OPINIONS

June 4, 1998

In Search of Retirement Security

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It may not be mentioned in the Declaration of Independence or the Bill of Rights, but the ability of working Americans to look forward to a dignified retirement has become a bedrock principle of American life. But securing the goal that many once took for granted seems more elusive than ever.

It need not be this way. No matter how society resolves the imminent debate on the future of Social Security, the fact remains that there are other prudent steps we could take now that would give future generations the power to put a secure and comfortable retirement within reach.

This week's Retirement Summit, which focuses on these crucial programs, recognizes that a sound Social Security program is only one part of the retirement security solution.

Social Security

Of course, maintaining a strong and solvent Social Security program that provides an impermeable safety net for the elderly and infirm is a profoundly important goal. This challenge is particularly pressing in light of two demographic events. First, members of the "Baby Boom" generation are rapidly approaching their retirement years and evidence strongly suggests that they have not adequately saved for their retirement. Second, Americans today are living longer.

Taken together, these trends will place an enormous strain on the Social Security program in the near future. Social Security payroll tax revenues are expected to be exceeded by program expenditures beginning in 2013. By 2032, the Social Security trust funds will be depleted.

The challenge facing working Americans today is to ensure that they prepare adequately for their financial needs in retirement in addition to what Social Security will provide.

Voluntary Saving

The mutual fund industry has long supported efforts to help individual Americans save for retirement in voluntary programs, such as the Individual Retirement Account, and employer-sponsored plans, such as the popular 401(k) plan. To ensure that individuals have sufficient savings to support themselves in their retirement years, much of this savings will need to come from individual savings and employer-sponsored plans. The mutual fund industry has urged that Congress take three steps to help Americans save more effectively for retirement:

- expand opportunities and strengthen incentives for individuals to save directly and through employer-sponsored plans;
- streamline certain cumbersome regulatory burdens that deter employers from offering retirement plans; and
- keep the rules simple and easy to understand.

The Cost of Complexity

Confusing rules make it less likely that individuals will participate in retirement programs and more costly for employers to offer retirement plans. History proves that saving incentives work best if the rules are simple and consistent. Consider the rule changes associated with the IRA.

When Congress introduced universal deductions for IRAs in 1982, IRA contributions rose from less than $4 billion in 1980 to approximately $38 billion in 1986. Moreover, three-quarters of all IRA contributions in 1986 were from families with annual incomes less than $50,000. When Congress restricted the deductibility of IRA contributions in the Tax Reform Act of 1986, the level of IRA contributions fell sharply and never recovered—to $15 billion in 1987 and $8.4 billion in 1995.

The 1986 changes introduced a level of complexity into an otherwise simple and successful program that was inconsistent with the critical goal of promoting long-term savings. Today, the IRS needs 70 pages of explanations, examples, and worksheets to try to explain who is eligible.

The traditional IRA and the new Roth IRA are excellent ways for Americans of all income levels to save. Policymakers can make both even better and help Americans to save more for retirement by making the deductible IRA available to everyone; increasing the annual IRA contribution limit; removing or simplifying complex income limits on IRA eligibility; allowing Education IRA rollovers into Roth IRAs; and expanding Education IRA contribution amounts so that Americans start long-term saving as soon as possible.

Similarly, the formation of new employer-sponsored savings plans should be encouraged by simplifying the layers of overlapping rules and limitations imposed under current law. These rules have unnecessarily limited the ability of individuals to save through payroll deductions.

Together, these ideas and others being discussed at the Retirement Summit, make good sense for good savings. In the end, focusing serious attention on how to simplify saving for retirement today is one of the best investments that government can make.

6/4/98
