Background and Talking Points Concerning Committee for Economic Development Report: "Who Will Pay for Your Retirement: The Looming Crisis"

Background

The Committee for Economic Development (CED) is an organization composed of leading businessmen, many currently or formerly from the Fortune 500, which develops and publishes policy papers in a wide range of areas. The current paper, "Who will Pay for Your Retirement: The Looming Crisis," will be formally issued on Thursday, May 4. However, we have heard that The New York Times will run a story on the report on Tuesday, May 2. David Johnston is the reporter.

The report tells the standard doom-and-gloom "baby-boomers won't have enough money to retire on" story. It focuses much of the blame on both Congresses and Administrations (mainly Congresses) during the last fifteen years which, in the report's estimation, have severely reduced incentives for retirement savings by (i) reducing tax incentives for savings in order to achieve deficit-reduction; and (ii) adding excessive complexity to tax-advantaged retirement plans for both deficit-reduction reasons and to respond to complaints that the benefits of such plans were disproportionately going to high income people. (We understand Johnston will concentrate mainly on these points.)

The report is also concerned that (i) workers don't fully understand the need to save for retirement, which will put excessive pressure on the Social Security system (of which more is expected than it can possibly deliver); (ii) public pension plans are so underfunded that, in a world of a declining public workforce and tax revolts, public employees are unlikely to receive their promised pensions when they retire; (iii) private plans are inadequately funded; and (iv) everyone is playing political games with Social Security, which will result in it not getting fixed (by, the report recommends, taxing all benefits in excess of contributions, increasing retirement age, decreasing benefits and precluding Social Security Trust Fund surpluses from counting against the general budget deficit) while there's still time. The report takes the position that unless there is increased savings, either there will be widespread disappointment (and likely, poverty) among baby boomers when they retire or the reduced workforce (in comparison to the number of retirees) will be forced into a much lower standard of living to pay for the retirement of their parents.

While there are obviously strong strands of truth to the report's warnings, the report also suffers from an excess of straight-lining of pre-Clinton economic trends. (Much of the data ends in 1991.) Economic growth in general and productivity growth in particular make a huge difference in whether the report's dire consequences will come true or whether the future will in fact be much less unfortunate. We need to change some of the things the report focuses on. This Administration took a major step toward better funding of private pension plans with enactment, in December, of the Retirement Protection Act. Within the next two months we should be able to announce both a pension simplification initative, which should increase the incidence of employer-sponsored pension plans, and an education initiative, which will be done in concert with employers. However, the real thing we need to focus on is making the economy work better and work for everyone. That's what we've done that the Republicans (i) didn't and (ii) are trying to kill. That's where we should focus the debate on this report. And we should probably try to make Secretary Reich the focus of our response to the report.

Talking Points

1. The CED report focuses on some important issues that this Administration is deeply concerned about, but does it in an excessively narrow way.

2. The future financial health of this country and all Americans is hugely dependent on overall economic health, growth and productivity, not just on funds businesses, individuals and government specifically set aside for retirement.

3. This is why our Administration has fought hard both to increase national savings by reducing the federal deficit and to reorder the federal government's priorities toward investment -- in our children's health, education and training; in continuing learning and training for adults; in research and development; in helping our industrial base restructure for the future. In particular:

- Our deficit reduction program has generated two years of strong growth, low inflation and job creation. This is the kind of economy that makes it possible for workers to have good jobs into retirement and to save for many purposes, including retirement;

- The President's proposed targeted changes to the rules for Individual Retirement Accounts that will enable more of the middle class to use these tax-advantaged savings vehicles to save money to pay for education and training, a first home or medical expenses. This will encourage new savings among families who find it difficult to think about saving for retirement when other long-term needs such as investment in their own or their children's education seem to have priority.

Republican attempts to destroy these programs are as harmful to the future retirement security of all of us as their blunderbuss proposals to cut Medicare without reforming the health care system are to the financial security of those who are already in their retirement years.

