WORKING FOR AMERICA'S RETIREMENT

Press Briefing: It's Not Just Savings, Its Security
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Thank you for being here. My name is Brian Graff and I am the Executive Director/CEO of the American Society of Pension Professionals & Actuaries. ASPPA is a national organization of over 6,000 retirement plan professionals who provide consulting and administrative services for qualified retirement plans covering millions of American workers.

I am very pleased to be here with Governor Keating, as well as to be working with ACLI, AALU, and NAIFA, to emphasize the important role long-term savings vehicles play in promoting the security of American workers. In particular, I want to highlight the success of the current employer-based retirement plan system, which is a critical part of our nation's overall retirement security and savings policy.

At the beginning of this National Summit on Retirement Savings, we ask delegates and policymakers to consider proposals that build on this success, and to be wary of proposals that could, intentionally or unintentionally, diminish the incentives for workplace retirement plans.

Simply put, workplace retirement plans have been one of the most effective means to get low-to moderate-income workers to save. According to the Employee Benefits Research Institute, low- to moderate-income workers are almost 20 times more likely to save when covered by a workplace retirement plan. Of workers who earned $30,000 to $50,000 and were covered by a 401(k)-type plan, 78 percent actually saved in the plan, while only 4 percent of workers at the same level of income, but not covered by a 401(k)-type plan, saved on their own. This stunning disparity cannot be overlooked when evaluating our nation's savings policy. In large part, the difference is due to the convenience of payroll deductions, the culture of savings fostered in the workplace and the incentive of the matching contributions provided by the employer.

More than anything else, employer-sponsored retirement plans are responsible for making middle-income Americans part of the "ownership society," to which the President often refers.

No one is suggesting the employer-based retirement plan system is perfect. Coverage rates need to be improved, particular among smaller businesses. However, over the last decade small business retirement plan coverage has significantly increased, thanks in large part to legislation designed to improve such coverage enacted by Congress. Further improvements in coverage rates remain possible and should be an important policy priority.

At times, it feels almost un-American to be saying something nice about our nation's tax code. However, the fact is that there are some things that work pretty well, and the employer-based retirement plan system is one of those things.

Accordingly, as delegates and policymakers consider other efforts to increase opportunities to save, we ask them to not lose sight of the fact that the current employer-based system has allowed millions of Americans to accumulate far more retirement income than would have been possible without it.

We are particularly wary of proposals for individual savings vehicles with tax incentives similar to those provided by workplace retirement plans—which may look seductively enticing at first glance—but which do not provide the personal financial protection offered by the long-term savings vehicles the Governor and I are discussing today.

When considering savings incentives, we need to be careful to continue to emphasize long-term savings vehicles, like workplace retirement plans, which ensure that funds will be there when needed for retirement. If incentives for long-term savings are not the priority, and there is no longer a meaningful incentive for long-term savings, workers will simply not save for retirement. Why would they lock up their money for retirement if there is no real incentive to do so?

Why would business owners, particularly small business owners, shoulder the cost and administrative hassle of establishing a retirement plan for their workers, if there was no longer any real financial advantage for the owners to save in the plan?

The success of the employer-sponsored retirement plan system relies on valuable tax incentives. And while this structure is far from perfect, it is certainly not broken. We must be careful of proposals that could, inadvertently, make things worse.

If workplace retirement plan no longer offer a special tax advantage, employers will be less likely to offer such plans and workers will be less likely to save in them. Instead, if they save at all, it will likely be in short-term savings vehicles to which they will have ready access, making it more likely than not that these savings will be spent, in whole or in part, well before retirement, and thereby threatening their future economic security.

The potential policy implications of such a shift away from long-term retirement savings will be significant. The future retirement security of middle-income working families will likely be impaired.

An effort to achieve greater total savings must not be an excuse to abandon or diminish the current system that already so successfully encourages savings, particular by those workers who are otherwise not likely to save.

When it comes to encouraging savings, the employer-sponsored retirement plan system has a proven track record. It is not surprising that one study showed that households covered by an employer-sponsored retirement plan are more than twice as likely to achieve retirement income adequacy compared to households not covered by a plan.

Not all savings is alike. Through the special incentives afforded the employer-sponsored retirement plan system, Congress has always acknowledged the importance of encouraging long-term retirement savings by our nation's workers. These plans are designed to ensure that needed savings will be available for retirement through restrictions on distributions and/or penalties for early withdrawal.

We must always remember that it is not just savings, its security.