Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
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HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING TAX REFORM OPTIONS FOR RETIREMENT SECURITY

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining tax reform options for retirement income security:

Thank you Mr. Chairman. This is a timely hearing. The issue of retirement security has never been more important than it is today. With respect to public programs, the retirement of the Baby Boom generation is putting enormous stress on both Social Security and Medicare. Congress is going to have to address the solvency of both of these programs — not in the long term, but in the short term.

Fortunately, the private employer-based pension system has become the greatest wealth creator for the middle class in history, especially through 401(k) plans and Individual Retirement Accounts, or IRAs. Despite the ups and downs of the stock market and historically low interest rates, millions of Americans have managed to save trillions of dollars for retirement.

You may be surprised to learn that more money has been set aside for retirement in defined contribution plans and IRAs than in Social Security. That's right. The Social Security Trust Fund holds $2.6 trillion in Treasury securities. But private, employer-based defined contribution plans hold $4.7 trillion. And IRAs hold even more: $4.9 trillion.

Think of that.

IRAs, a voluntary savings vehicle that was only created in 1974, now hold $2.3 trillion more than the entire Social Security system, a mandatory program that has been with us since 1935. That's almost double the assets, just in IRAs. The numbers suggest that 401(k) plans and IRAs have been a resounding success.

Can we improve them? There is always room for improvement. But limiting access to these savings vehicles is not progress.

Putting aside the issue of retirement income, when you consider the fact that your average American will face over $200,000 in out-of-pocket post-retirement medical costs alone, we should probably be expanding opportunities to save.

But make no mistake. Even as currently structured, these savings programs work for millions of Americans.

Yet all of the reforms I read about lately seem directed toward reducing the amount of money that people may set aside in defined contribution plans and IRAs. For example, the National Commission on Fiscal Responsibility recommended capping pre-tax contributions at $20,000. The Congressional Budget Office, or CBO, describes a proposal to reduce annual contributions to 401(k)-type plans by $7,650 for older workers, largely by repealing the ability of workers at age 50 to begin making catch-up contributions. IRA contributions also would be cut by $1,500 for older individuals.

Many of these proposals are offered in the name of greater progressivity in the tax code, and helping lower wage workers. But this just doesn't make sense. Trying to help lower wage workers save for retirement by reducing the 401(k) and IRA contribution limits is like trying to cure a headache with a guillotine. The cure is worse than the disease.

I am concerned that if these proposals were adopted many employers will throw up their hands in disgust and just drop their plans. And Congress has already covered this ground. We already made this policy call. In 2001, Congress *increased* the limits for contributions to 401(k)s and IRAs. At the time, 401(k) contributions were limited to $10,500 per year and IRAs were limited to $2,000. This year a worker aged 50 and over may contribute up to $22,500 to a 401(k). An older individual may contribute up to $6,000 to an IRA. Here is what Congress concluded in 2001, as reported in the Bluebook published by the Joint Committee on Taxation, and I quote:

> *The Congress believed that increasing the dollar limits on qualified plan contributions and benefits would encourage employers to establish qualified plans for their employees. The Congress understood that, in recent years, section 401(k) plans have become increasingly more prevalent. The Congress believed it was important to increase the amount of employee elective deferrals allowed under such plans, and other plans that allow deferrals, to better enable plan participants to save for their retirement.*

Well, it worked. Since 2000, retirement assets in defined contribution plans have grown from $3 trillion to $4.7 trillion, despite the market downturn in 2008. Assets in IRAs have grown from $2.6 trillion to $4.9 trillion. In fact, increased contribution limits worked so well that in 2006 Congress made those provisions permanent, and the vote to make them permanent was overwhelming: 93 to 5.

Today I expect that the Committee will hear about proposals to fundamentally change the 401(k) and IRA system. One of the proposals would eliminate pre-tax contributions to 401(k) plans and IRAs. Instead, workers would make after-tax contributions, receive a tax credit, and then pay ordinary income taxes again when the money is withdrawn in retirement.

Now I am sure these proposals are well intentioned, and I will listen to them with an open mind. But I must say that I am skeptical that it is wise tax and retirement policy to experiment with our current defined contribution and IRA retirement saving system, a system benefiting many millions of Americans, by taking away pre-tax contributions and converting the system into a refundable tax credit program.

Thank you Mr. Chairman.

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