4. We've also taken direct steps to enhance retirement security. The Retirement Protection Act, one of this Administration's first priorities, was signed into law in December. It will help ensure that workers and retirees who have been promised pension benefits by private employers will get those benefits by increasing funding and enhancing the enforcement authority of the Pension Benefit Guaranty Corporation. In addition, under the RPA and recently proposed PBGC regulations, employers whose pension plans are underfunded will be required to provide employees with plain language information about the extent of any remaining underfunding and its consequences.

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

27-Apr-1995 01:36pm

TO: (See Below)

FROM: Ellen S. Seidman
National Economic Council

SUBJECT: CED report on retirement

On MAy 4, the CED (lots of big-firm CEOs) will put out a report that will be highly critical of current retirement policy. Not highly critical of this administration, but highly critical of where we are, courtesy of many administrations and Congresses. The recommendations come mainly in six areas: (i) simplify private pension plan regulations so there will be more private savings; (ii) reverse some of the limitations on contributions to private plans that were added for deficit-reduction and anti-discrimination purposes, mainly in 1987; (iii) fully fund all retirement promises -- private, government (to its employees) and public (e.g., Social Security); (iv) do a major government/business education campaign to make people understand they've got a responsibility to save for retirement; (v) get Social Security on a better footing by making changes TODAY in out-year retirement age and benefit levels; and (vi) change the way Social Security surpluses are used so the money can't be used to balance the budget. As you know, I have a group hard at work on developing proposals for item 1 and, to some extent, item 2 (although that will be much harder). We pretty much fixed item 3 for private plans in the December pension reform legislation, but the government and social security stuff is still an issue. The Labor Department is working on -- and may be close to ready to announce -- a big education campaign (item 4), which may have a major employer element in it. LEt's just say there are political forces that make items 5 and 6 extremely difficult.

I think we need to have a strategy for dealing with this report, which will be issued concurrently with the WH Conference on the Aging, probably not a coincidence. CED reports generally get a fair amount of press. And their political naivete makes them very attractive for newspaper coverage -- particularly outside of DC. My own wish would be to welcome the report, take credit for being ahead of them on a number of items (they seem to have totally missed the Retirement Protection Act which passed last December, for example, and which increases pension funding in private plans), and issue a challenge to the CEOs to help change the political climate to make it possible to implement their recommendations.

sim to Soc Sec

How would you suggest going about getting agreement on a strategy and pulling it together?

Ellen

- Resol / H Key pts

- gen'l consensus
6-5359

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THE WHITE HOUSE

WASHINGTON

July 26, 1995

Mr. Eli Broad
Chairman and Chief Executive Officer
SunAmerica, Inc.
37th Floor
One SunAmerica Center
Century City
Los Angeles, California 90067

Dear Eli:

Thanks for your thoughtful letter about retirement issues. It was good to have you on the panel at the White House Pacific Rim Economic Conference.

As you know, I share your view that we must encourage our fellow Americans to plan for retirement. In this effort, as you may know, the Department of Labor and the Department of the Treasury recently launched a national retirement savings education campaign. Secretaries Reich and Rubin are spearheading this effort to raise awareness about the importance of planning for the future.

My Administration has sought also to strengthen our nation's pension plans, and I worked with Congress last year to pass the Retirement Protection Act of 1994. This new law brings about comprehensive reforms that will strengthen plans that are underfunded, require businesses with the riskiest plans to pay their fair share of pension insurance premiums, and ensure that both workers and retirees receive better information about their pension plans. These reforms will improve pension funding in a balanced and affordable way, helping hardworking citizens plan for their futures effectively.

Finally, Vice President Gore and I are currently working to simplify and improve the pension system through our reinventing government efforts, which will help to ensure a future of greater security for retirees.

As we seek to encourage retirement savings and increase economic security for all Americans, I appreciate your thoughts and will certainly keep them in mind. I hope to see you again soon.

Sincerely,

Bill Clinton

Eli – I'm going to have the NEC work through your ideas and I'll also consider the commission you suggested – You've run this up on my radar screen – Thanks

Bill

Robert J. Samuelson

Baby Boomers and the Savings 'Crisis'

Actually, they're putting quite a bit away.

