"Helping Americans Save"

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Mr. Chairman and Members of the Committee, I am delighted to have this opportunity to present testimony today, and look forward to answering any questions you may have. I am honored to be here, and I commend you for holding a hearing on this vital topic.

Money is inextricably tied to virtually all facets of American life. Children make their first assisted purchases at age 3 – in the supermarket, not the toy store – and if you ask a typical 6-year-old where money comes from, he or she is likely to say, "The ATM!" High school students can get credit cards, college students can borrow tens of thousands of dollars, and workers are forced to make their own investment decisions in the company 401(k). Consumers are offered opportunities daily to "buy-now-pay-later" and if you try to buy a big screen TV, you'll find that the price is not $3,000 but "only $39.99 per month." The legal, tax and financial complexities have never been greater. In 1964, the authoritative tax guide published by Commerce Clearing House was 19,500 pages. Today, it's more than 60,000 pages across 25 volumes.

I'm not here to complain about that tax code. In fact, part of the reason that the tax code is more complex is that life today is more complex than it was a generation ago. For most of the 20th Century, people were likely to spend their entire careers working for one company. They bought one house and lived in it their entire lives. Today, of course, life is much different. The average American changes jobs every four years.[1] Fifteen percent of Americans move each year.[2] Fifty percent of marriages end in divorce, and more than half of those who divorce will remarry.[3] We're also having children later in life than ever.[4] All this is in addition to the massive changes

in our lives due to terrorism, technology and new social issues, from gay marriage to euthanasia.

As a result of today's complexities, it's harder than ever for ordinary consumers to make effective financial decisions, decisions that have huge implications for their future. The real problem is not a complex tax code – although certainly that could use some improvement – but that we don't give Americans the education and information they need to make good decisions for themselves and their families.

The answer to this dilemma is clear: We must establish financial literacy as a primary objective of this government. America's youth are given the training, tools and skills to make money in the workplace, but we do not give them the knowledge they need to manage that money effectively. As a result, debt levels[5] and bankruptcies[6] have never been higher. And, not surprisingly, so are divorce rates, depression and suicide. Indeed, the rich – the few who do know how to handle money properly – are getting richer,[7] and the poor – the masses who do not understand the simple basics of money management – are getting poorer.[8] Indeed, 91% of today's retirees depend on Social Security for critical financial support,[9] compared to only 31% in 1962.[10] Rather than empowering Americans to control their futures through individual financial independence, we are making them dependent on government assistance.

The American Savings Education Council, the Employee Benefit Research Institute, the Jump$tart Coalition for Personal Financial Literacy, the National Endowment for Financial Education and the Edelman Center for Personal Finance Education are devoted to helping you learn how money works and how to make it work for you. But these voluntary charitable programs are not enough. We must get financial literacy programs embedded into our schools as requirements for all students. Along with reading, writing and arithmetic, students must learn the truth about money – how to earn it, save it, spend it and donate it.

Make financial literacy the cornerstone of America's education curriculum. Require it in schools and in the workplace. It's easy to teach, and the audience is receptive – for who doesn't want to learn how to avoid debt, buy a home, pay for college, drive the car of their dreams and become wealthy?

You have asked me to tell you how we can boost America's saving rate. The answer is simple: Many people fail to save because they feel they don't have enough money to save. They think their money is tied up with current bills, and with the pennies left over, they think it's just not worth it. They couldn't be more wrong, and all it takes is a little education to show them why. Here's one simple example: Most high school and college students would agree that they could save $3 a day once they enter the workforce. If they do – if they save just three dollars a day throughout their working careers – they can enter retirement with more than $1 million. You see, it doesn't take money to make money, it takes time. And once people learn the power of time, the power of compound interest, and the ease of saving small amounts over long periods, they can get excited about their future.

For that is what financial literacy is all about: Helping people get excited about the future. The future is the home of our dreams and aspirations, and focusing on the future is the first step in getting from here to there. Mr. Chairman and members of the Committee, there's only one thing you need to do: Add financial literacy to the Three Rs.

To implement this, you'll need the participation of America's educators and employers. The education part is easy: Just provide financial elements in current class work. For example, when teaching gradeschoolers how to count, have them count pennies, nickels, dimes and quarters. When teaching algebra and geometry to junior high school students, teach them the time value of money. And when teaching history to high school students, have them explore how financial considerations influenced major public and social events. Although this sounds like common sense, only eight states currently require students to take a personal finance course.[11] That's only 15% of the nation's high school students. The rest are graduating from high school financially illiterate and completely unprepared when signing up for credit cards, buying a car, renting an apartment, or joining a company 401(k) plan. Often, these kids don't even know how to open a bank account or balance a checkbook.

We have similar problems in the workplace. Today's workers are told to pick mutual funds for their retirement plan, but many don't even know what a mutual fund is, let alone how to pick one. Currently, less than half of the nation's large employers offer financial education programs, and none require participation.[12] We need to require training that helps workers prepare for retirement, and we need similar initiatives for all other aspects of

personal finance, including insurance, saving, wills, home buying, mortgages, and paying for college.

