solutions today we dig deep. We look at the roots at the problem. Because the fact of the matter is, and Dr. Hacker actually has written about this, we have shifted economic risks from government and from employers to individual workers. An as Chairman Miller has noted, traditional pension plans are virtually disappearing.

In 1980 60 percent of workers were covered by defined benefit plans and 17 percent on defined contribution plans such as 401(k). Now just the opposite in true. In 2004 only 11 percent of workers had traditional pension plans while 60 percent had defined contribution plans as their only retirement program.

We need to make big changes in this country. I look forward to hearing our witnesses.

This is a rude awakening. The very idea that the United States retirement system is at risk leads us to the need to examine exactly the whats and the whys, and you're going to help us with that today. Because we're going to take your expertise and your experience and we're going to go back to Washington with it. It's our responsibility. And with your help we will ensure that retires and

their savings are safe and available when they need it the most, which actually is now. So I look forward to hearing from you.

Thank you very much.

Thank you, George.

Chairman MILLER. And I am going to begin by introducing Roberta Quan, who is retired as a teacher after 25 years in the Richmond Unified School District in Richmond, California.

Ms. Quan received her BA from U.C. Berkeley an is a valiant member of our community in West County and just had great service in the Richmond School District.

Ms. Woolsey is going to introduce our next witness, Mr. Steve Carroll.

Ms. WOOLSEY. Thank you, Chairman Miller.

I am pleased to introduce Steve Carroll. Steve currently lives in Santa Rosa in my Congressional District. He is originally from Montana, but has lived in California for nearly 40 years. He's a very active person in our community. In fact, Steve was an employee in my office in my District offices, but he has retired from being a free lance writer. And he is one of the many retirees who have been adversely effected by the severe downturn in the market.

Steve and his partner have a real story to tell us today, and Steve will be the one telling it.

And we welcome you, Steve. Thank you for being here. Thank you for coming to my office and calling your situation to our attention because you have a real good story, well a sad story to tell us.

Thank you.

Chairman MILLER. Thank you very much. Again, welcome, Steve.

Dr. Jacob Hacker is a political science professor at U.C. Berkeley. Mr. Hacker is a fellow with the New America Foundation and is the author of the Great Risk Shift, "The Assault on American Jobs, Families, Health Care and Retirement and How You Can Fight Back."

Mr. Hacker has a BA from Harvard University and a Ph.D. from Yale University.

Mr. Mark Davis is a partner in Kravitz Davis Sansone, an investment firm in Los Angeles and has worked with defined contribution industry for 17 years.

Mr. Davis has a BA from Amherst College and a master of fine arts from the University of Minnesota.

Mr. Tif Joyce is the President of Joyce Financial Management and provides financial planning and investment services for his clients.

Shlomo Benartzi is a professor and co-chair of The Decision Group at UCLA Anderson School of Management. Professor Benartzi is a leading authority on behavioral finance with special interest in consumer finance and participant behavior in defined contribution plans.

Professor Benartzi received a BA from the Tel Aviv University and his MA and Ph.D from Cornell University.

And I think that covers everybody.

Welcome again.

We have clock, apparently, that when you begin speaking we will turn on. A buzzer will go off. That will tell you you have about a minute left on a five minute segment for your opening statements.

We will give some leeway on that. We are usually a little strict in Washington, but out here we'll give you some more leeway. So you wrap up in the way that you are most comfortable with but recognizing that time is a running.

Ms. Quan, we are going to begin with you. Thank you again so much for joining us. I know that it is not easy to tell personal stories in public forums, but I think what you are going through many other retirees and people near their retirement age are struggling with all of the time. And so thank you again so much. And you are recognized for five minutes.

STATEMENT OF ROBERTA QUAN, RETIREE

Ms. QUAN. Okay. My name is Robert Tim Quan from San Pablo, California. I am 74 years old. I retired as an elementary school educator from the Richmond School system in the East Bay. It was a rewarding career having instructed over 700 children in a span of 25 years.

In the era of the 1960s my husband John was employed at the Lawrence Berkeley Laboratory. With our combined income, we were able to save almost an entire salary. Classically, expenses were for home mortgage, auto loans, utilities, health care, food and clothing and a university education for our son. The cost of living was most reasonable at this time. Thus, planning for our future retirement, each month funds were payroll deducted into a 403(b) plan, similar to a 401.

Throughout the years, we looked forward to a reasonable retirement with the accumulating nest egg. Typically, retirement activities would include travel plans, lunch with friends, time spent with our granddaughter and perhaps a health club membership. At 70½ I began taking the Required Minimum Distribution from my 403(b) in the sum of about $550 per month. All appeared well.

Those best laid plans did not occur due to several life-altering factors in the last several years.

Factor number one: In the year 2000, John was diagnosed with Alzheimer's. I was his caregiver for six years. As he entered the severe stage, I could no longer handle the 24/7 regimen. John was placed in a residential care home two years ago. The expenses ran $6,000 a month, that breaks down to $200 a day. Recently I transferred him to a facility costing $3800 a month, down to $127 a day. One of his Alzheimer's medications runs $1100 for a three months supply. A recent bout with pneumonia resulted in a week's hospitalization for John. An unexpected and unbudgeted expense.

Factor number two: Within the last few years have sky-rocketed. A litany of cost increases: That is home, health, auto premiums, fuel costs, utility bills, food bills, property tax, etcetera. The cost of living was out of sight but the income remained modest. Overwhelmingly, the only alternative is to pare down expenses to the bare-bone wherever possible.

Factor number three: The recent unstable financial crisis is having a devastating effect on my life. As of the current July/September report on my 403(b) account has sustained a loss of $38,000. I do not look forward to the next quarterly report. My situation is in shambles with expenses exceeding income. A lifetime of savings in catastrophic decline is most demoralizing.

The bottom line is that I am retired and unable to re-earn those lost funds and now faced with the insecurity of outliving my rapidly declining 403(b) account. And that is worrisome for John and my future. The word "fear" looms on the horizon.

I thank you for the opportunity to voice my concerns. It is my hope that concrete action will be initiated to rectify this economic crisis as soon as possible. We have reached critical mass.

Thank you very much.

[The prepared statement of Roberta Quan follows:]

Prepared Statement of Roberta Tim Quan, Retired Elementary School Educator

My name is Roberta Tim Quan from San Pablo, California. I am 74 years old. I retired as an elementary school educator from the Richmond School system in the East Bay. It was a rewarding career having instructed over 700 children in a span of 25 years.

In the era of the 1960's, my husband John, was employed at the Lawrence Berkeley Laboratory. With our combined income, we were able to save almost an entire salary. Classically, expenses were for home mortgages, auto loans, utilities, health care, food and clothing, and a university education for our son. The cost of living was most reasonable at this time. Thus, planning for our future retirement, each month funds were payroll deducted into a 403(b) plan.

Throughout the years, we looked forward to a reasonable retirement with the accumulating nest egg. Typically, retirement activities would include travel plans, lunch with friends, time spent with our granddaughter, and perhaps a health club membership. At age 70½, I began taking the Required Minimum Distribution from my 403(b) plan in the sum of about $550 per month. All appeared well.

Those best laid plans did not occur due to several life-altering factors in the last several years. In 2000, John was diagnosed with Alzheimer's. I was his care giver for six years. As he entered the severe stage, I could no longer handle the 24/7 regimen. John was placed in a residential care home two years ago. The expenses ran $6,000/mo. * * * that breaks down to $200/day. Recently I transferred him to a facility costing $3,800/mo down to $127/day. One of his Alzheimer's medications runs $1,100 for a 3 month's supply. A recent bout with pneumonia resulted in a week's hospitalization for John. An unexpected and unbudgeted expense.

Within the last few years, expenses have sky-rocketed. A litany of cost increases; i.e., health, home and auto premiums, fuel costs, utility bills, food bills, property taxes, etc. The cost of living was out of sight but the income remains modest. Overwhelmingly, the only alternative was to pare down expenses to the bare-bone where ever possible.

The recent unstable financial crisis is having a devastating effect on my life. As of the current July-September report, my 403(b) account has sustained a loss of $38,000. I do not look forward to the next quarterly report. My situation is in shambles with expenses exceeding income. A life-time of savings in catastrophic decline is demoralizing.

The bottom line is that I am retired and unable to re-earn the lost funds. I am now faced with the insecurity of outliving my rapidly diminishing 403(b) account. And that is worrisome for John and my future. The word "fear" looms on the horizon.

I thank you for the opportunity to voice my concerns. It is my hope that concrete action will be initiated to rectify this economic crisis as soon as possible. We have reached critical mass.

Chairman MILLER. Thank you very much.

Mr. Carroll.

STATEMENT OF STEVE CARROLL, RETIREE

Mr. CARROLL. Thank you, Chairman Miller and Congresswoman Woolsey for providing this hearing. It is reassuring to me that you are determined to develop legislative relief to all of the citizens who have trusted our institutions who have operated strictly within the rules government and financial institution set for us, and who now

find our much anticipated “golden years” rapidly morphing into years of ash and tears all through no fault or misdeeds of our own. My story is straightforward.

Chuck Maisel, who is here today, and I formed a partnership as self-employed expository writers of educational exhibits and museums in 1972. In short, we planned the visitor’s experience for each project. Over the years as we were self-employed we had to plan our future and retirement extra carefully. Over the years we bought home offices together and developed a mutually beneficial long range economic security plan. We paid cash for everything where possible, including our homes and vehicles. We strictly avoided credit card interest fees by paying each account in full each month.

We selected Kaiser Health Plan for wholly reliable health insurance coverage for life for both of us. And we invested earned income in IRAs since 1974. Financial advisors urged us to put our IRAs in mutual stock funds. We followed that advice and have been under whelmed by the mutual funds performance.

Just before retirement in 2005 we sold our mortgage-free home of many years for a very good profit and we purchased a smaller, much less expensive home. Being quite conservative in money management, we declined advice from two financial advisors who urged us to buy stock. We did not want to gamble security for riches. So we placed the remaining profits wholly in AA and AAA rated bonds. Additionally, we contracted a 45 year 6.5 mortgage on our retirement home secured by our retirement investments.

With careful budgeting we could live on the interest of our prudently purchased bonds through our golden years. At the time we developed this plan we were told that in case of bankruptcy of any of the bond insurers we would receive reimbursement for our bonds from the remaining assets before stockholders were paid.

Chuck turned 70 in 1997 so he had to begin selling his IRA stock. I will reach 70 in 2011. Today we have the option of converting the IRAs into money market funds, but the net loss would be damaging and Chuck would have to pay taxes on the amount of any sales, well so would I. Working in concert with our financial advisor we decided to leave the IRAs as they were until the stock market rose again. In the interim we would coast nicely on the interest from our bonds.

On Monday September 10th our investment broker at Morgan Stanley advised us that if we sold our Washington Mutual WaMu bonds, they were going down but we could sell them and save 45 percent of our investment. But in light of the Treasury’s recent history, WaMu would be shored up, we assumed, like Freddie and Fannie, Bear Stearns and AIG. IF we held on to the bonds, the worst that could happen was that WaMu would declare bankruptcy, in which we as bondholders would be reimbursed after first tier debt holders were compensated. So we “prudently” hunkered down.

Wham. The FDIC seized WaMu and its assets of over $300 billion including, I suppose, our $100,000. The FDIC then sold these assets to JP Morgan Chase for just $1.9 billion. What a deal for Morgan Chase. We bondholders are left with zero, and who knows who will get the $1.9 billion. As the happy cats at JP Morgan trot

down the road with our money, we seem to be left empty-handed thanks entirely to the FDIC's amazing action.

Now Chuck and I, like millions of other citizens face ugly circumstances for our future. Excuse me. WE hope that we will receive interest payments from other bonds unless the FDIC pulls another midnight raid. But even so, our budget has been severely depleted for life. We still have IRAs, but as they are in mutual stock funds they are so far down in value that selling any of them right now, as the requires of Chuck's, the loss is an enormous percentage of our investment. We urge you to develop relief from the sell-and tax rules that destroy the security that IRAs were meant to create.

Finally, of course, we hope that WaMu bondholders can recoup some of our losses through future market relief legislation that Congress may craft so that our home which was bought by the rules and with great prudence does not home in the depressed market competing with those of subprime borrowers and speculative flippers while we search for the new space under an overpass.

Thank you for hearing our remarks. I would be happy to take any questions.

[The prepared statement of Steve Carroll follows:]

Prepared Statement of Steve Carroll, Retiree

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

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

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

In the interim Chuck turned 70 in 1997, so he had to begin selling his IRA stock. I will reach 70 in 2011. At this time we have the option of converting the IRAs into money market funds, but the net loss would be horrendous and he would have to pay taxes on the amount of sale. Working in concert with our financial advisor, we decided to leave the IRAs as they were until the stock market rose again. In the interim, we would coast nicely on the interest from our bonds.

On Monday, September 22nd our investment broker at Morgan Stanley called to advise us that if we sold our Washington Mutual (WaMu) bonds we would lose 45% of our investment. But, in light of the US Treasury's recent history, WaMu would be shored up like Bear Stearns, AIG, Freddy and Fannie. If we held on to our bonds, the worst that could happen was that WaMu would declare bankruptcy, in which case we, as bondholders (unsecured senior debt holders), would be reimbursed after first tier debt holders were compensated. We "prudently" hunkered down.

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

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

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

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

Chairman MILLER. Thank you very much. Thank you for telling us the difficult circumstances you find yourself in.

Dr. Hacker?

STATEMENT OF DR. JACOB S. HACKER, PROFESSOR, UNIVERSITY OF CALIFORNIA BERKELEY

Mr. HACKER. Chairman Miller and Congresswoman Woolsey. I appreciate the opportunity to appear before you today to discuss ways of expanding retirement security.

Now as we have seen, the current financial market crisis has cast in stark relief the market risks that workers bear in the their 401(k)s. But what I want to emphasize today is that market risks are not the only risks transferred onto workers by 401(k). And for this reason fixing 401(k)s will require more or smarter investments. It will require rebuilding our embattled private pension system full cloth.