In our crisis-obsessed society, the latest catastrophe is the alleged undersaving of the baby boom. Everyone "knows" that baby boomers are short-sighted and selfish; naturally, they're not saving enough. A study done for Merrill Lynch by a Stanford University economist concludes that typical baby boomers are saving only a third of what's needed to maintain their standard of living in retirement. The Committee for Economic Development, a business group, warns of a "crisis" in retirement income. Guess what. All these alarms are enormously exaggerated.

Just how much people will "need" in retirement is, of course, guesswork. It depends on many shifting factors: life expectancy, retirement ages, the generosity of government programs. But the best evidence indicates that perhaps two-thirds to three-quarters of younger Americans will save adequately for retirement if all the usual sources of income (Social Security, private pensions and personal saving) are counted. Everyone between 30 and 50—the baby boom—is not a self-indulgent imbecile.

The idea that Americans aren't already saving huge amounts is a myth. In 1993, the value of all savings for pensions and retirement accounts totaled $5.8 trillion, reports the Employee Benefit Research Institute in Washington. That was up $1 trillion from 1991 and $3.5 trillion from 1985. (The total covers company pension plans, so-called 401 K plans, individual retirement accounts and other types of retirement savings. It does not include Social Security.) Indeed, the flow of billions of dollars, month in and month out, into pension and retirement accounts may be one reason for the buoyancy of the stock market.

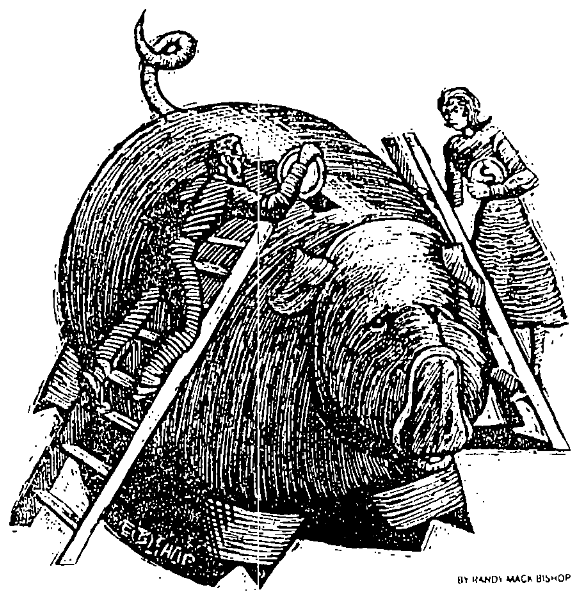
The Merrill Lynch study assumes that people should maintain the same level of consumption after retirement as before. This standard sounds sensible, but it may not be. In 1993 the median household income of those over 65 was only 57 percent of the median income of all households. Although that seems shockingly low, older Americans express far more satisfaction with their economic well-being than younger Americans. Consider people's evaluation of their financial status, as reported by the National Opinion Research Center at the University of Chicago:

AGE	*25-64*	*65+*
Satisfied	25.9%	44.3%
More or Less Satisfied	46.9	44.5
Not Satisfied	27.2	11.2

One reason the elderly are more satisfied with less income is that their cash needs are less. Work expenses (travel, clothes) are gone or vastly reduced. So are child-rearing costs. Most furniture and appliances have long been bought. Medicare covers many health bills. About three-quarters of older Americans are homeowners, and about four-fifths of them have completely repaid their mortgages. "The day I pay off my mortgage, my pretax income can decrease as much as a third and I can maintain my lifestyle," says Dallas Salisbury, head of EBRI.

Not surprisingly, many economic studies do not find glaring shortfalls of retirement income. Economist James Smith of the Rand Corp. estimates that the typical retiring household—one at the midpoint of income distribution—has retirement income equal to about 70 percent of its pre-retirement level. Economist William Gale of the Brookings Institution reviewed the Merrill Lynch study and concluded that, even with its exacting standard, about half of younger Americans save adequately and that many who don't "aren't that far off."

"I don't think a whole generation is at risk—the way it's sometimes portrayed," says Gale. "It's more of a distributional problem." Precisely. Common sense suggests that poor working people won't become rich retired people. Millions of Americans have little private savings and no pension coverage. In a new survey, the Labor Department found that about one-third of full-time workers over 45 didn't have a pension. Smith's study shows that roughly the same proportion of Americans have little if any financial assets (savings accounts, stocks, bonds).



