House Financial Services Committee

Hearing on
"Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives"

April 15, 2008
10 a.m. 2128 RHOB

Testimony by Dallas L. Salisbury

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and

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www.ebri.org and www.choosetosave.org

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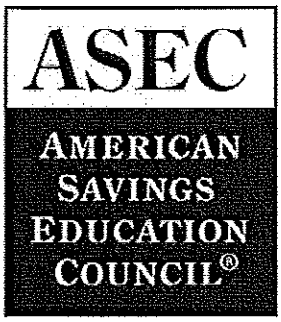

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Mr. Chairman and members of the committee, I am Dallas Salisbury, president and CEO of the Employee Benefit Research Institute and chairman of its saving education program, the American Savings Education Council.

It is a pleasure to meet with you today to discuss the important topic of worker financial literacy, the role of the employer, and both public and private sector efforts and partnerships.

Several decades ago a number of corporations joined together to create the National Council on Economic Education (www.ncee.net) to build courses and materials to aid in student financial literacy education, based on the premise that their future employees needed financial knowledge. That group and many others which focus on our youth (such as www.jumpstartcoalition.org) depend for their financial support on large retirement plan sponsors and service firms, as well as on financial institutions.

The U.S. Labor Department joined with EBRI (www.ebri.org) and many other public and private organizations in 1995 to launch the American Savings Education Council (www.asec.org). This organization brings together many individuals and organizations with a dedication to encourage financial education, retirement plan sponsorship, and participant and beneficiary education for the entire population, regardless of age, employment status, etc., but with a heavy focus on plan sponsors and their workers. The Choose to Save® program (www.choosetosave.org) of educational public service announcements, videos, Internet site, and materials was created as a direct result of the efforts of DOL, with encouragement from this Advisory Council.

The overriding purpose of the public service announcements, www.choosetosave.org , and the Ballpark E$timate® worksheets is to provide some counterbalance to the heavy public and private drumbeat to borrow and spend, to use that plastic today to enjoy life now, to be patriotic and spend for growth, now, and worry about tomorrow another day. Savings is a tough choice to make in the midst of the constant noise of instant gratification urged upon us from all directions. When Benjamin was told in the "Graduate" that the future was "plastic", who thought the true meaning was credit cards and debt"!

Are current efforts working?

There are programs and tools available today that would provide the basis for sound individual financial decision-making. But the reality is that even when they are made available most individuals do not take advantage of them. Getting individuals to do so requires a constant drumbeat of effort. As already noted, given the constant noise to borrow and spend, current savings initiatives are actually amazingly successful, as they are "outspent" by thousands of dollars to one by those urging people to borrow and spend.

Where are we? We have sponsored the EBRI Retirement Confidence Survey® (RCS) for 18 years. We have always asked questions about what employers provide (a great deal), what employees actually use (not much), and whether use has led to self-reported changes in behavior (for a small number). Other research has taken the step of testing for results, with follow-up on whether individuals *actually* do what they *say* they will do in response to education; results have

shown that a small fraction actually implement their intentions. Much of the impetus for changes in PPA was attributed to such research.

Why or why not?

- The tools that provide for full Monte Carlo analysis of life expectancy, inflation, wage growth, investment returns by class, and annuity optimization have only recently become available.
- Most financial planners are still using partial programs, and many still use static programs that do not even allow adjustment for long lives.
- Most individuals wait until ages at which it is often too late to make sufficient spending and saving course adjustments before they become willing to allocate time to financial planning. The RCS consistently finds that less than half report ever having made even a guess at what would be needed in retirement, and fewer than 1 in 4 reports ever having done a serious calculation. Less than half of those report taking action, and research suggests that over half of these did not actually take the action.
- Organizations and individuals are driven by the short term—whether it be profit cycles, pay periods, or credit card payment cycles, the short term dominates over intermediate- or long-term planning.
- When it comes to employee benefits, the importance of health coverage has shown up consistently in the EBRI *Value of Benefits Survey.*® More than 80 percent of workers say health insurance is their top benefits priority; over one-third say more health insurance is their second priority; one-third say a savings plan is their second priority; and less than 15 percent rank a pension plan as either first or second. Individuals focus on their current needs. The EBRI Health Confidence Survey® finds that nearly two-thirds report increases in their annual health costs, and over three-fifths of this group say they covered the increase by either reducing savings or borrowing on a credit card or against their home.
- For a substantial proportion of workers, EBRI surveys indicate that these pressures and preferences are still in place as they reach "normal" retirement ages. This underlines why they would not take advantage of financial planning programs when available.
- The fact that over a third of new retirees depend *entirely* on Social Security, and two-thirds get a *majority* of their income from Social Security, provides clear evidence of these patterns.
- The most powerful messages that individuals receive each day are to spend, and if need be, to borrow to do so. The government is about to send out "stimulus" tax checks with the request they be used for more consumption. Better that they be used to pay down debt or fund an IRA if the objective is long term financial security. The current "mortgage" crisis is a direct result of our society having been so dedicated to borrowing and spending and growth that it made it possible for people to borrow well beyond what we now know was advisable. Yet, public and private policy not only made it possible, it made it seem the "thing to do" as home ownership was touted as the "ultimate good", as opposed to, for example, savings and thrift.