In essence, we have moved from the traditional three legged stool of retirement security, Social Security, guaranteed private pensions and private savings to a two legged stool: Social Security and private savings——

Chairman MILLER. Jacob, if I could interrupt. I think you are going to have to pull the mike closer to you.

Mr. HACKER. Social Security and private savings, both inside and outside 401(k)s. And we all know how wobbly a two legged stool is.

The move to 401(k)s has meant a massive shift of risk onto workers and their families. Unlike traditional guaranteed pensions, 401(k)s leave all participation and investment decisions to workers. So many choose not to participate or contribute inadequately. 401(k)s are not federally insured or adequately regulated to protect against poor asset allocations or mismanagement. And they provide no inherent protections against living longer than expected. Indeed,

some futures of 401(k)s, namely the ability to borrow against their assets and the distribution of their balances as lump sump sum payments that must be rolled over into new accounts when workers lose or change jobs exacerbate the risk that workers will prematurely use retirement savings leaving an adequate income in retirement.

Now while current market risk are hitting those in or near retirement hardest, as we have learned today, perversely the risks that I am talking about are borne most heavily by younger and less highly paid workers, the very workers who are most in need of protection for the future.

We spend more than $135 billion to subsidize IRAs and 401(k)s through the tax code, yet fully 70 percent of these existing tax subsidies accrue to the richest 20 percent of the population.

Now you may have heard that the average account balance in a 401(k) is around $60,000, yet roughly three-quarters of account holders have less than this average. The median or typical account balance is less than $20,000. And all these figures include only those who have 401(k)s when only half of workers have access to a plan at work and only around a third contribute to one.

All of this suggests that our private system is failing to address the most fundamental risk of all, the risk or retiring without adequate income. Indeed, according to researchers at Boston College the share of working age households at risk of being financially unprepared for retirement at age 65 has jumped from 31 percent in 1983 to more than 43 percent in 2006. Younger Americans and lower income Americans are by far the most likely to be at risk.

So 401(k)s require a comprehensive makeover, not small touchups. They need to be made universally available to workers, not just to those who employers who deign to provide them. Workers should receive progressive federal matches of their contributions. That is larger matches for less affluent workers with employers free to supplement those matches.

The default investment option under 401(k)s should be a diversified portfolio that grows more conservative as workers age. And retiring workers should be encouraged or even required to convert their 401(k) balances into an annuity, a regular payment for the remainder of their life.

Our framework of private risk sharing for retirement security has broken down. And the only way to rebuild it is to place it on a new and stronger foundation.

Thank you.

[The prepared statement of Jacob Hacker follows:]

Prepared Statement of Jacob S. Hacker, Ph.D., Professor, University of California Berkeley

Thank you Chairman Miller and members of the House Committee on Education and Labor for the opportunity to share with you my views on the current financial crisis and the future of our nation's embattled framework for providing retirement security.

My name is Jacob Hacker, and I am a professor of political science and co-director of the Center for Health, Economic, and Family Security at the University of California at Berkeley. I have devoted much my career to studying America's distinctive public-private system for providing economic security, including retirement security.

Without mincing words, that retirement security is in peril. Increasingly, Americans find themselves on a shaky financial tightrope, without an adequate safety net

if they lose their footing. A major cause of this precariousness is what I call the "great risk shift." [1] Over the last generation, we have witnessed a massive transfer of economic risk from broad structures of insurance, whether sponsored by the corporate sector or by government, onto the fragile balance sheets of American families.

Retirement security is perhaps the clearest example of this shift. A generation ago, if a worker had been offered a retirement plan by his or her employer, it would have been a traditional guaranteed pension that looked much like Social Security. Today, those workers who are lucky enough to receive a pension—and roughly half the workforce continues to lack a pension at their job—are almost universally enrolled in individual account plans like 401(k)s, in which returns are neither predictable nor guaranteed.

The current financial crisis has cast in stark relief the financial market risks that workers face in their 401(k) plans. But market risks are not the only risks transferred to workers by 401(k)s. And fixing 401(k)s will require more than simply encouraging greater savings and more diversified investments. It will require rethinking and rebuilding the private pension system to fit the needs of a transformed American economy.

In my remarks, I would like to review some of the major evidence that Americans planning for retirement are at increased economic risk. After laying out the problem, I call for bold action to restore a measure of shared risk in private retirement planning. My remarks are divided into five parts, each encapsulating a simple core point:

1. Our traditional tripartite framework of retirement security (government, employers, individuals) has broken down as employers have backed away from guaranteed retirement benefits.
2. This breakdown has resulted in a private pension system that works extremely poorly for lower- and middle-income Americans.
3. The main way in which this system works poorly is with regard to protecting Americans against the major risks they face in planning for retirement.
4. Because it takes so long for retirement pension systems to mature, the problems we see in our system today represent only the tip of the iceberg.
5. Restoring a measure of shared risk will require fundamental reform of the 401(k) system, not simply the encouragement of more or smarter investments.

1. America's Distinctive—and Endangered—Retirement Security System

America's framework for providing retirement security was historically referred to as a "three-legged stool": Social Security, private pensions, and personal savings. Each leg was supposed to carry an important part of the weight of securing workers' retirement. For lower-income workers, Social Security was far and away the most important leg of the stool. But for middle- and higher-income workers, tax-favored private pensions were assumed to be vital for achieving a secure retirement—especially after the Employee Retirement Security Act of 1974 put in place rules designed to ensure that defined-benefit pension plans would be properly run, broadly distributed, and secure.

The problem is tnhat this unique employment-based system is coming undone, and in the process risk is shifting back onto workers and their families. As recently as twenty-five years ago, more than 80 percent of large and medium-sized firms offered a defined-benefit plan; today, less than a third do, and the share continues to fall.[2] Companies are rapidly "freezing" their defined-benefit plans (that is, preventing new workers from joining the plan), and shifting them over to alternative forms (such as the so-called cash-balance plan) that are more like 401(k)s. For workers fortunate enough to receive a pension, 401(k) plans have become the default source of private retirement protection.

401(k) plans are not "pensions" as that term has been traditionally understood: a fixed benefit in retirement. They are essentially private investment accounts sponsored by employers. As a result, they greatly increase the degree of risk and responsibility placed on individual workers in retirement planning. Traditional defined-benefit plans are generally mandatory and paid for largely by employers (in lieu of cash wages). They thus represent a form of forced savings. Defined-benefit plans are also insured by the federal government and heavily regulated to protect participants against mismanagement. Perhaps most important, their fixed benefits protect workers against the risk of market downturns and the possibility of living longer than expected (so-called longevity risk).

None of this is true of defined-contribution plans. Participation is voluntary, and many workers choose not to participate or contribute inadequate sums.[3] Plans are not adequately regulated to protect against poor asset allocations or corporate or personal mismanagement. The federal government does not insure defined-contribution plans. And defined-contribution accounts provide no inherent protection against

market or longevity risks. Indeed, some features of defined-contribution plans—namely, the ability to borrow against their assets, and the distribution of their accumulated savings as lump-sum payments that must be rolled over into new accounts when workers lose or change jobs—exacerbate the risk that workers will prematurely use retirement savings, leaving inadequate income upon retirement. And, perversely, this risk falls most heavily on younger and less highly paid workers, the very workers most in need of protection.

As private risk protections have eroded, in sum, workers and their families have been forced to bear a greater burden.[4]

Rather than enjoying the protections of pension plans that pool risk broadly, Americans are increasingly facing retirement risks on their own. This transformation has at once made retirement savings less equal and more risky.

2. Unequal Retirement

Today, the three-legged stool of retirement security is wobbly for all but the well off. Social Security still provides a guaranteed foundation of retirement security for low- and middle-income workers. But private pensions no longer provide the risk protections they once did, and private retirement savings are virtually nonexistent among less affluent workers.[5]

The incentives for higher-income Americans to save have ballooned with the expansion of tax-favored investment vehicles like 401(k)s. Yet most Americans receive modest benefits from these costly tax breaks. According to a 2000 analysis, "Treasury data show that two-thirds of the existing tax subsidies for retirement saving (including both private pensions and IRAs) accrue to the top 20 percent of the population. Only 12 percent of these tax subsidies accrue to the bottom 60 percent of the population."[6]

These skewed incentives are reflected in 401(k) account balances. It is often claimed that the "average" American has tens of thousands of dollars in a 401(k), but in fact roughly three-quarters of account holders have less than the widely cited average of $60,000. The median among account-holders is less than $20,000.[7] And all these figures include only those who have 401(k)s, when only half of workers have access to a defined-contribution pension plan, and only around a third contribute to one. Overall, around 70 percent of defined-contribution pension and IRA assets are held by the richest fifth of Americans.[8]

Even those who do contribute adequately tend to make common investing errors, like putting their money in low-yield bonds, neglecting to rebalance their accounts periodically, and over-investing in their own company's stock. As Professor Bernatzi points out in his testimony, these errors reflect well-understood biases in retirement planning that are deeply ingrained in the human psyche. Studies suggest, for instance, that simply automatically enrolling workers in 401(k)s, rather than requiring that they opt in, doubles initial participation in 401(k) plans, increasing it to nearly 90 percent.[9] Because of how they are subsidized and structured, 401(k)s are almost tailor-made to produce insufficient retirement savings for ordinary workers—and, indeed, this is one reason they are relatively inexpensive for employers to run.

Much ink has been spilled comparing the returns of 401(k)s and old-style pensions (according to a study of returns between 1985 and 2001, defined-benefit pension plans have actually won, earnings returns that exceed those of their upstart competitors by about 1 percent a year).[10] But the central issue for retirement security is not the return, but the risk. Retirement wealth has not only failed to rise for millions of families; it has also grown more risky, as the nation has shifted more of the responsibility for retirement planning from employers and government onto workers and their families.

3. Risky Retirement

The private retirement fortunes of all but today's oldest workers are dependent on the fate of 401(k)s. And this means, in turn, that these private retirement fortunes are dependent on the future of financial markets. As the recent gyrations of the stock market starkly reveal, financial markets provide an inherently risky basis for retirement planning.

To be sure, there is nothing that requires that 401(k)s be invested in stocks. Workers are free to buy bonds or a conservative mix of stocks and bonds, and indeed a significant share of workers invest their 401(k)s too conservatively for their age (not surprisingly, these tend to be lower-income workers).[11] Still, stocks do deliver a higher overall return. The problem is that this return comes with higher risk, and 401(k)s place all of this higher risk on workers, offering little of the investment guidance and none of the protections against economic loss that are inherent in defined-benefit pensions.

The risks posed by 401(k)s go beyond investment risks to encompass nearly all of the managerial and savings responsibilities imposed on workers. Consider one of the most distinctive features of defined-contribution plans: the ability of workers to take their pension as a "lump sum" (that is, in the form of cash) when they leave an employer. As a means of protecting retirement wealth, this is of considerable benefit to workers who change jobs frequently—but only if they save the money. Unfortunately, "most people who receive [lump sum distributions] do not roll over the funds into qualified accounts," such as IRAs and other 401(k)s—despite the fact that they must pay taxes on all their benefits, as well as a penalty of 10 percent if they are younger than 55.[12]

A clue to the source of this seemingly irrational behavior is provided by research on what affects workers' use of lump sum distributions. Workers who are laid off are 47 percent less likely to roll over their distributions. Workers who move to get a new job are 50 percent less likely. And workers who leave work to care for a family member are 77 percent less likely. "Overall," as one economist concludes, "the evidence suggests that pension assets have been used to buffer economic shocks to the household."[13]

Finally, it is not so easy to turn a retirement account into a lifetime guaranteed income of the sort that Social Security and defined-benefit pensions provide. To protect oneself against this risk requires purchasing an annuity. Yet most people do not use their 401(k) accounts to buy an annuity—in part because of inherent weaknesses of the annuity market, in panrt because their balances are too small to make the transaction worthwhile, and in part because they discount the possibility that they will outlive their assets.

4. The Fallout

The true effects of the 401(k) revolution on income in retirement have yet to be seen. We will only know them with certainty when today's younger workers start retiring. But the signs are already troubling. Among Americans aged 64 to 74 in 2005 (that is, born between 1931 and 1941), nearly a third lost 50 percent or more of their financial wealth between 1992 and 2002—a rate of wealth depletion that will soon leave them confronting a complete exhaustion of their assets, a much-reduced standard of living, or both. The rate of wealth depletion was even higher among those who reported they were in poor health.[14]

At the same time, debt is a rapidly growing among families with heads older than 55. Between 1992 and 2004, the median debt level among older families with debt rose from $14,498 to $32,000 (in 2004 dollars), with the largest percentage increase occurring among the oldest of the aged (75 or over). The share of older families with debt also rose substantially—from 53.8 percent to 60.6 percent—and, again, most the increase was due to the growing problem of indebtedness among the oldest elderly.[15]

These results suggest that while much attention has been paid to the accumulation of assets for retirement, far less has been devoted to the issue of how Americans manage their assets in retirement. Defined-benefit plans and Social Security ensure that workers receive a relatively stable income as long as they live. There are no such guarantees when it comes to IRAs and 401(k) plans, and every reason to think that many retirees will exhaust their accounts well before they die.[16]

A more complete—and even more worrisome—picture of how risky retirement has become for Americans is provided by the "Retirement Risk Index," a comprehensive measure of retirement security exhaustively prepared by researchers at Boston College and first released in 2006. According to the index, the share of working-age households that are at risk of being financially unprepared for retirement at age sixty-five has jumped from 31 percent in 1983 to more than 43 percent in 2006. Younger Americans, who have borne the brunt of the transformation of retirement protections, are far more likely to be at risk than older Americans. Roughly half of those born from the mid-1960s through the early 1970s are at risk of being financially unprepared, compared with around 35 percent of those born in the decade after World War II.[17] The least financially prepared are low-income Americans—in every age group.

5. Restoring Retirement Security

The promise of private pensions at their heyday was a secure retirement income that, when coupled with Social Security, would allow older Americans to spend their retired years in relative comfort. That promise is now in grave doubt. But reforms to our pension system could make private retirement accounts work better as a source of secure retirement income for ordinary workers and their families.