BY RANDY MACK BISHOP

It is these people who depend almost exclusively on Social Security and Medicare. The real problem is how to ensure that those programs remain adequate for the poor without becoming so costly they create oppressive tax burdens for everyone else. Already, programs for the elderly account for more than a third of all federal spending; the aging of the baby boom will compound cost pressures. Sooner or later, Congress will have to forge a new compact between working and retired Americans.

The sensible thing would be to raise retirement ages for federal programs and to make them more "means tested." That is, people would become eligible later, and benefits would be trimmed(though not eliminated) for those with higher incomes. Changes would be made gradually so that people could prepare. Interestingly, the impact on the need for private saving might be modest. If government programs are less generous, people would need to save more; but if they work longer, they could save less.

Whatever happens, most of tomorrow's elderly won't be destitute. They will have a huge source of wealth that is now virtually unused: their homes. Many elderly don't move and therefore haven't tapped their homes' value for living expenses. But new "reverse mortgages" would let them have it both ways. Homeowners stay put and borrow against their homes. The money is repaid when they die or the home is sold. The potential is vast: The unmortgaged value of the elderly's homes exceeds $1 trillion, reckons the Federal National Mortgage Association.

None of this justifies a generational stigma; but neither does it justify complacency. People should worry. They should examine their pensions. Most Americans should probably save sooner and more. Congress should ensure that its pension regulations don't unwittingly deter participation. It should also clarify the future of Medicare and Social Security. All these are real problems. But can we stop branding every problem a "crisis"?

LYNN - FYI

February 10, 1995

Ms. Deborah Wadsworth
Executive Director
The Public Agenda Foundation
6 East 39th Street
New York, New York 10016

Dear Deborah:

Thank you for send me a copy of your report, "Promises to Keep: How Leaders and the Public Respond to Savings and Retirement." I am committed to ensuring that Americans have greater ability to plan for their retirements, and I appreciate your contributions to this effort.

Thank you for taking the time to write.

Sincerely,

BILL CLINTON

BC/SEM/MM/lynn (Corres. #2031726)
(2.wadsworth.d)

Forward w/copy of inc to Jeremy Ben-Ami, 217 OEOB

THE PUBLIC AGENDA FOUNDATION

January 3, 1995

Honorable William Clinton
President
The White House
Washington, DC 20500

Dear Mr. President:

Public Agenda, in collaboration with The Employee Benefit Research Institute, conducted a year-long comprehensive study of how leaders and the American public respond to saving and retirement. We are today releasing the results of this effort, *Promises to Keep: How Leaders and the Public Respond to Savings and Retirement*, and a copy is enclosed for your review.

Six important barriers to saving for retirement are outlined in *Promises to Keep*, from personality patterns which influence how individuals approach retirement to where they rank retirement on their list of priorities. Of particular note is Barrier 4 which deals with the new "essentials" of middle-class life. Many Americans acknowledge they could save more, but most say they are unlikely to do so. In effect, Americans with discretionary income are unwilling to cut back on their expanded definition of what the "basics" or "necessities" are.

With regard to Social Security, Americans say they are not relying on Social Security to finance their entire retirement. Six in ten Americans say individuals "should take the greatest share of responsibility for ensuring that people have an adequate income in their retirement." A gap exists, however, between stating responsibility and taking action. One-third (32%) of those who say individuals should be the primary source of retirement income have $9,000 or less dedicated to retirement.

A number of measures that could help Americans do a better job of getting ready for retirement are outlined, but, as you'll read in *Promises to Keep*, some of the toughest barriers to increased saving have little to do with a lack of money. I think you'll find this helpful as you continue to frame the retirement debate.

Sincerely,

Deborah Wadsworth

Deborah Wadsworth
Executive Director

6 East 39th Street, New York, New York 10016 212·686·6610

PROMISES TO KEEP

HOW LEADERS AND THE PUBLIC RESPOND TO SAVING AND RETIREMENT

A REPORT FROM PUBLIC AGENDA
IN COLLABORATION WITH
THE EMPLOYEE BENEFIT RESEARCH INSTITUTE