Thank you for the opportunity to appear today. All of our work since 1978 can be found on our Websites, and I encourage you—and everyone—to make use of it.

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The EBRI Team - Full Biography

Biography of
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Dallas Salisbury, President and CEO of the Employee Benefit Research Institute (EBRI), joined EBRI at its founding in Washington, DC in 1978.

The overall EBRI mission is "to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education." EBRI has earned widespread regard as an organization that "tells it like it is." EBRI is supported financially by for-profit and non-profit corporations of all types, foundations, unions, government organizations, and international organizations seeking to better understand U.S economic security programs. The Institute does not lobby and does not advocate or oppose any policy position. The task of EBRI is to provide objective information regarding the employee benefit system and related financial security issues, to achieve its primary goal, 'that policy and design decisions be based on verifiable facts'. Researchers, policy makers and the media rely heavily on EBRI research. Dallas and his team regularly testify at Congressional and Commission hearings, and appear in print and broadcast media around the world. EBRI is the 14th most frequently cited "think-tank" in the nation using fair.org methods.
As a member of a number of commissions, Dallas assists study panels as well as editorial advisory boards. He is a Fellow of the National Academy of Human Resources and a member of the Board of the NAHR Foundation, the Commission on a High Performance Health System, the Board of Directors for FINRA Investor Education Foundation, and the Board of Advisors to the Comptroller General of the United States. He has served on the Secretary of Labor's ERISA Advisory Council, Presidential appointed PBGC Advisory Committee, Board of Directors of the Society for Human Resources Management, U.S. Advisory Panel on Medicare Education, and the Board of Directors of the National Academy of Social Insurance.
He has been honored with the Award for Professional Excellence from the Society for Human Resource Management, the Plan Sponsor Lifetime Achievement Award and the Keystone Award of World at Work. Dallas was a delegate to the 1998, 2002 and 2006 National Summit's on Retirement Savings, and the 2005 White House Conference on Aging. Dallas accepted a 2007 National Emmy Award for Savingsman and the Choose to Save public education program.
Dallas has written and lectured extensively on economic security topics. His most recent books are: "Retirement Security in the United States: Current Sources, Future Prospects, and Likely Outcomes of Current Trends", "The Future of Retirement Income in America", "The Future of Social Insurance: Incremental Action or Fundamental Reform?", "IRA and 401(k) Investing" and "Managing Money in Retirement".
Prior to joining EBRI, Dallas held full-time positions with the Washington State Legislature, the U.S. Department of Justice, the Employee Benefits Security Administration of the U.S. Department of Labor, and the Pension Benefit Guaranty Corporation (PBGC). He holds a B.A. degree in finance from the University of Washington and an M.A. in public administration from the Maxwell School of Citizenship and Public Affairs.

March 25, 2008

Outside Articles / Columns / Interviews / Presentations

Articles

"Double Check Retirement Model Assumptions." *HR Horizons* (October 2007).

"Retiring by 65: Pipe Dream for Older Boomer Women?" In Paul Hodge, ed., *Baby Boomer Women: Secure Futures Or Not?*, 2006.

"Are Individuals Taking Responsibility? Trends and Implications." *Benefits Quarterly* (Fourth Quarter 2005). [Note: abstract only available for free; full text requires username and password]

Columns
Human Resource Executive Online [Web-only]

Interviews
"Teach Your Children Well" [an interview featuring Dallas Salisbury focusing on the need for financial education and tools that show employees the probability of reaching retirement-income goals]. *PIMCO DC Dialogue* (January 2008).

"Interview with Dallas Salisbury: President & CEO of EBRI Offers Fascinating Historical Perspective on Today's Retirement Security Challenges; Reveals Preference for Mandatory, National Retirement Savings Program in Addition to Social Security." *Online Magazine* (October 15, 2007).

"Don't Drop the Ball on Benefits." *HR Management* (April 2006). [Note: At the home page, click on the link for HR Management US under 'Publishing'; next, click on the link for 'Past Issues' from 'The Publication' tab upper left, then the link for the April 2006 issue.]

Presentations
Bending the Curve: Options for Achieving Savings and Improving Value in U.S. Health Spending - Dec. 18, 2007, briefing at the National Press Club, Washington, DC.

Health Coverage Revisited: Exploring Options for Expansion - March 19, 2007, luncheon briefing cosponsored by The Commonwealth Fund and the Alliance for Health Reform. [Note: Click on the last link under 'Speaker Presentations']

The Retirement Security Challenge - Feb. 1, 2007, presentation at the National Academy of Social Insurance (NASI), 19th Annual Conference.

The State of US Retirement Plans - May 23, 2006, slide presentation at the National Press Foundation's four-day seminars titled *Retirement Issues in the 21st Century*.

The Employment-Based Pension System: Evolution or Revolution? – May 15, 2006, one-day conference cosponsored by AARP and EBRI.

What Do the Data Say about the Future of Employee Benefits? - April 17, 2006, teleconference presentation, Human Resource Strategic Excellence Network.