In the context of the financial market crisis and increased private risk-bearing, securing our one guaranteed system of retirement security, Social Security, is all the

more essential. But even with a secure Social Security system, today's workers will need other sources of income in retirement. 401(k)s as they are presently constituted are not the solution. Too few workers are offered them, enroll in them, or put adequate sums in them—a reflection of perverse incentives built into their very structure. Instead, we should create a universal 401(k) that is available to all workers, whether or not their employer offers a traditional retirement plan. Employers would be encouraged to match employer contributions to these plans, and indeed government could provide special tax breaks to employers that offered better matches to lower-wage workers.

Since universal 401(k)s would offered to all workers, there would cease to be any problem with lump-sum payments when workers lost or changed jobs. All benefits would remain in the same account throughout a workers' life. As with 401(k)s today, this money could only be withdrawn before retirement with a steep penalty. Unlike the present system, however, 401(k)s would be governed by the same rules that now protect traditional pension plans against excessive investment in company stock. Moreover, I believe that the default investment option under 401(k)s should be a low-cost index fund with a mix of stocks and bonds that automatically shifts over time as workers age to limit market risk as workers approach retirement.

After my criticism of 401(k)s, it may come as surprise that I think Universal 401(k)s are the best route forward. But the difference between universal 401(k)s with strong incentives for contributions and the present system are profound. What is more, I would recommend one dramatic additional change that would fundamentally improve 401(k)s, transforming them into a source of guaranteed retirement income: Under this proposal, 401(k) accounts would be converted into a lifetime guaranteed income at retirement—unless workers specifically requested otherwise and could show they had sufficient assets to weather market risk. These new annuities could be provided by private firms under strict federal rules or directly by the federal government. Interestingly, this proposal is not so different from an idea that was seriously considered by the developers of the Social Security Act in 1935, who argued that the post office should sell low-cost annuities to those who needed them. In essence, universal 401(k)s along these lines would bring back something close to a guaranteed private pension.

To help workers' plan ahead, moreover, 401(k) balances should be reported to account holders not simply as a cash sum, but also a monthly benefit amount that workers would receive when they retired if they had average life expectancy—just as Social Security benefits are reported.

The reforms that we need should be bold, swift, and guided by a commitment to shared fate. Today, when our fates are often joined more in fear than hope, it is sometimes hard to remember how much we all have in common when it comes to our economic hopes and values. Indeed, we are more linked than ever, because the great risk shift has increasingly reached into the lives of all Americans. What recent market events remind us of is that, in a very real sense, all of us are in this together. Reforms to our embattled framework of retirement security should reflect that.

Again, thank you Chairman Miller and members of the committee for the opportunity to share my views.

ENDNOTES

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Chairman MILLER. Thank you very much.

Mr. Davis? And, again, if you'll pull the mike.

STATEMENT OF MARK DAVIS, PERTNER, KRAVITZ DAVIS SANSONE, INC.

Mr. DAVIS. Good morning, Mr. Chairman and Congressman Woolsey. Thank you for the opportunity to speak with you today. My name is Mark A. Davis and I am a principal in a Kravitz Davis Sansone, a registered investment advisor that is part of the Kravitz organization. We serve only qualified plans, their sponsors and participants. We administer more than a thousand plans, mostly of smaller employers, and we serve as fiduciary advisor or investment manager on more than 180 plans of all sizes. We also provide employee meeting and investment education services primarily to smaller companies. I am an independent investment advisor, and in that capacity I do not receive any compensation without the contractual approval of plan sponsors. In most cases I am paid by the plan sponsor or the plan at the direction of the sponsor.

I want to start by adding my voice to those that have expressed appreciation for the hard work done by this Committee on retirement security issues, particularly in regards to the fee disclosure. As we sit here today in the third week of a new calendar quarter, American workers are beginning to receive their retirement plan statements for the period ending September 30th. It is unfortunate that millions of those plan participants will be receiving statements that do not disclose the fees that are being charged, all the more disturbing in the current performance environment. The sunshine

of better disclosure is badly needed. Thank you for your continued efforts.

The private retirement system, flaws and all, has been a huge success in helping Americans build real wealth for retirement and to pass that wealth on to future generations. Everyday we see Americans who are benefitting from the savings discipline that these plans impose. Even with the market turmoil my team tells me that for every person raising concerns about their balances, there are many others vocal in their determination to stay with the program to build their retirement nest eggs.

On Friday of last week I met with three different groups of employees at a manufacturing in Texas. The first two meetings were for shift workers, one group coming on, one group going off most of whom spoke Spanish as their primary language. While clearly concerned with the economy, these men were unified in their enthusiasm for their 401(k) plan and the profit sharing contributions their employer provides. I have served this plant since 2000 and I have come to have a warm relationship with many of these gentlemen, despite the language and cultural divide that separates us. They have the experience now to know that we got through the last downturn and we will get this one, too. For these workers the plan is a highly valuable means of saving for retirement and of sharing in the success of their company. For many, it is their first and only means of saving and building a stake in the system.

Some more examples of what we are seeing and experiencing today. Last week a company whose education services are provided by a large financial institution received a call from an irate participant accusing them of having taken $10,000 out of his account. This participant simply did not understand that the value of his retirement account could go down.

A 52 year old employee of a Texas retailer told me he couldn't stand the volatility in his plan anymore and he wanted to take what was left of his money out to "pay off his house" so his family would have somewhere to live when he got fired. I did the best I could to give him the pros and cons of such a move, but in the end he was determined to find a way to get at the money even though he'd have to pay a 10 percent penalty tax on top of income tax.

I also spent time on the phone with an attorney who was irate that his ability to trade his account had been limited by his financial institution vendor, a practice put in place in 2004 in response to regulatory pressures stemming from the mutual fund trading scandals.

Make no mistake, investment sophistication has no correlation to the color of the collar. Many blue collar Americans are no more at sea than many of their white collar counterparts. There is a huge need to educate all Americans from their earliest years, and that education cannot be left to the private sector.

Plan sponsors are faced with unique challenges that are evolving even as we sit here today. Recent volatility has forced several plans we serve to put much needed changes on hold. Making plan level investment changes has been made much more difficult and needlessly complex by the inconsistent enforcement of short term redemption fee policy as I alluded to a while ago. Every mutual fund

company and financial institution has its own rules and they are not enforced consistently.

Many plan sponsors in the small planner area of the marketplace use a annuity products from insurance companies as the primary vehicle for their retirement plan. While these produced when used properly offer an excellent means of providing a retirement benefit program, often they come with a catch. The only alternative made available for the most risk adverse participants are “guaranteed accounts” which consisted of investments in the general account of the sponsoring insurance company and limitations on withdrawing from these accounts and sponsors are extreme.

It is our understanding that the event of a liquidation of an insurer these accounts would have only marginal preference over others. We have seen plans with 60 to 70 percent of their assets invested in these vehicles. On an absolute basis the returns may look good this year, but no one would argue that investing 60 to 70 percent of a plan’s assets in a bond of any one insurer would be prudent. It is critically important that just as participants need to diversity their investments, plan sponsors need to offer diversified investment choices. As far as I know, the Department of Labor has not focused on this issue.

I would like to close with some thoughts regarding the current state of the private sector investment education. Throughout the decade of the ’90s as defined benefit plans gave way to DC plans we shifted the burden for funding and investing from sponsors to participants with no corresponding shift of education. It is critical that the Departments of Labor and Education be urged to work together from kindergartners to 12th grade should be taught basic financial principles as a means of getting ready for the future generations of Americans hungry for and prepared to handle the retirement plans their future employers will offer.

Thank you for your time.

[The prepared statement of Mark Davis follows:]

Prepared Statement of Mark A. Davis, Principal, Kravitz Davis Sansone, Inc.

Good morning Mr. Chairman and members of the Committee. Thank you for the opportunity to speak with you today. My name is Mark A. Davis and I am a principal in Kravitz Davis Sansone, Inc. a registered investment advisor that is part of the Kravitz organization. Kravitz is the largest independent pension design, consulting and management firm headquartered in California. All we do is service qualified plans, their sponsors and participants. Kravitz administers more than 1,000 plans, mostly of smaller employers, and we serve as fiduciary advisor or investment manager on more than 180 plans of all sizes. We also have a team that spends a great deal of time providing employee meeting and investment education services primarily to smaller companies. I am an independent investment advisor, and in that capacity I do not receive any compensation without the contractual approval of plan sponsors—in most cases I am paid by the plan sponsor or the plan at the direction of the sponsor.

I want to start by adding my voice to those that have expressed appreciation to the hard work done by this Committee on retirement security issues, particularly in regards to fee disclosure. As we sit here today in the third week of a new calendar quarter, American workers are beginning to receive their retirement plan statements for the period ending September 30. It is unfortunate that millions of those plan participants will be receiving statements that do not disclose the fees that they are being charged. It is all the more disturbing in the current performance environment—participants pay those same hidden fees regardless of market losses. The sunshine of better disclosure is badly needed—and thank you for your continued efforts.

The private retirement system, flaws and all, has been a huge success in helping Americans build real wealth for retirement and to pass that wealth on to future generations. This includes not just 401(k) plans but also 403(b) and 457 plans as well that are used in the public sector. Every day we see Americans who are benefiting from the savings discipline that these plans impose. Even with the market turmoil my team tells me that for every person raising concerns about their balances there are many others vocal in their determination to stay with the program in order to maximize their long-term opportunities to build their retirement nest-eggs. On Friday of last week I met with three different groups of employees at a manufacturing firm in Texas. The first two meetings were for shift workers, one group coming on and one group going off, most of whom spoke Spanish as their primary language. While clearly concerned with the economy, these men were unified in their enthusiasm for their 401(k) plan and the Profit Sharing come to have a warm relationship with many of these gentlemen, despite the language and cultural divide that separates us. They now have the experience to know that we got through the last downturn and we will get through this one too. For these workers the plan is a highly valuable means of saving for retirement and of sharing in the success of their company. For many it is their first and only means of saving and building a stake in the system.

It is exciting to note how different the services participants have available to them during this downturn are. When the last bubble burst and the market fell from 2000 to 2002 we did not have as many tools to help as we do now. Very few plans had the chance to use diversified tools like target maturity funds. Automatic enrollment and Qualified Default Investment Alternative protocols were not yet prevalent. Advice and managed account tools had very little market penetration. During those years people in my profession did the hard work of comforting and educating employees, encouraging them to "stay the course" and keep contributing, assuring them that some day the market would actually go up again. Those participants saw significant and real gains during the bull market run from 2003 through 2007. While this recovery, whenever it comes, won't happen in the same way or on the same timeline, long term it will have the same effect.

Let me give you some more examples of what we are seeing and experiencing today. My associates and I have met or communicated by phone or email with scores of participants in the past few weeks.

You have heard statistics concerning the increase in applications for loans as well as hardship and other in-service distributions. Our team that processes loans and withdrawals for the clients we serve, who are again, primarily small businesses, has seen a moderate increase in the number of loans requested over the last year and a significant increase in requests for hardship withdrawals during that same period.

Last week a company whose education services are provided by a large financial institution received a call from an irate participant accusing them of having "taken $10,000 out of his account". My client explained that the drop was due to market losses and made it clear that the participant was not experiencing anything that was unique to him. This participant simply did not understand that the value of his retirement account could go down.

A 52 year old employee of a Texas retailer told me he couldn't stand the volatility in his plan anymore and he wanted to take what was left of his money out to "pay off his house" so his family would have somewhere to live when he got fired. I did the best I could to give him the pro's and con's of such a move, but in the end he was determined to find a way to get at the money even though he would have to pay a 10 percent penalty tax on top of income tax.

I spent time on the phone with an attorney who was irate that his ability to trade his account had been limited by his financial institution vendor, a practice put in place in earlier this decade.

There are times when the business of conducting employee education meetings is truly rewarding. Helping people to understand and maximize their opportunities for retirement savings success is a mission for many of us in the field. For most working Americans, the closest they will ever get to professional investment advice are the encounters they have with investment educators, either independents, like us, or employees of their primary retirement services vendors. There are also times when it can be very challenging counseling participants, particularly older ones, who have experienced sometimes significant investment losses. But make no mistake. Investment sophistication has no correlation to the color of the collar. Many blue-collar Americans are no more at sea than many of their white-collar counterparts. There is a huge need to educate all Americans, from their early years, on the basics of financial education, from retirement savings to mortgage rates. That education cannot be left to the private sector.

Automatic enrollment has also spawned a new and potentially culture changing waive of co-opted participation among employee and people groups that have been unintentionally "carved out" by prior positive enrollment protocols. Unfortunately many of these new automatic enrollment programs have just been put in place in this year. The result is that many first time participants have been brought into the system and invested in diversified portfolios, most frequently age based target maturity funds, and have experienced unprecedented downdrafts in the last few months. Some of these people feel distraught committed long enough for them to benefit from the long term return of market stability and success. More education is called for.

Plan sponsors are faced with unique challenges that are evolving even as we sit here today. The recent volatility has forced several plans we serve to put much needed changes on hold as Human Resources staffs have balked at making changes that might scare employees. Making plan level investment menu changes has also been made much more difficult and needlessly complex by the inconsistent enforcement of short-term redemption fee policies resulting from the trading scandals earlier this decade. Every mutual fund company and financial institution has its own rules and they are not enforced consistently. Both sponsors and participants are intimidated and confused by the inconsistencies.

Many plan sponsors, particularly in the small plan area of the marketplace, use annuity products from insurance companies as the vehicle for their retirement plans. These products generally offer a broad array of investment choices, managed by multiple, diverse investment managers, from which the sponsor can select an investment menu to offer participants. They have evolved greatly over the years and when used properly can offer an excellent means for providing a retirement benefit program. Often, though, they come with a "catch". The only alternative some of these products make available for the most risk averse participants are quote "guaranteed" accounts. In many if not most cases we have seen these consist of investments in the General Accounts of the sponsoring these accounts is severely constrained in return for the perceived value of the "guarantee". It is our understanding that, in the event of a failure of an insurer, these accounts would have only marginal preference over other creditors in the event of insolvency of the insurer.

