Statement of Chairman Gordon H. Smith
U.S. Senate Subcommittee on Long-Term Growth
and Debt Reduction of the Committee on Finance

"Saving for the 21st Century: Is America Saving Enough to be Competitive in the Global Marketplace?"

April 6, 2006

Good afternoon and thank you all for coming.

We're here today to discuss a topic of growing concern in America – national savings. The bottom line is Americans simply are not saving enough. This is true of both our government and our citizens. Our national savings rate is among the lowest of any other major industrialized country. And, for the first time since the Great Depression, we have a negative personal savings rate in this country.

These savings trends are especially troubling because of the dramatic demographic shift our country is about to experience. By 2030, the segment of our population over age 65 will become twice as large as it was in 2000. This shift has been described by some as an "aging tsunami."

Americans are living longer than ever before and spending more years in retirement. A person who reaches age 65 can expect to live another 18 years. And, most Americans retire before they reach age 65. If you boil it down: that is 18 years a person is consuming—medical care, housing, food, and other resources—while in retirement while not producing or contributing to the national economy. Americans are simply consuming more in retirement than previous generations.

You compound this problem with the new wave of Baby Boomers going into retirement and you have a demographic train wreck.

The first of the Baby Boomers will turn 60 this year. Therefore, over the next few years as the Boomers reach retirement age, a huge wave of Americans will be leaving the workforce. This trend will have a significant impact on our economy. Unless our immigration policy changes, it will likely result in future labor shortages. This will hurt both the competitiveness of American businesses and our economy will stagnate.

Because of the sheer number of baby boomers, we also must be concerned with a potential "brain drain." Our workforce will be losing some of our most experienced workers – many of whom have skills that simply are not replaceable.

All of these trends – the aging of our population, our increased life expectancy and the impending retirement of the Baby Boomers – will place significant strains over the next several decades on our senior entitlement programs of Social Security, Medicare and

Medicaid.   While these programs have improved many Americans' lives, the reality is that they simply cannot be sustained long-term in their current forms.

Under current law, benefits will grow much more rapidly than revenues because of the increase in the number of retirees versus workers. In 1950, there were about 16 workers for every Social Security recipient. Today this ratio has fallen to about three workers per retiree. By 2030, there will only be two workers for every retiree receiving benefits.

Federal spending on entitlement programs will increase considerably over the next few years. In 2004, Social Security and Medicare spending accounted for about six percent of GDP. By 2030, it is projected to increase to about nine percent.

Reforming our entitlement programs is necessary. But, we must do so in a thoughtful manner so as to not hurt those Americans who rely on these benefits the most.

These reforms will require some difficult political decisions. I think most of my Senate colleagues realize that we must act soon to ensure that these vital retirement and health care programs are around for the next generation.

In addition to our entitlement programs, I have spent a great deal of time over the last year examining the issue of retirement savings. As I noted earlier, most Americans are saving less than ever before – and many Americans are not saving at all! This is a very disturbing trend that needs to be reversed to ensure that our seniors are financially secure during retirement.

To address our low savings rate, last June I introduced a bi-partisan retirement savings and security bill with Senator Conrad. One of the key savings proposals in our bill encourages employers to adopt automatic enrollment in 401(k) plans. In order to participate in most 401(k) plans today, employees must fill out a form and actually sign up. However, under automatic enrollment, employees are automatically enrolled in their employer's 401(k) plans unless they opt out.

Automatic enrollment has been shown to increase participation in 401(k) plans significantly – especially among low and moderate income individuals. The impact of this simple change produces amazing results!

Saving for retirement is important for all of us. Therefore, I will continue to work to encourage and assist people with preparing for retirement.

In conclusion, long-term economic growth will not occur without sacrifices. We can do two things with our money: we can buy things that we consume immediately or we can invest our money which will enable us to continue to grow our economy. Long-term savings and investment in our economy is the only way America will stay competitive and, ultimately, provide for Americans in retirement. With the aging tsunami about to hit, it is critical that we as a society begin to save and invest more of our assets.

I'd like to thank our witnesses who join us this afternoon. I look forward to hearing your testimony and what I hope to be a productive dialogue on some of the most pressing social issues of our generation.

With that, I'll turn to my colleague Senator Kerry for his opening remarks.