America is the greatest, most prosperous nation on Earth. Our job is to make sure that that prosperity is enjoyed by every member of our society.

Here are specific recommendations for your consideration:

1. **Require that the nation's schools include financial literacy in the curriculum.**

2. **Delay Social Security eligibility to age 70 for Americans under the age of 50.** Thirty percent of American workers say they are "counting on Social Security to provide most of their retirement income."[13] By delaying and reducing those benefits, American workers will get the message that they, not the government, are responsible for their financial future, giving them the inducement they need to save. Most of those who are near retirement have too little time to save the money they need, but younger workers can and should take responsibility for their own future. Furthermore, the Social Security system was not designed to pay any one person so much in benefits for such a long period as it does today. Indeed, when Social Security was created in the 1930s, retirees were expected to receive benefits for 12.7 years.[14] Today, males who attain age 65 can expect to live 15.3 years, or 20% longer. The system cannot afford this, and was never designed to do so. It must be fixed.

3. **Delay to age 80 mandatory withdrawals from IRAs and retirement accounts.** Currently, Americans are required to begin withdrawing money from these accounts at age 70½. This made sense a generation ago, when workers generally retired at age 60 or 62, but today, millions of Americans want or need to work into their 60s and 70s. Therefore, they should not be required to make withdrawals sooner than they need the money. By delaying the age of mandatory withdrawals, their savings can continue to grow until truly needed.

4. **Replace current retirement plan regulations with one universal program.** The amount of money one can save in a retirement plan depends on where he or she works. As a result, workers in large corporations typically can save more money in a retirement plan than

those who work for small employers. This is a big problem for the majority of American workers, because 56% work for small businesses.[15] In fact, 87% of employers have fewer than 20 employees.[16] Furthermore, the variety and complexity of current plans is mind-numbing: 401(k), 403(b), Profit-Sharing, Money Purchase, SIMPLE, SARSEP, SEP-IRA and more. The costs associated with compliance discourage small employers from offering retirement plans to their employees, and the complexity discourages employees from participating. Congress should replace the current myriad rules with one set of universal rules for use by every employer in the nation.

5. **Permit people to save for retirement even if they are not currently earning an income.** Millions of stay-at-home spouses will tell you that they work; they just don't earn an income. To encourage people to save, permit them to establish retirement accounts even if they have no current income.

6. **Permit people to save for retirement regardless of their age.** By allowing parents and grandparents to set money aside for a newborn, small investments can lead to huge future portfolios. For example, a one-time contribution of $5,000 at birth that earns 10% per year would be worth more than $2.4 million when the child reaches age 65. My invention, the Retirement InCome – For Everyone Trust®, should be used as a model for use nationwide.

7. **Eliminate the ability for workers to borrow from their retirement plans**. It's a good intention gone awry: Originally, lower-income workers balked at the idea of diverting some of their paycheck into a retirement plan out of fear they might need the money. Congress responded by allowing workers the opportunity to "borrow" monies from the plan without taxes or IRS penalties. But this has backfired: 17% of all American workers who participate in a retirement plan have borrowed money from their accounts; the average loan is 16% of the account balance.[17] Ironically, those with salaries between $40,000 and $100,000 are more likely to have a loan than those earning less than $40,000.[18] Thus, millions of middle-class and low-income workers have thwarted their retirement savings efforts. The ability to borrow should be eliminated – for their own good.

8. **Eliminate the ability for employers to distribute funds to terminated employees.** Current rules permit employers to close accounts of less than $3,500, returning those funds to workers who have separated from service. Furthermore, 72% of accounts valued from $5,000 to $10,000 are cashed out prior to retirement.[19] Workers receiving these funds often are forced to pay taxes and IRS penalties on the distribution, and the money is typically spent rather than reinvested in an IRA or other savings vehicle. Require employers to maintain these accounts, so that workers are more likely to retain the assets until retirement.

9. **Extend to IRAs the same creditor protection currently enjoyed by qualified retirement plans.** This will enhance the desirability of IRA accounts.

Thank you for this opportunity to share my thoughts.

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[1] U.S. Bureau of Labor Statistics
[2] U.S. Census Bureau
[3] U.S. Census Bureau
[4] U.S. Census Bureau
[5] Federal Reserve
[6] Administrative Office for the U.S. Courts
[7] Internal Revenue Service
[8] Federal Reserve, U.S. Census Bureau
[9] *Implications of Demographic Trends in Social Security and Pension Reform*
[10] *Criteria for Social Security Reform* by Joseph Quinn
[11] NY, KY, IL, ID, KS, SC, UT, LA. Source: Jump$tart Coalition for Personal Finance Literacy
[12] Hewitt Associates
[13] Nationwide Financial Services, BIGResearch
[14] Committee on Economic Security, designers of the Social Security program
[15] Employee Benefit Research Institute
[16] Small Business Administration
[17] Employee Benefit Research Institute
[18] Employee Benefit Research Institute
[19] Hewitt Associates