We have seen plans with 60-70% of their assets invested in such vehicles. While on an absolute return basis they may look good this year, no one would argue that investing 6070% of a plan's assets in a bond of that one insurer, or the stock of that one insurer, or any one company for that matter, would be prudent. Yet that is exactly what many plans are doing. We know from brutal experience that most participants who use these investments have no idea of the risks to which they are truly exposed. They believe the word "guarantee". In these days of volatility, much money is pouring in to these accounts at the exact time that many insurers are under the most extreme pressure. It is critically important that just as participants need to diversify their investments, plan sponsors need to offer diversified investment choices. As far as I know, the Department of Labor has not focused on this.

If I may I would like to take a moment to offer you my thoughts regarding the current status of investment education in the retirement system. When I began my career in 1991, I joined the "Employee Communications" department of a major financial services firm. Within a year the department's name, and function, was radically changed. Over night we became the "Investment Education" department as that became a sales investments that we offered, under the name and restrictions of "guidance" not "investment advice". Throughout the decade of the 1990's, as defined benefit plans gave way to defined contribution plans as a society we shifted the burden for retirement funding and investing from sponsors to participants. We did so without any corresponding emphasis on education. We relied on the private sector to provide educational services. The private sector cannot be blamed for doing what is in its own best interests, creating better future clients for itself. It is not in the financial interest of most vendors to spend much time educating the great bulk of American participants, most of whom will never be future clients for most of those firms.

We have seen this all too clearly with several clients. One client, whose business involves a large number of non-highly compensated employees who do physical labor, has a high percentage of employees for whom English is not their primary language. Our client offers a very generous employee matching contribution which very few of their non-highly compensated employees were taking good advantage of. When the client changed vendors and added an automatic enrollment protocol, they met with participants in one on one sessions in the language of their choice, and were able to get employees to truly embrace the program. In retrospect many of the employees had not really understood the plan and felt it wasn't for them. The pic-

tures and images in all of the enrollment materials used by their prior vendor depicted employees and smiling retirees who were not culturally representative of the broader range of our client's employees.

Excellent benefit for all employees

I want to strongly encourage future efforts at cooperation between the Departments of Labor and Education. If Americans are to be given the responsibility to manage their own retirement investments as a means of lessening the liability of both employers and society, then students from Kindergarten through 12th grade should be taught basic financial principles as a means of getting ready. We still teach Trigonometry, but most Americans graduate high school without knowing the importance of savings, or how credit cards, car loans, and mortgages work. Proper long term education, across cultural lines, will make future generations of Americans hungry for and prepared to handle the retirement plans their future employers will offer.

The current volatility, and the damage it has done, cannot be undone in the near term. Steps like a temporary repeal of minimum required distribution rules may help to alleviate some of the worst pain. You may also want to consider temporarily encouraging all plans to offer hardship withdrawal provisions to prevent foreclosure and eviction. Other steps that encourage more diversified stable value investing and discourage the use of general account products for ERISA assets will also help. If this Committee can help to clarify and make more consistent the rules that govern short term redemption fees and transaction limitations that will remove a major cause of unnecessary plan complexity. Most importantly if you can charge the Departments of Labor and Education to work together to better educate future American workers some of

Thank you for your time. I will be pleased to answer any questions that I can.

Chairman MILLER. Mr. Joyce?

STATEMENT OF TIF JOYCE, PRESIDENT, JOYCE FINANCIAL MANAGEMENT

Mr. JOYCE. Thank you, Mr. Chairman, for this opportunity to speak to you today. And I look forward to your questions.

My name is "Tif" Joyce. And I have the good fortune to have been born and raised in the bay area and have lived my entire life here in Northern California.

For more than 20 years I have been working as a certified financial planner. And eight years ago my wife Judy and I started Joyce Financial Management. We are a small business with just one employee specializing in retirement planning and fee-based asset management for individual families and some small businesses. Only a handful of our plans could be considered by wealthy by today's standards. And about 40 percent of them are already retired.

We believe it is important to educate people that market ups and down are normal, and we emphasize finding out the clients' true risk tolerance before they got through a market decline. Then afterwards we encourage them to buy "on sale," as it were which is how they can learn that you can use risk to your advantage.

Our clients are weathering this storm because they have reasonable expectations, age appropriate diversification, and we continually stay in touch to support them.

I am not an expert in macro-economics or public policy, but I do hope to offer you some "real world" perspective from Main Street consumers and their advisors.

First, after they calm down, people view the recent turmoil as the latest in an ongoing string of challenges that must be overcome. We need to fix our problems because we have no choice.

At times like this, both investors and government alike need to be concerned about overreaction and trying to create permanent solutions for temporary problems.

If you ask most voters what they think of a new national defined benefit plan, I strongly believe they would say please fix Social Security first.

On October 7th, a witness testified before this Committee stating that our nation's pain and chronic anxiety is caused by the corrosive effects of 401(k) plans. I suggest to you it has much more to do with 9/11, gasoline prices and war.

People understand that life is not always fair and they do not expect government to legislate certainty. Let us also keep in mind that huge numbers of people have successfully used retirement plans as exactly as they were originally intended to be used.

Second, please do not give up on the idea of educating people about money, as has been suggested to you. Now more than ever we need to be a nation of informed consumers. People want government to help, but more importantly they aspire to be independent and self-reliant. But how can you realize the American dream without at least some financial know how? Unfortunately mere disclosure of information is not education. If it were, then schools would only need libraries, and they could fire all the teachers.

In our homes, schools, businesses, in our entire culture we desperately need to promote the daily application of good financial habits.

Ultimately, I believe that good can come from this financial crisis.

Thank you again, and I look forward to your questions.

[The prepared statement of Tif Joyce follows:]

Prepared Statement of Thomas F. "Tif" Joyce, Joyce Financial Management

October 22, 2008 Thank you, Mr. Chairman and committee members, for the opportunity to speak to you today and I look forward to your questions.

My name is (Thomas F.) "Tif" Joyce. I have had the good fortune to have been born and raised in the bay area and have lived my entire life here in Northern California. For more than 20 years I have been working as a Certified Financial Planner, and 8 years ago, my wife Judy and I started Joyce Financial Management.

We are a small business with just one employee, specializing in retirement planning and fee-based asset management for individuals, families and some small businesses. Only a handful of our clients could be considered wealthy by today's standards, and about 40% of them are already retired.

It's important to educate people that market ups and downs are normal, and we emphasize finding out our clients' true risk tolerance before they go through a market decline. Then we encourage them to buy "on sale," which is how they learn that you can use risk to your advantage. Our clients are weathering this storm because they have reasonable expectations, age-appropriate diversification, and we continually stay in touch to support them.

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People understand that life is not always fair and they don't expect government to legislate certainty. Let's also keep in mind that huge numbers of people have successfully used retirement plans exactly as they were intended to be used.

- Second, please do not give up on educating people about money!

Now, more than ever we need to be a nation of informed consumers. People want the government to help, but more importantly, they aspire to be independent and self reliant.

But, how can they realize the "American Dream" without at least some financial "know-how?" Unfortunately, mere disclosure of information is not education. If it were, then schools would only need libraries, and they could fire all the teachers!

In our homes, schools, businesses—in our entire culture—we desperately need to promote the daily application of good financial habits.

- Ultimately, I believe that good can come from this financial crisis. Thank you, again, and I look forward to your questions.

Chairman MILLER. Thank you.

Dr. Benartzi?

STATEMENT OF DR. SHLOMO BENARTZI, PROFESSOR AND CO-CHAIR OF THE DECISION MAKING GROUP, UNIVERSITY OF CALIFORNIA LOS ANGELES ANDERSON SCHOOL OF MANAGEMENT

Mr. BENARTZI. Thank you. Thank you for the opportunity to share with you my thoughts.

I have been studying participant behavior in retirement plans I think since the day I arrived in the U.S., so that is about 20 years ago. And I am delighted to share with you my concerns and my thoughts for what could be done.

Let me start by highlighting a couple of behavioral principles that I think could actually make people lose a lot of money and lose their retirement security, especially in the current environment.

The first behavioral tendency we know we lot of plan participants and individuals in general have is what we call buy high, sell low. It is a very unfortunate pattern, but we have seen over probably the last 20 years or so that plan participants have this, unfortunately I will call it talent or ability to predict the market. The only problem they tend to buy at the peak and they tend to get scared at the bottom. And they actually do identify the bottom, they just sell at the bottom. It is such a strong pattern that there are actually companies out there selling information on what plan participants do to hedge funds who do the exact opposite. So that is a big concern that participants would sell at the bottom.

The second behavioral tendency that I think that we should be aware of is what we call myopic loss aversion. And that fancy term is really about the obsession that people have with short term losses. Even when they have 40 years until retirement, they really often focus on short term results and particular losses. They might actually sell at the bottom and then go into a cash account for the next ten years. That would not create the right long term growth that a lot of people need.

And the last behavioral tendency I want to touch on has to do with excessive extrapolation, a term that you could view as chasing performance. People look at the last few years. If stocks have done well, then they would buy a lot of them. If they have done poorly for a couple of years, they will sell them. This is particularly a problem in the case of company stock where people put all of their

retirement saving in one stock, not only one stock the stock of the company they work for. As we learned from Enron and more recently from a lot of financial institutions chasing performance, buying into a company stock after a couple of years if it went up, which happened to a lot of financial institutions in '05 and '06, could have devastating—devastating results of losing your jobs and retirement savings at the same time.

I do not want to scare to everyone and say that everything will go wrong. The recent behavioral tendency that actually works the other way, which is inertia. That people tend to do nothing about their retirement savings. Typically it is a bad thing. They do not join the plan. They do not start saving. They forget to adjust their investments all the time. But in the case of the current environment there is a good chance that inertia and doing nothing would actually prevent people from bailing out at the wrong time.

So these are kind of the behavioral principles that I see at play now that could possibly help people's financial security. What can we do about these?

I want to highlight a couple of simple proposals, most of them have the flavor of not forcing companies to do anything different but highlighting best practices. So my idea is that Congress could help a lot by really shedding light on what we consider to be the right way to design retirement plans without necessarily mandating things.

We have seen with the Pension Protection Act where I think Congress did a wonderful job that merely endorsing automatic enrollment into retirement plan could have a huge difference on plan sponsors adopting these techniques without necessarily forcing anything.

So three areas of improvement:

Number one, participant information. We have a tendency in our reports to focus on short term results. We have quarterly reports. For some reason a lot of plan providers, mutual fund companies believe that that means we have to highlight the last quarter on the first page. Well, I understand the law. The law says you have to provide that information, but nobody said that we cannot start a report, a quarterly statement with long term results. And having the short term, the myopic focus on short term losses be on page 7. These are long term retirement plans, we have to focus on long term results.

Mere endorsement of the fact that we could have different quarterly statements that highlight first longer term results potentially converted to retirement income projections could make a difference. In the current environment nobody would provide long term projections. No mutual fund company would take the risk of making assumptions about what your saving pattern means in terms of your projected retirement income. If we just allowed that endorsement, what would be the quarterly statements at the end of December this year? Very simple. They would show most people a decline of maybe two percent in their projected retirement income 40 years down the road. Because they still have many years to save.

Instead we provide statements that say well you had $8,000 last quarter and now you only have 5, and people do, they get scared.

They do not know how to interpret, how to put these numbers in perspective.

I am going to skip my comments on company stock because I am running out of time and just touch a bit on the other end of the spectrum, that is retirement income.

As other people have commented, retirement plans are really there to provide retirement income. And the defined contribution plans are not doing a good job there. In a sense the Pension Protection Act has done a great job on getting people starting to save, having been ways they are saving all the time, but have remained silent on what is an appropriate retirement income solution. Without any guidance from Congress on best practices, employers will not offer retirement income solutions. They will not take the legal risk.

What does it mean for Americans? It means when they join a company they will start saving automatically, their saving rates will go up and then as soon as they retire, they will get the lump sum from the employer and be left on their own. If that happened in October of last year, it would mean that today they would have half the assets they had last year.

I think mere endorsement of what is an appropriate retirement income solution would make a huge difference, especially in the current environment.

About a year ago I think annuity products looked safe. Nowadays as we have seen a lot of insurance companies mishandling how they handle risk, I think there are big concerns what is an appropriate retirement income solution. And I believe that if we put them together so 401(k) plans would be more holistic, it is not just about the accumulation stage, it is a life long plan combining how you save for retirement and how you draw down your assets. Some blessing from Congress on best practices would go a long way without forcing or creating any burden on employers.

Thank you very much.

[The prepared statement of Shlomo Benartzi follows:]

Prepared Statement of Dr. Shlomo Benartzi, Professor and Co-Chair of the Decision Making Group, University of California Los Angeles Anderson School of Management

Thank you Chairman Miller and members of the House Committee on Education and Labor for the opportunity to share with you my views on behavioral finance, the market crisis and retirement savings.

My name is Shlomo Benartzi. I am a Professor and co-chair of the Behavioral Decision Making Group at the Anderson School of Management at UCLA. I am also co-founder of the Behavioral Finance Forum (BeFi). I have spent the last 15 years researching participant behavior in 401(k) plans, with a particular focus on using behavioral economics to increase retirement savings and retirement security. Some of you might be familiar with the automatic savings increase program Richard Thaler of the University of Chicago and I designed about a decade ago, which we dubbed Save More Tomorrow (or SMarT).

Let me begin my testimony by outlining the behavioral principles that guide retirement savers and how these behavioral tendencies could undermine the retirement security of 401(k) participants in the current environment. To keep this report brief, let me focus on just three behavioral principles that could weaken retirement security.

1. Buy High, Sell Low

Individuals have a tendency to buy at the peak, and then panic when markets drop and sell at the bottom. We saw this happen with the Internet bubble when individuals bought a lot of technology stocks at the end of 1999 and the beginning

of 2000 right before the market crashed. We also saw individuals pulling money out of the stock market in 2002 right before the market started to go up. There is a real concern that individuals will repeat the same mistake during this market crisis and sell at the bottom and perhaps even stop contributing to their retirement plan.

2. Myopic Loss Aversion

The term "myopic loss aversion" refers to the tendency of individuals to focus on short-term losses, even if they have 20 or 30 years until retirement. The myopic focus on short-term losses could result in individuals chasing safety and placing all their retirement savings in cash. And, we know that a portfolio invested 100 percent in cash is unlikely to provide the long-term growth that many individuals need to fund their retirement. The unusual market volatility we have experienced over the past few weeks and months could magnify the degree of myopia and loss aversion individuals display.

