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Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Tax Reform and Retirement Savings
As prepared for delivery

Franklin D. Roosevelt once said, "True individual freedom cannot exist without economic security and independence."

For true economic security, Americans approaching retirement need to know they will have enough money every month to get by.

Retirement security is often described as a three-legged stool. The first of those legs – Social Security – is crucial to the stability of that stool. Prior to Social Security's enactment, half of all seniors lived in poverty. Since that time, seniors in Montana and across the country have come to rely on the Social Security benefits they've earned through years of hard work.

So we must – and we will – do what it takes to ensure that leg of the stool remains sound. But the average Social Security beneficiary receives only slightly more than $14,000 each year. As a result, most Americans will not be able to retire on Social Security alone.

So today we will examine the other two legs of the retirement stool: personal savings and employer-provided retirement plans.

Our tax code has several key provisions that encourage Americans to save for their retirement. The tax benefits apply to pensions, Individual Retirement Accounts, and employee stock ownership plans. These tax incentives add up. In total, they cost more than the tax preference for employer contributions to health insurance plans, and they cost nearly 50 percent more than tax expenditures on the home mortgage interest deduction.

The United States has the most successful private retirement system in the world, but for the amount our country spends on retirement savings, are we getting enough bang for our buck?

For much of the period from World War II through the mid-1980s, the majority of retiring American workers could depend on a pension plan from their employer. These defined benefit plans provided lifelong monthly payments to retirees. The retiree could not outlive his retirement plan. In 1980, 84 percent of Americans working for large and medium-sized employers participated in these plans. But by 2007, less than one-third of workers in large and medium-sized companies participated in this type of plan. These numbers continue to shrink.

This dramatic trend away from pension plans has been coupled with a trend toward defined contribution plans. In a defined contribution plan, workers receive a lump sum when they retire. Under these types of plans, both the employer and employee commonly have the opportunity to contribute to the employee's account.

The increasing reliance on defined contribution plans blurs the line between personal savings and retirement benefits. The individual manages his or her own account. This account does not necessarily have to be used for retirement purposes.

And, the retiree must avoid the temptation to spend these savings prior to retirement or spend too much too early in retirement. Unlike defined benefit plans, defined contribution plans do not provide stipends or insurance to cover long-term care expenses.

This means that a retiree can outlive his retirement savings whether due to inflation, market declines, unexpected health expenses, or even the good fortune of living longer than expected.

And many do. In spite of the tremendous tax preferences for retirement savings, many Americans are left without sufficient resources to maintain a comfortable retirement.

The General Accounting Office found that the median retirement account balance for Americans ages 60 to 64 was $60,600. This means the average retiree can only spend about $4,200 per year on top of Social Security given current life expectancy.

That same report indicated that nearly 30 percent of all Americans in the workforce for 25 or more years had zero retirement savings.

Perhaps most troubling is that fewer than half of all American workers work for an employer that sponsors a retirement plan, and the half of Americans who do not have access to an employer-sponsored retirement plan are almost entirely middle or low-income. This means they are far less likely to have other forms of savings.

These numbers do not paint a pretty picture for a large chunk of the baby boom generation approaching retirement. We have to do better. We need to look for ways to do more with less.

I look forward to hearing from today's panel on their views whether there are steps we can take to improve these numbers for those nearing retirement today. And we must do what we can to make sure future generations don't find themselves in the same boat.

So let us find ways to improve and increase retirement savings for millions of Americans. Let us look to make our retirement savings system more efficient. And let us work to ensure that more hard-working Americans have the savings they need to enjoy the retirement they deserve.

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