Testimony from Jean Chatzky
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Good afternoon. I want to thank the committee for taking the time to address this crucial issue. Magazine covers and tv ads show us a consistent picture of retirement. A couple lazing on the beach. Another on the golf course. Unfortunately, for most Americans these are fantasies. Data from the Employee Benefits Research Institute shows us that even for good-earning Baby Boomers and Generation Xers, there’s a 50 percent chance of running out of money in retirement. This means they’re not going to have enough money to pay for the basics, let alone the added health care expenses that can run six-figures or more.

According to the research, 41% of people in the lowest 25% of American earners ($0 -- $11,700 a year) were likely to run short of money after 10 years in retirement, and 57% after 20 years. Those percentages continued to shrink as earnings increased, but 5% of the highest 25% of American earners ($72,000 and up) are likely to run short of money after 10 years in retirement and 13% after 20 years. As I watch Willard Scott wish a happy birthday to what seems like more centenarians every week, that’s not a comfortable proposition.

Fortunately, we now have at our fingertips other research that points the way toward solving this problem. The passage of the Pension Protection Act in 2006, brought down the barriers for those employers who wanted to auto-enroll people into their retirement plans. It's been hugely successful. In companies that have automatic enrollment, 80% to 90% of people are in the company retirement plan. In companies that don't have it, half that many people (particularly younger and lower income workers) are in. And 401(k) participation reduces the risk of running out of money to 20%. That's significant.

But it is not enough. Going further to solve this problem – to encourage even more Americans to put more of their hard-earned dollars away for tomorrow is a matter of doing three things.

First, use the incentives at your disposal to encourage more employers – particularly small ones -- to offer plans. And put an alternative in place for those that don't. Workplace retirement savings works because it's easy. By taking the money out of employees' hands before they have the chance to spend it, it's as if it was never there to begin with. For that reason, the Auto IRA proposed last fall should be revisited. By requiring employers who don't sponsor plans to auto-enroll workers into individual IRAs, you cross the first hurdle. You make sure individuals have retirement plans. Of course, employees will have the right to opt out. But inertia will win – and most won't.

Second, encourage workers to save more. The financial community – and the media – has led workers astray when it comes to successfully achieving retirement savings goals. First, Americans were told that investment selection, picking the right stocks and mutual funds, is the key to success. Next, they were told it was all about asset allocation, deciding how much of your pie to put in stocks and bonds and cash. Neither of these things is true. The only thing that will get most Americans to a comfortable retirement stash is *saving more money*. (I have attached an analysis by Principal Financial that compares the three approaches. It is eye-opening.) You do this, again, by letting behavioral finance work it's magic. Automatically escalating workers contributions until they hit the maximum contribution levels is key. We don't miss the money when we don't ever see it in the first place.

But the third component – educating workers – is also crucial. And it works. The SMaRT savings program (an approach, short for Save More Tomorrow, developed by behavioral economists Richard Thaler of the University of Chicago and Shlomo Benartzi of UCLA) is an auto escalation program, which requires annual contribution increases of 3 percent until you max out. It was recently offered – accompanied by financial counseling – to every employee at a company of 300 workers. More than half, 160, took the bait. And after three years, the savings rate of these employees had gone up from 3.5 percent to 11.6 percent. It tripled. Other companies have seen even greater success.

As Baby Boomers age, we will continue to see a shift in the message emanating from Wall Street. There will be more talk about annuitizing, managing retirement income, making your money last. That's all well and good. But it's useless if we don't tackle the accumulation problem first. We need to make sure Americans have enough money to begin with.

Thank you.