3. Excessive Extrapolation

Individual investors tend to place too much weight on past performance. For example, many buy stock funds after they see a few years of positive returns. Similarly, the propensity of employees to invest in company stock is highly correlated with the past performance of company stock. I suspect that a lot of employees who were chasing performance and invested heavily in company stock a couple of years ago have recently suffered major losses. This probably includes many employees of financial institutions who invested in company stock and lost their savings and jobs at the same time. Interestingly, preliminary data on recent activity in 401(k) plans indicates that the average participant moved money into company stock in September and early October, probably misjudging the risk of company stock.

The three behavioral principles outlined above highlight the risk of individuals mismanaging their retirement savings, especially in the current economic environment. And, I do believe some retirement savers will panic and bail out of the stock market at the wrong time. I also believe, however, that inertia is extremely powerful and a lot of individuals are likely to procrastinate and never take any action. In the current environment, sticking to one's long-term plans and avoiding impulsive actions might actually be the best decision, even if it is caused by inertia and procrastination.

Having highlighted "behavioral obstacles" that tend to undermine the retirement security of many people, the real question is what can be done to help employees better plan for retirement? I believe Congress has already made significant contributions to the retirement security of Americans with the Pension Protection Act. In particular, automatic enrollment and automatic increases made saving for retirement a lot easier for many Americans. Similarly, clarifying what constitutes a Qualified Default Investment Alternative made plan sponsors more comfortable choosing balanced portfolios on behalf of their plan participants, rather than playing it safe with the most conservative option. However, our system should be improved to help individuals better plan for retirement. Below I list three key areas that I believe could be improved.

1. Participant Information

Highlight Long-Term Performance on First Page of Statements: Defined contribution plans are required to provide quarterly statements. Unfortunately, a lot of plan providers interpret that requirement as having to highlight the most recent quarter's performance on the first page of the statement. Since individuals are already obsessed with short-term performance, why not use the quarterly statements as an opportunity to promote long-term thinking? In particular, I propose that the statements display longer-term results on the first page, then provide the recent quarter numbers on the second (or last) page. While this might be permissible under the current law, an endorsement of the idea might be all that is needed to get plan providers to design more sensible participant communications.

Provide Retirement Income Projections on Statements: I argue that most individuals are ill-equipped to analyze rates of return. The goal of a retirement plan is to provide retirement income, so why not translate account balances, deferral rates and investment elections into projected retirement income? Such projections would not be exact, but they would certainly be more informative for the average plan participant. And, they would dampen the effects of volatile financial markets, as they would incorporate both existing balances and future contributions. For example, someone who just experienced a 40 percent decline in his/her account balance might notice just a 10 percent decline in his projected retirement income once future contributions are taken into account. Again, an endorsement might be all that is needed to get plan providers to add income projections to quarterly statements.

2. Company Stock

Stop the Preferential Treatment of Company Stock: Company stock enjoys special treatment under ERISA, exempting it from the diversification requirement. It is the only investment option offered to plan participants that is undiversified. I believe, however, that all investments offered to plan participants should be well-diversified, that is, comply with ERISA's diversification requirement. I would like to clarify that I am not proposing to disallow company stock in defined contribution plans. I am just proposing that company stock pass the same fiduciary standards other investments must pass. Of course, if company stock is inherently undiversified and will fail basic fiduciary standards, then plan sponsors will voluntarily stop offering it. I view that as a good thing. We saw thousands of Enron employees lose their jobs and retirement savings simultaneously, and I predict the current crisis will result in many more employees losing their retirement savings due to concentrated positions in company stock.

Endorse Gradual Diversification Programs: Many plan sponsors are concerned about the financial security of employees investing in company stock. However, they do not know what to do about it. If they tell employees to diversify and sell the stock, then employees might wrongly believe that the company is in trouble. And, if they offer employees the option to gradually trim down their company stock exposure, they could possibly be liable for selling the stock at the wrong time. Professor Richard Thaler and I promote the idea of offering employees the option to gradually sell their stock holdings, perhaps keeping a modest amount of say five percent of their savings in company stock. We dubbed our proposed program, "Sell More Tomorrow." Endorsing some type of a gradual diversification program could make plan sponsors more comfortable addressing the company stock problem before it is too late.

3. Retirement Income Solutions

a. Define "Qualified Retirement Income Solutions": The Pension Protection Act has shed light on best practices for the accumulation stage. In particular, it endorsed automatically enrolling employees into retirement savings plans and automatically escalating their deferral rates over time. We are already seeing that the mere endorsement of these best practices by Congress resulted in many plan sponsors adopting the proposed changes.

Unfortunately, the Pension Protection Act did not spell out best practices for the decumulation phase. In particular, it did not provide any guidance on what would constitute appropriate retirement income solutions for employees getting ready to retire. As a result, the vast majority of plan sponsors are totally confused about: (a) whether or not making retirement income solutions available to retiring employees is part of their duties and responsibilities, and (b) what type of retirement income solutions would be prudent to offer. Given that, it is not surprising that most plan sponsors do not offer any retirement income solution through the plan. Retirees are given a lump sum of cash and sent out into their golden years searching for a solution on their own. As we all know, most individuals are ill-equipped to handle such a complicated financial decision.

I encourage regulators and legislators to shed light on best practices for the decumulation stage. Again, I believe an endorsement would encourage the industry—both plan sponsors and providers—to create and offer competitive retirement income solutions.

The current financial crisis also highlights the need to rethink the type of retirement income solutions that would be prudent. For example, is an immediate annuity that pays monthly income for life prudent, given that insurance companies have recently failed to properly manage risks? I do not necessarily have the answers, but I do know that without guidance from regulators and legislators, plan sponsors will not offer any retirement income solutions. And, I do know that retiring employees are ill-equipped to set a sensible drawdown program on their own, especially in the current volatile environment.

b. Evaluate Longevity Bonds: Both defined benefit and defined contribution plans face longevity risk, that is, the risk that people will live much longer than was anticipated, leading to the possibility that plan assets will run out. Note that insurance companies do not presently have the financial instruments available to them to manage systematic increases in longevity where most people end up living longer than reserved for. Systematic longevity risk is simply too large for insurance companies to handle. Furthermore, it is not diversifiable internationally, as medical advances in say the US will end up increasing longevity in all countries sooner or later.

The government could help facilitate the creation of a market for hedging systematic longevity risk by issuing longevity bonds. These are bonds that pay more if peo-

ple live longer and vice versa, and are similar in concept to TIPS (which allow the private sector hedge another systematic risk, namely inflation risk). Not only would longevity bonds enable retirement plans to better manage longevity risk, they would, more importantly, enable insurance companies to better price and guarantee lifetime income streams. This is because longevity bonds would help to establish the market price of longevity risk, in the same way that TIPS help to establish the inflation risk premium. I must admit I am not an expert on launching new markets, but there are experts who have studied these issues extensively. I think establishing a committee to evaluate the merits of longevity bonds is appropriate. Professors David Blake and Robert Shiller would be superb candidates to serve on such a committee.

In summary, improving participant information, addressing the company stock problem and incorporating retirement income solutions into defined contribution plans could enhance the retirement security of millions of people. And, some of the changes I propose could also address behavioral obstacles such as myopic loss aversion and excessive extrapolation.

Keeping in mind the regulatory burden employers already face by offering a retirement plan, my proposals focus on endorsing better practices without necessarily forcing or requiring plan sponsors and plan providers to implement new or expensive options. To the extent that the proposed changes make sense, I believe mere endorsement by regulators and legislators might be sufficient to make a difference.

Again, thank you Chairman Miller and members of the committee for the opportunity to share my views.

Chairman MILLER. Thank you very much for your testimony. Thank you to all of you.

I would like to come back to Dr. Benartzi's points here in a minute. But first, Ms. Quan, you are now withdrawing from your 401(k) plan because you are over 70 so you are having to withdraw an amount each month?

Ms. QUAN. That is correct.

Chairman MILLER. Is your mike on?

Ms. QUAN. Yes, I think it is.

Chairman MILLER It is like your in a classroom. Speak up now.

Ms. QUAN. Speak up, right.

Yes, I am withdrawing. It is 403(b) which is similar.

Chairman MILLER. Right.

Ms. QUAN. Right. And to the tune of about $550 per month.

Chairman MILLER. That is a mandatory withdrawal requirement, is that correct?

And, Mr. Carroll, you are getting ready to fall under that law. Mr. Maisel is already drawing, is that correct?

Mr. CARROLL. That is correct, Congressman.

Chairman MILLER. We have proposed, myself and some other members of Congress have proposed that we not require that during this down turn. Obviously as people need, they are going to continue to do. They do not have an option. But if they do not, does that make sense to the rest of the panel. I mean, I have assumed we would do it for a time limited period of time. There is other policy reasons why you are asking them to withdraw; I do not know the wisdom of that over the long run or not. Feel free to comment on it if you want, but I would just be interested in that. Because I understand that we have the Secretary of Treasury, and I think others, both Presidential candidates I think have asked the Secretary of Treasury to do this. He can it by waiving the current requirements, I understand it.

Dr. Hacker?

Mr. HACKER. Yes. I mean, the public policy reason for having these required withdrawals is that the tax breaks for pensions are justified by virtue of the fact that they are providing retirement income and not simply a form of the estate planning. However, for a short term it seems to make a lot of sense to forgo that requirement.

We should not pretend that that is a serious long term solution and we should try to address the underlying problem, which is that many people do not have a diversified enough portfolio when they reach retirement.

Chairman MILLER. We are going to come back. We are going to come back to that question that has been raised.

Mr. Davis? Microphone.

Mr. DAVIS. I would agree. I think a temporary release on the minimum required distributions would be helpful. While I would no means would advocate the encouragement of workers taking near term withdrawals, either loans or withdrawals from plants, there are many plants in America that do not allow a hardship withdrawal feature that have employees working for them today who are being foreclosed on and have no means of accessing their money in service. While long term it is a bad idea, if that were happening to me and my home, I would access to those funds in a more immediate basis.

Chairman MILLER. Mr. Joyce?

Mr. JOYCE. I think it is a good idea simply because more choice is better. The person that has the most choices usually wins. And they can decide if it works for them or not. But having the choice is wonderful.

Chairman MILLER. You see it a short term policy also?

Mr. JOYCE. Yes.

Chairman MILLER. Yes. Okay.

Dr. Benartzi?

Mr. BENARTZI. If I understanding correctly, the idea is not to force people to take the minimum withdrawal at age 70°. I think that is a very good idea. I also want to highlight that——

Chairman MILLER. You think it is very what?

Mr. BENARTZI. I think it is a very good idea.

Chairman MILLER. Oh.

Mr. BENARTZI. But I also think not only in the short run, I think some adjustments are needed in the long run. Example: If you expect to live ten years you have $100,000 in your account, the minimum withdrawals would force you to take out $10,000 a year. What happens if you live longer than ten years? You have no money left.

So these formulas make people, in a sense, spend too much. These minimum withdrawals when you compare them to other countries are encouraging and forcing Americans to draw too much money so if they end up living a bit longer than expected, they depleted their assets because they were forced to take money out.

So there is a short term fix that I think is necessary, but I think also there is a long term fix that is necessary. Other countries, for example, only require 70 percent of the amount we force people to take out.

Chairman MILLER. Thank you.

Mr. Hacker, you suggested an extreme makeover of 401(k)s. If you want to reiterate what you were suggesting, that's fine. And then I would like to get comments from the other three gentlemen, if I might. I wrote some of it down, but if you want to go back through what your headline suggestions are with respect to that?

Mr. HACKER. Well let me just clarify my motives for suggesting that we need to have fundamental reform of 401(k)s. As I said, we used to have a system in which you had a guaranteed private pension leg of the three legged stool of retirement security. We no longer have that and so the basic motive in the proposals I have put forth which could be taken together or looked at individually is that we try to come up with something that looks more like a guaranteed private pension for workers in addition to the private savings that they may have both in their home equity and an individual private savings outside of their home. Our current 401(k) plans do not generally fit that bill. So what are the shortcomings that need to be addressed?

Well, as I said one is that many workers do not have access to a 401(k) so we should think about how could we make available 401(k)s to more workers. I like the idea of a universal 401(k) plan that is something like the existing individual retirement account. That employers should feel free to contribute to them, even perhaps sponsor them, but they should be available to all workers.

The second and third problems are that these plans do not have high rates of participation, as Professor Benartzi pointed out.

And the third problem is that they do not provide generally a strong guarantee of retirement income.

So increase participation and to increase participation in more guaranteed forms of retirement income, I think that there should be some kind of default enrollment and default investment option.

I would also argue that for lower income workers some kind of progressive federal match would be very useful, as I mentioned. That is that the government would actually help match contributions for middle and lower income workers who right now contribute very little to 401(k)s.

And finally, thinking about how we could move to a system that gave people assurances of retirement income for the remainder of their retired life is essential. There are a lot of ideas out there for how to do it. But what's important, I think, is that we move to a system where as Professor Benartzi mentioned, people see these 401(k)s in terms of the expected retirement income that they will provide.

So I have argued that, for example, we should be presenting peoples 401(k) balances not in terms of the aggregate amount, but in terms of the retirement income that they will provide over the course of an average retired life.

I have also argued that we should consider the idea of making available some kind of baseline or even government direct loan product, directly provided product, for annuitization of 401(k) balances at retirement. That is for converting from an aggregate amount into a fixed stream of income for the retired worker's life. And that this should be very strongly encouraged and perhaps even mandatory for people who do not have adequate wealth to be able to secure their retirement for the remainder of their life.

Chairman MILLER. Mr. Davis?

Mr. DAVIS. I would agree with almost all of what the Doctor said. A couple of things I would like to challenge just for your sake.

The presumed death of defined benefit plans. While one format certainly has gone away, a lot of what the Congress was able to introduce with PPA and the endorsement of hybrid plans we're seeing have a real impact on the smaller employer level cash balance plans and those sorts which incentivize employers to contribute fully a 100 percent more on behalf of their employees than they do in the absence of those plans. A lot more can be done to encourage that, I think.

I also think the automatic IRA and that sort of a notion is an excellent one that would be relatively easy to do and it's certainly important for that huge portion of the American workforce that has no other access to retirement programs and desperately needs one.

My biggest thing would be to encourage with the shift of liability to shift to the education. As I say, if this Committee could encourage Departments of Labor and Education to teach Americans from kindergarten through 12th grade about car loans and mortgages and retirement savings plans and those kinds of things, people would have a context into which to put the market events that we're seeing today.

I also would like to say that there are vendors in the marketplace that are starting to do that retirement income presentation that Dr. Benartzi and Dr. Hacker are talking to. It would be great to see that encouraged because at the end of the day that is what we are trying to buy, units of retirement security at some future date.

Chairman MILLER. Mr. Joyce?

Mr. JOYCE. Of course a lot of great ideas. I think the problem that a lot of consumers would have is that a lot of money is already been taken out of my paycheck and put into Social Security and I have no control over that whatsoever. And they sort of view that already as what we would call the defined benefit plan.

What I have found is that people when they do save, not everybody does this well, but they want to have the opportunity to manage their own money. And if that gets taken away from them, how can they learn how to do it properly?

And the idea that well where more money is going to be taken away that I cannot control. So the idea of mandated annuitization I think I just really, really oppose that. I think most financial advisors when we study the journals and so forth say you should not have more than about a quarter of your assets annuitized because you cannot control that anymore. That is the main.

Chairman MILLER. Thank you.

Dr. Benartzi?

Mr. BENARTZI. I think people who do have advisors will, hopefully, get some type of a retirement income solution. I am more concerned about people who do not have that much money, that most advisors would not take them as clients because the economics work. They do not currently have a good solution when it comes to figuring out how to convert their savings to some guarantees.

401(k) plans right now do not offer any of these solutions. Plan sponsors are afraid to even offer an annuity. What if it is an AIG

annuity, for example. So plan sponsors do not offer it. A lot of individuals do not have the resources to afford to experts to advise them. We need to integrate some solutions, rather it is mandatory, whether it is endorsement I do not think that really is the key as much as making something available.

I do want to just touch briefly about defined contribution and the system totally failing and collapsing and we need to go back to another system.

A lot of people out there view the current crisis as an indication that 401(k) plans have failed. And I tend to disagree. I think as you are going to see at the end of the year the funding situation of defined benefit plans and the number of employers who cannot make their contributions to the plans, both systems have problems. I think what we have to do really is think how to make the best out of the defined contribution plans. Congress has done a tremendous job on the accumulation. I think now it is time for phase B, integrating it with a retirement income solution so it is really a holistic approach to planning. Not just saving, planning for retirement.

Chairman MILLER. Thank you.

I am going to recognize Congresswoman Woolsey. But I think Dr. Hacker you wanted to comment on something that was said here.

Mr. HACKER. I simply wanted to clarify that although I raised the possibility of requiring annuitization for those who do not have sufficient retirement wealth to be able to have a sufficient retirement income for the remainder of life otherwise, that I actually am not advocating mandatory contributions to 401(k) plans or reformed 401(k) plans. I do think that it would make sense for the Federal Government to offer direct subsidies for lower income workers to help them save. And I do think that we should move towards to having a default investment plan within 401(k)s that would minimize insofar as possible market risk while maximizing the potential return given that minimization.

So that is the way in which I wanted to clarify my remarks. And I only would say that I did not mention one additional benefit, which I think is a really big issue right now, is that since workers do move from jobs that have 401(k)s to ones that don't, they often are very much attempted especially during periods of economic distress to spend the lump sum payments they receive. Having some kind of universal system with an automatic rollover would mean that the money that leaks out of retirement savings because of that lump sum payment practice and the failure of people to rollover those funds would be eliminated.

Chairman MILLER. Ms. Woolsey?

Ms. WOOLSEY. Dr. Hacker, I am going to ask you a question later because I want to say mandated annuitization, I want to say that word. I like that. So leave it there.

Okay, gentlemen, one, two, three and four. I agree with yo totally. Education and informed consumerism is the most important. Very important. You tell us what these two, Ms. Quan and Mr. Carroll, could have done, should have done that would have changed the outcome of what is happening in their senior years right now or what the Federal Government could have or should have, or their investment advisors. I mean these are informed people. They did what they were supposed to do. What went wrong?

Let's start with you Dr. Benartzi.

Mr. BENARTZI. Thank you.

I think it really highlights the problem that if you do not have a lot of money, it is typically very difficult to find very good advice. And I think would/could have done. I mean, I think they have really done their best. They saved for retirement. They have done much better than 70 percent of the people and it still did not work.

So I think it really goes back to the facts that the government has to step and help employers think about the decumulation, the retirement income solutions. Other countries, for example the UK, when people retire, there are two different solutions that have been blessed and even mandated. You do not have to annuitize all your money. You only have to do a fraction of it. There is another alternative. If you do not want to annuitize, you could actually have a systematic plan how much you can withdraw each month, where you would invest it. But whether it is the right system or not, it does not really matter. The government stepped in and said these are reasonable solutions for people so that they do not run out of money too quickly.

Professor Blake from London has a very nice analogy of our retirement system and it compare 401(k) plans to planes as in airplanes. And it says with the Pension Protection Act we kind of put people in their seats and tell them do not worry and we take off. That is like automatically enrolling in a retirement plan. Then we cross the ocean. The plane changes altitudes, goes left, goes right, go around all the storms. It is very much like we are doing with the Pension Protection Act where we pick well diversified portfolios, like retirement funds for people. And now we have reached Japan. We crossed the ocean, we need to land. We need to start decumulating, descending, taking assets down. We forgot how to do it. The plane is going to crash.

And I think what we are seeing now with a lot of people who retired in '07 and who are retiring now there was a total disconnect between saving for retirement and how do you handle it, what do you do with it when you retire. We really have to step into that as soon as possible.

Plan sponsors I talk to and as well as plan providers are eager—eager to help employees solve this problem, but are very afraid to do anything without any guidance from the Congress.

Ms. WOOLSEY. Mr. Joyce?

Mr. JOYCE. This reminds me a bit about the people that there is plenty of blame to go around, but the problem with the subprime mortgages, people that took on mortgages that they really did not have a prayer of being able to pay it back. And what happened was I think that people looked at the most rosy scenario possible. And if everything went perfectly, it would have been fine. But what we do in financial planning is we ask everybody okay, what happens if a severe disability comes along and we look at what is going to happen to you. And with your setup do you have a prayer of overcoming it with your money and your insurance or whatever.

We do the same thing with lousy markets. This is, I think, the tenth bear market for the U.S. stock market in 50 years. So it is not unusual, unfortunately, but you can take advantage of them. But you have to look at bad case scenarios as well.

And I agree with Dr. Benartzi that the trick is, is you have to look at your consumption and your resources. And if you are not a track to end up with a whole bunch of money, what I would sort of refer to as the Powell doctrine, the financial version of it, do absolutely everything you can to live within your means and then your nest egg has to be really big. And that is really the answer. And if you do not test these problems sort of on paper, if we don't, forgive me kill people, you know get them to die off, we just get them disabled, divorced, these things have to be looked at in advance. So we refer to this process as the lifeboat drill.

Ms. WOOLSEY. Mr. Davis?

Mr. DAVIS. I think I would want start by in my situation I am not a personal financial planner and I would not want to presume to able to prescribe solutions.

And my heart goes out to you. You represent a lot of people. And I think it is important to acknowledge that. The nightmare for all of us is running out of money before we run out of life. And many of us are headed on that track at the moment.

I would say at this point I would agree with Dr. Benartzi on two things. Education for retirement cannot start at age 65. It has to start much, much earlier in preparation for that.

Number two, the system we have where the private marketplace is responsible for educating employees, most vendors do the employee education for the plans to whom they vend services, most of those vendors are in the interest of finding new clients for themselves. That is the private market system. I want the CEO with the company so I will service the manufacturing for employees. Cannot blame him for that; that is the system. Unfortunately, that is not healthy for any of us that it be constructed that way, but we cannot leave the education and preparation of private sector workers to private sector motives. There is a incongruous and a dissidence there.

Mr. HACKER. I think it is an excellent question because from what we've heard it sounds as if there was not that much that could have been done by these two fine people. And that the risks that they are facing are risks that really are faced by even those retirees who have done the right things in the past. And that is why I think it is important that we shift the focus a bit from asking did individuals do the right thing to the larger question of how can we structure this system so that it creates the greatest chance that people will reach retirement with adequate savings to be able to retire comfortably.

IT seems to me that one thing that we have not talked much about that needs to be emphasized that this really reenforces the idea that we do need to have a strong basic foundation of retirement income in the form of Social Security. And I think that we should make sure that Social Security is that strong foundation going forward because these risks do happen and people need to be able to know that they have at least that basic form of protection.

The other larger picture I want to bring in his health care. Because again and again in these stories we hear that people who have retired have under estimated the amount they will need for health care. They have family members who get sick or they themselves get sick. Sometimes people would like to work past retire-

ment, but all of the research suggests that people who retire early or who have retired before they wished do, many of them do so because they have unexpected health problems.

So we need to get a grip on the problem of health care spending, particularly for older Americans. It is hard to believe given that older Americans are the one group that is protected by a universal national system, Medicare, but older Americans are actually spending much more of their income on health care than they were before Medicare was passed. And that is in part because we have failed for the most part to keep Medicare up to date with changing medical needs and practices and also because, and I think this is the more important issue, we failed to come up with a way to effectively rein in health care costs. So I have proposed ideas for how we might better control costs and expand coverage. But I think that we shouldn't forget that that's a big part of this story.

Lastly, I think we should recognize that we will need to have some kind of protections that are supplemental to Social Security for all Americans who face large unexpected expenses or major drops in their income. I put forth an idea that I call universal insurance, which is basically a stop loss income protection program for Americans. And I would be happy to talk about it more. But the point is that once we start to see these situations that we recognize that this is just not a retirement problem, it's an economic security problem and that is why I think that if there is a silver lining in this cloud of market risk and retirement losses, it is that we might start to have a larger conversation about how we ensure that people have that basic financial foundation of security that allows them to reach for and achieve the American dream.

Ms. WOOLSEY. Thank you.

Mrs. Quan, Mr. Carroll, would you like to respond to what you have heard?

Ms. QUAN. I seem to have a problem with this required minimum distribution in that it is set at 70°. Why did they set it there? Because it is ind of one size fits all. Some people may not be ready for it, to take out that amount. Other people might, might not.

Now I personally do not have Social Security because we have our own teacher's plan system. So when I look at our own system compared to Social Security, I am not sure which one would be more beneficial to me.

The same thing with my husband. He has PERS. He does not get Social Security. So we kind of fall outside of that realm.

Ms. WOOLSEY. Mr. Carroll?

Mr. CARROLL. I am always amazed by the idea that those of us who are facing retirement want to go out and play with our money in a free market. To me I would like to walk into a bank, give them my money say invest it, do what you want, pay me a decent rate of interest on it and we would work on that kind of partnership. And I would know how much I was going to get and when I would get it.

That is the goal that we set was having that kind of return on our investment. Instead we found that market forces, or whatever, playing fast an louse with our money have deprived us of that revenue stream.

So I love the ideas of—the education thing is really good, but the idea of protecting people's investment more carefully has a great deal of appeal.

Ms. WOOLSEY. Thank you.

Chairman MILLER. Thank you.

You know, it seems to me that we are talking about 401(k) plans that were originally designed to increase national savings. And then they started to morph into retirement plan so you had some set rules that were there that made sense if this was just sort of discretionary savings. And then as we saw employers look at this vehicle and decide that they could off-load some of their responsibility for defined benefit plan, they could convince the employers you can really do this. You can handle the free market system. And we haven't quite caught up with now that this is in fact a very important third leg of the stool or an even more important second leg of a two legged stool that is a little wobbly, as Dr. Hacker pointed out.

And at the same time you had a financial services industry that saw this as a bonanza if they could just go out and collect market share. It's like putting people out on their own in health care. The early HMOs really weren't delivering health care. They were trying to gather market share so they could sell it to a health provider. They were just trying to gather people and they were cutting prices, giving glasses, hearing aids, whatever it is was to get those people in. And if they collected them, they had something of value to sell. Many of them turned out to be real estate companies in the meantime.

And so the American savor/retiree has not been very well served at this. I am always interested at the last date in which you contribute to your 401(k) the full page ads by Fidelity, T. Rowe Price, Merrill Lynch, all of the people that were in the game, come with us this is what you offer you. And that is about the most education, the most intense presentation of the need to save and to contribute to your 401(k) that is there.

Now we have two individuals here, both well educated, made really very prudent choices about how they were going to use credit while they were working, how they were going to ladder their bonds so that they could weather the ups and downs on pricing and interest rates, how they were going to save to do this and then in comes this recent financial crisis. And they both have a defined—excuse me. Well, Ms. Quan, you have a defined benefit plan from the school district. Mr. Carroll, you do not have. This is the total of your retirement savings with Social Security, correct.

Mr. CARROLL. And ladder bonds.

Chairman MILLER. God bless them. And ladder bonds, most available to most Americans. But anyway.

So are really at a point here. We have gone through the Pension Protection Act and that made some changes that were good, the enrollment proposals and other provisions of that law. But we still do not have this in shape as a retirement plan and we have not let the American people understand that under current policy, a lot of people relying on them having this retirement plan and being successful, even if it is public expenditures for the elders. Because if they are not successful, we know they are not going to go away.

They can show up in a number of different settings. They can show up off of Medicare and onto Medicaid; they can show up in a lot of different ways. They can show up in food pantries, a lot of other places that we are starting to see now.

I am a little troubled about, and witnesses at the previous hearing were a little troubled about the idea that education will solve this problem. I am a big fan of education. Obviously been on this Committee for 34 years and excited about the problems that education have solved. But this looks a little bit like Altria Corporation—do they still have tobacco? Yes. They have an education plan about what smoking can do to you, but they have a massive marketing plan about smoking.

And so I see these financial service firms. They offer education, but then they have this massive marketing program. And if you look just before in the last several months or last year, you had the proposals of guaranteed retirement income. Then when you looked at it, they were investing in the bonds of the insurance companies. I think that you point out, Dr. Benartzi, as we found out in this crisis there is nothing guaranteed about this stalwart of Wall Street, this huge international firm.

And so if you are educating, you say "guarantee" is a good word. This is a big firm. This looks like a wise choice, except it was a setup. And it was setup by the people who had more knowledge than you had.

So a lot of people unknowingly, in a sense they are victims of the setup that is being put in front of them. The overselling of the accomplishments of what can be done here.

And then, of course, finally the idea that—and this is a very strong tenant of this program. That I can do better with my money than the government can do or the government can tell me to do, or the government can suggest I can do I can do this. What they were really telling people was that you had to beat the street. And 75 percent of the most educated, most talented managers cannot beat the street, but you can. You can. I mean that is confidence in the American public and it is optimistic. It just does not turn out to be true because this other class of people who went to school to learn how to beat the street, 75 percent of them cannot do it.

You know, it is not by accident that many of these retirees and many of these savers find themselves in this situation. Because this was a plan. This was the plan to liberate funds that might go into defined benefit either because companies could not afford it or did not want to do, what have you, and then to spread them out on the street and we will go after those individuals and try to bring them into our financial service firms. Fortunately, some businesses got financial planners to try to give better advice to the participants. And it is interesting the complaints of that industry about what they are not told, what they cannot decipher, what is misrepresented to them as they try to do this.

So we got a game here that is not on the level with respect to the savers/retirees. And, you know, with this Committee about people me to quickly declare am I against 401(k)s, is this the end of it, what have you I try to say I am not trying to speak in conclusions, but I think we are a point where this requires a wholesale re-examination of what we did not do right in the beginning, what

we have not done right 25 years later and what we need for the future. And otherwise this plan is not going to work, mean if we continue on.

What I find interesting about this one and what was troubling, and it is not to frighten people, is yes we have through ten of these downturns. And we have not been through ten of these downturns where multiple sectors of the economy you have such dramatic failings. And so when the tech bubble burst a lot of people still had a lot of equity in their homes. Now a lot of people, and I am convinced older people, one of the disasters in my District in Richmond is older people who had their homes paid for but their kids or some suede shoe person came along and convinced what they really needed was a home equity loan. They did not know what the hell they were going to do with the money, but they took the loan. Now all of a sudden what they thought was their last asset is on the auction block.

And so this to me seems a little bit different than 1987. This seems a little different than the housing turndown in the '80s. This seems a little different than the tech boom. Because of a sudden other aspects: Credit is being withdrawn from these retirees. The interest rates are being raised for these retirees. Their home equities, in many instances, have dramatically diminished or they're simply gone. They're upside down, in some cases because of how they used that.

So I think that maybe we are at a time where fiddling at the margins is not going to serve the American people who we know need to save more, we know that it needs to be in a more secure form, we would like to offer them the choices to do that. And if in fact this is going to be continued to be a part of a retirement program for the nation. Right now we are telling everybody that is what it is. But it is in pretty sad shape in terms of going forward as a national shape.

And I appreciate some of your comments, but I want to turn to Dr. Benartzi. Because I know you have a time problem, Doctor, if you would like to comment.

I would also like to call attention to what you suggested about the fiduciary relationships of corporate stock of the employees in those plans. We have treated it as a horror story. We have not treated it as a matter of accountability and responsibility. And I just want to call attention to that part of your testimony. But I would like to recognize you.

Mr. BENARTZI. I think you just raised an excellent point. If we are going to do quick fixes to the system, it is not going to work. We have to rethink the underlying ingredients of our defined contribution system and maybe our entire retirement system. And I think this is perfect time to do it. Quick fixes will not do the job.

And then with respect to company stock, we are the only company around the globe that allows people to make such extreme bets. And I think there is a very quick fix that will solve the problem. And that is company stock right now is offered because of a provision in the ERISA that says it is the only investment you can offer the plan participants that is not diversified. Any other investments that you offer has to pass what you call the diversification test. This is the only investment that has a special treatment.

And I think it is time to make all investments pass basic fiduciary sensible tests including the diversification test. And if we just make that, I do not think any employer would make undiversified investments all company stock available.

Now that is very different from abolishing company stock or mandating that employers cannot offer it. I would not go there. My proposal is just have it pass a sensible test. And if employers would say it does not pass the test and they do not offer it, I view it actually as good news.

I also want to go back to my idea of just having Congress endorse sensible solutions without mandating things. In the case of company stock a lot of very large companies come talk to me. And they say we want to have employees sell company stock. And they tell these plan sponsors, and they did it actually before the market crashed, and they told them great job. Why do you not just have them sell it. And they say well what if the price goes up after we sell it? And I say then they sue you. And they say, oh, great.

So I think some endorsement from Congress about the fact that gradual selling of plans were you actually encourage or somehow help employees to diverse the very extreme locations. This is not to say that they should not have five percent in company stock. That is not going to devastating. But some endorsement that employers can comfortable make employees put for a small diversified without having to worry that they will be sued the next day I think would go a very long way, a very very long way.

Chairman MILLER. You know it is an interesting argument because in some instances I think under the new rules you can be locked into company stock for three years. I find that interesting when we read in the New York Times yesterday or the day before of the CEOs that were selling stock because of margin calls and these people are locked in here and the CEO, in fact, is driving the price of the stock down by the margin calls, some of which have been disclosed timely and some of which aren't disposed, apparently, quite as timely as they should be. But here again is this poor American saver locked into that stock and just as they were at Enron, that stock is torpedoing toward the ground here and they can't get out. You know, we all want prudent investors to stay for the long run, but the long run appears to be about two days here as these margins calls are coming due in some of these very large companies.

And so, you know, people thought at one time well this three year lock-in, there's some prudent to that and it is stability and all the rest of it. No, it can be cataclysmic because we find this extraordinary number of employees that have 90 percent of their retirement in the company stock of which they work for. Now that violates all of the tenants of diversification and risk taking and everything else. But there they are. And now they are locked in at a time when there is freedom of movement. And in that case it is not a question of whether that stock goes up after they sell it, it is whether they can get out to retrieve whatever value is remaining.

Mr. BENARTZI. So I think we have too many people in jails in the U.S., but there are definitely some people who are not in jail that should be there.

Chairman MILLER. Well, we are working on that.

Mr. BENARTZI. I want to thank you, Chairman, Committee members. I have to run, but thank you very much.

Chairman MILLER. Thank you. I hope that we can continue to call upon you.

Mr. BENARTZI. Please.

Chairman MILLER. I think you have raised some very important points for us——

Mr. BENARTZI. Anytime.

Chairman MILLER [continuing]. Going forward. Thank you for donating your time to come and join us.

Mr. BENARTZI. Thank you.

Chairman MILLER. Dr. Hacker, you wanted to comment.

Mr. HACKER. Well, I just wanted to bring us back to the point you made about how this has not been a transformation of our retirement security system that has been very well thought through. And it is also worth noting that the pension system has always been one that has heavily reflected employer's interests. But it just so happened that in the old world of traditional guaranteed pensions, employer's interests and worker's interest often coincided. It was not coincidental that that was the case because unions were much more powerful when defined benefit pensions were created. And they demanded pensions that met the needs of workers to share risk privately. Now we have moved to a system that has meant that we basically have a private pension tier in the form of 401(k)s that does not do a very good job of protecting people against risk. And this was not well thought out by Congress.

I note in my work that when Congress created Section 401(k) of the tax code in 1978, the only record of the potential effect of the law in the Congressional Record is a small note in the Committee report that says that this piece of legislation would have "negligible effects." I point out in my book that this may have been the least prescient prediction by Congress, which is saying a lot.

This was then transferred into what was we now know as a 401(k) plan in 1981 by the Reagan IRS. And very quickly employers rushed to expand 401(k) plans either in lieu of or on top of traditional defined benefit pensions. In the process their contributions to pensions dropped dramatically from about 4 percent at their peak in the 1970s to 2.5 percent of payroll.

It is the case that employer contributions to pensions come out of worker's paycheck, but they are mandatory contributions in a sense, and so they force workers save. So we have moved toward a system in which workers are on the hook with regard to risk. And it is also their responsibility to save. And we just have not over the ensuing years thought seriously about how we could improve the system. Instead, we have expanded the opportunities for saving in 401(k) plans and we have done small fixes. But we have not had a comprehensive examination of this system.

It seems to me that education is vital, but not sufficient. And I will just close my remarks here by just mentioning three things that I think we need to consider seriously.

One is, as I have noted, we need to think about ways to make 401(k)s better risk protectors for workers. Better at sharing risk among workers that they face in planning for retirement. We are

not going back to the world of defined benefit pensions, but as I have noted, elements of defined benefit pensions could be incorporated into 401(k)s.

Chairman MILLER. Could I stop you?

Mr. HACKER. Yes, of course.

Chairman MILLER. And ask Mr. Davis to join this discussion. Mr. Joyce, you are welcome to or not. But you also mentioned this point of sort of the morphing that has taken place within defined benefits with hybrid plans and cash balances.

Mr. DAVIS. Correct. I think there is an opportunity here. One form of defined benefit as we have known it seems to be gone, and we cannot bring that back. But there are new hybrid forms, PPA codifying the existence of cash balance. I am sure there are other more creative ways of designing that kind of thing to try to encourage the private system to fund its workers' retirement.

It is abundantly clear that the——

Chairman MILLER. I would tend to believe by your remarks that you thought in fact was happening.

Mr. DAVIS. It is happening right now with cash balance plans.

Chairman MILLER. It is right now?

Mr. DAVIS. Absolutely right. Cash balance plans, though, in their current rush to adoption, there are a lot of them being adopted today are generally being adopted by smaller employers for tax structuring reasons. It works quite well to the advantage of the employees of those particular plans, but I am sure there are things that could be built on that——

Chairman MILLER. But are they rushing to do it to escape other liability or this is in fact to create a better retirement plan for the workers?

Mr. DAVIS. I think the primary motivator is tax consideration at this time. But the secondary motivator, and the rich one, inclines that we serviced it to get more money into people's hands for retirement. It is not perfect yet, but I just do not want to dismiss it. I am sure there are far better brains than mine that could give you good counsel as to how to pursue that. I just hate to see the presumption of the death of defined benefit built hard coded into what we do. There are ways that companies could do a better job of that.

Chairman MILLER. Should that be addressed at the same time?

Mr. DAVIS. Yes.

Chairman MILLER. Dr.——

Mr. HACKER. Well, just to complete my comments. And I did not mention before that another sign that Congress had not considered this fully is that they authorized 401(k)s just a few years after they had comprehensively reformed traditional defined benefit pensions without putting in place any rules for the most part for defined contribution plans like the 401(k) that would soon emerge. So, in a sense, we have not had this debate that we had over traditional defined benefit pensions.

So I mentioned that we should try to think about how to make them better forms of private risk sharing. But I would also echo something that has been said already: That we need to separate out the profit sharing plan part of 401(k)s. Right now companies are encouraged to match contributions with company stock. That makes no sense. We have vehicles for doing that in the form of

profit sharing plan. We should at the very least adopt the same rules for these 401(k)s that we do for defined benefit pensions that limit the amount that can be in company stocks.

And then finally, and this is just to focus us again on the bigger picture, one of the fears I have about 401(k)s is they have become an all purpose safety net for many workers who borrow against them or use their lump sum payments to deal with present needs. Let us address those present needs while restructuring 401(k)s to make them better sources of retirement income.

Chairman MILLER. Present needs, you mean because of a health emergency or——

Mr. HACKER. Absolutely. A health emergency, the need to deal with lost income because of a lay-off. We see this again and again. And notice what happens with the 401(k) now. You lose your job. You lose your job and suddenly you are presented with a check, a large check from your former employer, perhaps, that is your 401(k) balance. Now I ask you how many people in that situation would be able to resist the temptation to use that check to be able to finance their current consumption.

In fact, the research I cite in my testimony suggests that there is very strong evidence that people spend their lump sum balance precisely when they face health problems, lay-offs or family emergencies that require that they spend money. I think we should try to deal with those needs outside of the 401(k) system and make the 401(k) system a better source of a secure retirement income.

Chairman MILLER. Mr. Joyce?

Mr. JOYCE. Two comments. When we use the word "risk" there's more than one type. And what we are experiencing now is somebody referred to as the wake-up call from hell recently about what we call market risk and credit risk. So we talk about guarantees and so forth, and there's a major wake-up call as who is doing the guaranteeing here. And we can see once again we learn the same things over and over through history that if you have too much money guaranteed by one spot, we have learned that you got to be really careful about that. You got to spread that out.

When I started off as a financial planner, we were in inflationary times and really defined benefit plans were looked upon as almost kind of stone age things because what they were bad at, what they weren't good at was keeping up with inflation. So like a bank they can guarantee that they're going to get a dollar back to you, but what they can't guarantee to you is what that dollar is going to buy you. And that can get lost right now because the focus is on these other types of risk.

So the menu of risks is really gigantic.

If I could just offer one thing. My belief is that client behavior is the critical issue in terms of whether or not somebody is successful. Somebody that can't save money or won't save money, I mean it's tough. I would hate to have your job. But there are people that can and do. And with a little bit of guidance they can go a long way. But about the industry in returns and so forth, what they tend to do is Mr. Financial Genius will get you 12 percent a year and Mr. Market has gotten you 10 percent a year. And Mr. Mutual Fund has gotten you eight percent a year, the difference being fees and so forth. But Mr. Investor has only been getting two. And why?

Because of their behavior Dr. Benartzi talked about. They tend to identify the highs and lows, but people have a very bad record in terms of that.

The other thing is if you are basing your retirement plan either on your advisor or you being the second coming of Warren Buffet, then God help you. What we try to tell people is you are probably just going to do okay with your investments and forget about trying to beat the street. I mean, that is probably not possible.

So behavior is really the issue. Are people controlling their spending, choosing their spending, are they thinking ahead in terms of horrible case scenarios? And are you withdrawing a reasonable amount of money from your nest egg?

One other thing is that people when you are younger the things that make you a successful investor like dollar cost averaging and so forth often those are the things i the retirement that are some of the worse things for you. So there is a very different dynamic. The math is very different, if you well, in the accumulation phase as opposed to the distribution phase. And there is very tricky stuff to learn there.

Chairman MILLER. Ms. Woolsey?

Ms. WOOLSEY. Well, while I was sitting here I could not help but kind of gloat what indeed would have happened if we had privatized Social Security? That would be gone, too, with this market. So Social Security, of course, cannot be a person's full retirement but it has to be a safe and it has to be a solid base that can be counted on. And everything else we are talking about needs to be safe and secure so that people can add to their Social Security retirement benefits.

When we talked about investing and having employees investing in the company they work for, Enron was the perfect example. And from that point on, I mean and before then, our Chairman has been pounding on our Committee and it is has been hard because we have not been in the majority all the last two years on this really, that we have to have reputable, accountable counselors at these companies that tell people the straight scoop. But, you know, employees are loyal. They work for a company for a reason. They love their company because they have to go there everyday, they had better like it. And they are pretty willing to let their employer help them decide what to do with their money. And it was Enron that showed us that the executives were not loyal, the CEO was not loyal. The human resources person should have been sitting out in front of the door of that CEO and saying look what is happening to our employees, Would not, did not, could not because of fear of loss of jobs, but they are lost anyway.

So we have a lot of work to do. But what I would like to know again from Ms. Quan and from Mr. Carroll when we talk about scenarios, I think you are in that right now. What does it make you feel like when we talk that way like you could have done something about it when the person that has got a $100,000 has so little, if any, control over what is going on when it is the big corporate investors that are running the show?

I mean, I think right now what they are doing is they drive the market down at the end of the day, they buy, buy and then start

selling, selling off. You know, people are making money on this program or this scenario of what is going on.

What does that make you feel like?

Ms. QUAN. I probably am a representative of a lot of my friends. You know, we have been talking about this, of course, for the last—since the crisis. And they are all in the same boat as I am. But the things we are talking about are 401 failure, right? So there is that failure. Now what are they supposed to do next? Who can they trust? Which plan can they respect? So there is much confusion at this point in time, you know, and everybody concludes put it in a brown paper bag and kick it under the bed, as a joke. But what are we supposed to do at this point in time. Because, you know, I trusted the system and obviously it did not work. So, as I said, my contemporaries feel the same way. And even with my $38,000 loss, I have friends that lost even more. So it is very frightening.

Mr. CARROLL. Thank you for the question. My theory is that to protect the social contract between individuals and their government, we definitely have to have government regulation. The idea that I would know enough about Washington Mutual's so called investment and toxic mortgages, that I would know whether that was a good investment or not, or even that my investment counselor would know it is just nuts. None of us know that kind of thing. The only way to protect people like myself, to protect all of us is to make those kinds of investments very, very different to occur if they are going to happen at all.

I can tell you all kinds of things about the Roman Empire. I cannot tell you anything about mortgage investments. And I need somebody, I need a system that if I play by the rules, as I did, and I do all the things that we are supposed to do that I can trust the system to honor that social contract and live up to it.

Ms. WOOLSEY. And Mr. Chairman, these two wonderful examples of having actually been involved in long term planning. I mean a lot of what we heard and from Dr. Benartzi was you got to look long term. They looked long term. They worked it and played by the rules. And we have to do something.

Mr. JOYCE. May I ask Steve and Roberta some questions?

I am curious when before you retired, especially at work you were a teacher, and did they have STRS people come talk to you or did you ever engage in what we call formal retirement planning where you actually look at your budget and projected and so forth?

Ms. QUAN. Yes, they did come and talk to us. And I was fortunate, as you know my husband with the Alzheimer's——

Mr. JOYCE. Yes.

Ms. QUAN [continuing]. It was very fortunate that I took up the long term care insurance.

Mr. JOYCE. Great.

Ms. QUAN. So that saved my bacon at this point in time.

Mr. JOYCE. Yes.

Ms. QUAN. But as for pension, we have our own pension you know, and you do not necessarily have to come and talk to us, but when you retire you have many choices. And it is difficult to know as a layperson which choice is best.

Mr. JOYCE. Yes.

Ms. QUAN. You know, you could take it lump sum, you could do it month-by-month, whatever.

Mr. JOYCE. Yes.

Ms. QUAN. So we made our choice, and you cannot retrack it once you make your choice.

Mr. JOYCE. Yes.

And, Steve, what proportion of your assets were with WaMu and was the idea that well they are AAA? I mean did you have way too much in one company and obviously looking in retrospect?

Mr. CARROLL. No. I think we very judiciously divided things up. The thing is a $100,000 is a lot of money to lose overnight unless you're Warren Buffet or——

Mr. JOYCE. Yes. Yes. Bill Gates.

Mr. CARROLL [continuing]. Enron or those kind of things. Fortunately for us we have some fall back positions. But I am not sure— we are not confident of anything now because what we were sure of, the reality was exactly the opposite of what we anticipated. So are any of our investments safe? We have not a clue, and I do not know anybody who can. When I talk to people they say well we are in new territory now. We are in new territory. We have never seen this before. And it is true, this is new territory and we have not seen this since 1929. But I think there are better ways to guarantee the basic economic well-being of Americans than we have now. And, again, I think regulation is a huge part of it.

Mr. JOYCE. Yes. If it is any consolation, even sophisticated professional financial advisors struggle with trying to figure things out. And I was on a conference call yesterday with people like myself all around the country and there was just unbelievable complaints about a particular financial vehicle with a very famous well known highly regarded company for the most part that there was some fine print in there that was just unbelievable. And this person was extremely experienced. So it is hard and we really hate to hear about what is happening to you.

Chairman MILLER. Mr. Davis?

Mr. DAVIS. Just two things I wanted to comment. One cultural, and I think this is again something the Committee could do using the bully pulpit that you've begun to use so well.

We have made it common practice in this country to run down Social Security. And the presumption among American workers, I hear it all day every day, is ah there will be no Social Security, it will not be there when I get there, blah, blah, blah. What does that cause people to do? It causes them to take undue risk, more risk in their investment portfolio than they might otherwise take because there truly is a presumption of I'm on my own, that will never there. We as a society if we can pump up the fact that this is a generational promise from one generation to the next and add value to that, whether we need to add funds to it, that's another conversation. But certainly the legitimacy and the strength of that program American workers need to be reminded of it. And I see that every day.

Number two, I need to sound somewhat of an alarm maybe two weeks later than it needed to be, but Dr. Benartzi talked about that the only investment in ERISA that is not diversified is employer stock. Not true. As I said in my comments, they are prob-

ably the most used investment in American that people think is the safest, is the "guaranteed" account offered through insurance products. That is guaranteed only if that insurance company is still there when you go to cash in your guarantee. It in a single non-diversified investment in one financial institution, probably the largest used among investors in America today, and particularly those who think they are the safest. The potential exposure there will make what we are talking about today like nothing.

Chairman MILLER. And I think that the situation we find ourselves in is that that guarantee for a generation of Americans meant something. Because you are talking about brand names.

Mr. DAVIS. Correct.

Chairman MILLER. That they have come to trust. Little did they realize that those very brand names under a different generation of management was engaging in some of the most remarkably reckless behavior that we have seen in financial institutions in the history of this country. So now all of a sudden you do not trust the name brands. You do not trust the name advisors. Where do you go? This is what I am hearing.

You know, I agree, there was a presumption and it is still probably true that Social Security will not be there for you when you need it. What I am hearing now is thank God we did not privatize Social Security because they do not know what they would have done or whether they would have doubled down on a market that was rigged.

And, you know, I do not know when it became an ethic of the banking community that they would make liar loans. I grew up in a generation where the banker was the prudent person in the community that told you "George, you cannot afford that house. You cannot afford that car. You are going to have save more if you want that car because I am going to only loan you this much money, or you are going to have to have a bigger down payment if you want that house because we will only loan you this much money." They were the governor, they were the regulator, Well, they all became river boat gamblers. I mean they all learned from the telecommunications companies that the money is in fees and commissions. It is not in doing business. It is charging a little tiny fee a billion times a day and then you can make real money, and it is invisible.

So what did we find out in California? That almost half of the subprime loans could have as easily been prime loans but the commissions are making subprime loans and the interest rates were higher, and that is what you wanted to market when you were securitizing them. So the banker became your enemy.

Merrill Lynch became your enemy. CitiCorp became your enemy. WaMu was the hottest thing going for the last three years. That is why people were buying bonds and totting it because it went out and captured this huge market share and these huge amounts of deposits. But then they went to Los Vegas with the deposits. We thought they were like real bankers: You take it in here and you loan it out here to people who can pay it back. Liar loans. And this is what we are building people's retirement security on top of these institutions? I mean, these are the people when we were trying to get transparency in fees in the pension bill last year, these are the people who set the lobbyists loose. These are the people who are

ready discussing they are not going to cut back on their lobbying at all because they need this game to stay in play. But this game is not set up to the benefit of the American worker.

You know, we all recognize that there are people who have successfully negotiated and been able to utilize, and in fact two people here their 401(k)s, they have taken a very serious hit because of the way the system has been rigged. But, in fact, they are fairly successful at doing this.

I have nieces and nephews who have done very well in blue collar jobs saving for this. I have not talked to them yet what hit they have taken because they have really worked hard to save. I mean, they worked hard to save because they had tough jobs. You know, you would like to retire.

All of this has changed. And I think this Committee has a very important role. I think the Congress has a critical role in redefining the rules of this game if we are going to keep playing on this table. You know, we have had suggestions that we ought to get rid of this plan, move to a different plan, we have had a number of proposals for universal 401(k)s. Jacob, you have worked on some and others have. I think we have to examine all those. Because to me retirement savings is sort of the old idea if you can handle the worst, you can handle the best. And right now these plans are not set up to handle the worst.

And we all understand there are cycles. But we assume the cycles were based upon sort of normal economic activity and risk taking. Here we have an induced cycle, you know in a hyper cycle because of that reckless behavior by the people that we grew up believing we were supposed to trust. That is gone. And I do not know. I mean, I know the conversations you are having, because I am having them with people at every event I go to in my District, Ms. Quan. These are what your friends and retired teachers and my retired teacher's sister is talking about, you know it is all the same mix here. But I can imagine what you are hearing from your clients in a sense of do I go left or do I go right? Where do I go right now? Because, again, they invested in what we thought were financial icons of a new globalized economy. And it just didn't turn out to be the case.

That does not mean that we are going to disband our efforts to encourage people to save. But I think what we want on the Committee is we want certainly a more efficient use of the tax dollars to subsidize this behavior and a way that we can get appropriate risk and reward in place, and that includes a secure retirement. So it all has to be sort of proportionate. And we know that Congress is really good at these delicate maneuvers like that. It's sort the Goldilocks. We're very good at the Goldilocks solutions in these big complex problems. But there is a great deal of urgency because if people are paralyzed and they are not making those contributions, they are paralyzed and they are not opening those 401(k) plans, if they are paralyzed and they are taking money out, all of that works against them down the road. But I am not in a position to advise them whether they are right or wrong. Because they are looking into a situation which none of them experienced.

We always go back to the Great Depression. But that is sort of the last time we saw something as widespread and as devastating as this.

I would like to ask that we could continue to work with you. This is a very, very high priority for this Committee in the remainder of this Congress, but certainly going forward in the new Congress. Because this has to be repaired. It is critical for all of America's families, it is just that simple whether they are retired, near retirement, young, old or otherwise. This system has to be repaired and right now it is not serving them well.

And I thank you very, very much for your testimony.

Do you have any further questions?

Ms. WOOLSEY. No, thank you.

Chairman MILLER. Thank you very much for taking your time to join us this morning. We are trying to build a diverse and critical record of what we should be contemplating going forward in this Committee. Thank you.

For the members of the Committee, if there are members who want to make statements for the record or add to the record of the Committee, the record will remain open for 14 days so that that can be done.

If there are members of the public who have seen this on CSPAN or streaming from the Education Labor Committee of the House of Representative, we welcome public comments and they can forward those to the House Education Labor Committee.

Thank you very much, and with that the Committee will stand adjourned.

[The statement of Mr. McKeon follows:]

Prepared Statement of Hon. Howard P. "Buck" McKeon, Senior Republican Member, Committee on Education and Labor

Turmoil in the U.S. and global financial markets has impacted all aspects of American life, but for many workers and retirees, the most pressing concern remains the health of their retirement savings. Today's hearing is an important opportunity to evaluate the issue of retirement security in the context of the current market downturn as well as more broadly, through the lens of long-term market fluctuations.

Although the stock market—a common barometer of consumer confidence and market health—has been trending downward for the past year, it is the volatility of the past several weeks that has truly shaken investors and savers. Uncertainty arising from the credit crunch and global banking shifts has brought both upward and downward market spikes of historic proportions.

The market also reacts to the signals sent by policymakers, so another fitting question to ask today might be: what is the impact of congressional action on workers' retirement security? We've seen how the markets react to congressional votes, hearings, and even a few words uttered in haste. What is said here today—by both the witnesses and by Members of Congress—will impact the market, a reality of which we must be mindful. Congress should not be undermining public confidence; to do so could further erode an already fragile market.

American families are hurting. Nest eggs have grown smaller, defined-benefit pensions have become less solvent, and workers nearing retirement have begun to reevaluate whether they can truly afford to stop working. No one underestimates the seriousness of the current market situation.

However, the difficult reality we face today is merely a snapshot in the long-term retirement strategy employed by individuals, employers, and policymakers. When the market was at its peak and workers reaped the benefits of consistent double-digit increases in their retirement portfolios year after year, no one would have advised that low-risk, low-return investment options be eliminated. Similarly, despite the market losses we see today, it would be unwise to abandon the retirement sav-

ings vehicles now available to workers in favor of a one-size-fits-all government mandate that would cement individual losses and prevent future market gains.

In the midst of what many see as a short-term retirement security crisis, now is exactly the wrong time to consider a radical shift in how Americans plan and save for retirement. Instead, we should look carefully, thoughtfully, and cooperatively at long-term strategies that will benefit workers by averting unnecessary risk while maintaining freedom and flexibility.

[Whereupon, at 11:35 a.m., the Committee was adjourned.]