

THE RETIREMENT SECURITY PROJECT

**SAVERS SOCIETY
EVENT WITH
JOHN EDWARDS,
FORMER U.S. SENATOR
AND
JACK KEMP,
FORMER SECRETARY OF HOUSING AND URBAN
DEVELOPMENT**

TRANSCRIPT

MAY 16, 2006

*Transcript by:
Federal News Service
Washington, D.C.*

PETER ORSZAG: Good morning. My name is Peter Orszag, and I'm the director of The Retirement Security Project, which promotes common sense solutions to improve the retirement income prospects of middle- and lower-income workers, millions of American workers.

The Retirement Security Project is supported by the Pew Charitable Trusts in partnership with Georgetown University and the Brookings Institution. And today we're particularly pleased to be joining together with Senator John Edwards and Secretary Jack Kemp to launch the Savers Society, an effort to promote automatic saving vehicles to help American families build assets and prepare for a better and more secure future.

[With] the Savers Society, as in other efforts they have undertaken together, Secretary Kemp and Senator Edwards provide a welcome change from the partisan bickering that too often impedes progress to America's major challenges. Both Secretary Kemp and Senator Edwards are known as champions for the causes of working Americans and both are very concerned about the opportunity that these individuals will have to save for the future. They realize changes in public policy alone cannot make saving easier for American workers. Corporations need to provide leadership, too.

What can corporations do? We know that simple changes in 401(k) plans can make a huge difference in participation and contribution rates. Right now most 401(k) plans are designed in an anti-saving way. As a result, workers who are busy with their families or other matters don't focus on the savings decisions and often don't participate because inertia causes them simply not to save.

Simply switching the default—that is, enrolling workers and then allowing them to opt out, has dramatic effects on participation rates. The chart over here shows you just how dramatic it is for new employees. You go from participation rates of under 20 percent among workers who are the least likely to participate—low-income workers, Hispanic workers, and other groups—to participation rates of 75 to 80 percent.

We are particularly pleased to be at Costco today to salute its corporate strategy. Costco provides the type of leadership necessary to increase saving among workers, and the goal of the Savers Society is to get more corporations to pursue a similar path. I was particularly pleased to see this morning in *The Wall Street Journal* an article highlighting that 401(k) participation has increased somewhat and that the cause of that was more automatic enrollment plans. And what we're trying to do here today is substantially expand the number of corporations that adopt this pro-saving 401(k).

We're going to hear first from Senator John Edwards who, as many of you know, grew up in Robbins, North Carolina, where he developed his strong belief that all Americans deserve an equal opportunity to succeed and be heard. Today he's the director of the Center on Poverty, Work and Opportunity at the University of North Carolina at

Chapel Hill. And I think a lot of us have heard his quite eloquent remarks on poverty and asset building, which are shedding the light on this critical issue, both for American's families and for our economic future.

Again, we're very pleased that he and Secretary Kemp are joining together with us to launch the Savers Society. Senator Edwards.

(Applause.)

JOHN EDWARDS: Thank you very much, Peter. Let me say first that we're all very pleased to be here at Costco. My wife is a regular customer of Costco, and particularly because Costco is a great example of a terrific corporate citizen. This is a company that understands that being—taking care of your employees, making sure your employees get decent wages and have decent benefits, and be able to save for their retirement—is not just the right and moral thing to do, it's actually very good for business, and Costco has proven that over and over again. They've been a leader in the front of what's possible in America and what good corporate citizens can do. So, I'm very pleased that we're having this event as Costco.

[As the] director of the Poverty Center at the University of North Carolina at Chapel Hill, I spend a lot of my time working on and thinking about what we do about the income gap in America. What do we do about the asset gap? How do we help lift families out of poverty? How do we help strengthen the middle class so that those who are working don't fall into poverty? And a lot of focus occurs in America on the income gap that exists in the country. With good cause, because that gap has increased over the last decade, has become more stratified, which means it's more difficult for people to move from one income class to another.

But another big part of this is the issue of assets. And we have huge asset gaps in America. And what we find is that families like the families who were so devastated by the hurricane in New Orleans, don't have assets. They don't have anything to fall back on if something happens as long as they don't have a retirement saving account, they don't have a 401(k), they don't have a bank account, they don't have a credit card—and what that means is if something goes wrong in their lives, they're in trouble. And by the way, this applies across the spectrum from middle-class families to lower-income families.

So building assets—which is something my friend and colleague Jack Kemp has worked on for many years and something that I've focused on over the last several years—is enormously important to giving people, giving them economic stability and helping lift families out of poverty. And keep those who are strong middle-class families from going down, but instead being able to do better for themselves and for their kids. One scholar in this area said income is what you use to get by day-to-day, but your assets—like 401(k) that you use to get ahead—allows you and your family and your children to do better in the future.

We know that in America we've had real difficulty with saving. If you look at the amount of money that's been able to be put aside by working Americans between the ages of 55 and 59, the majority of them have less than \$15,000 in a retirement savings account, which means they have very little to fall back on. We also know that America actually has a negative savings rate right now; and again, this doing something about 401(k)s and enrolling employees in 401(k)s obviously is something that contributes to a Savers Society, which we're talking about today and allows us to fight back against this problem of Americans not saving. And lower income families of course, not shockingly, are the worst savers because they don't have much to use for their savings account.

So, this idea about 401(k)s, let me say first, is a piece of a bigger puzzle. I mean, workers' pensions which are very important to so many workers who have contributed to pensions over a long period of time are, at least in my judgment, the cornerstone of retirement security. And it's very important for businesses, for corporations and for the government, to do everything in our power to make sure that workers' pensions, which they've participated in and contributed in, are protected. And that's also a piece of this puzzle. But the work that Peter has done is so important, because it's a no-cost thing. It's not like something we're imposing, the government's imposing, it's not a tax—instead what we're doing is making sure that workers who have 401(k)s available to them to take advantage of.

And this idea of automatic enrollment, as Peter has documented very, very well, has a real impact on workers. It has a real—as he pointed out in his chart a few minutes ago—real impact on Hispanic workers, real impact on particularly lower-income workers, those who are earning less than \$20,000 a year. I mean, it's actually a pretty phenomenal thing that when you go from having to opt in to automatic enrollment among workers who earn less than \$20,000 a year, it goes from 13 to 80 percent. This is not some abstract statistic; this means something in the lives of these workers. Even if they are in the 401(k), if they're able to save, they provided this themselves and their families with security, with retirement security. But they also have an asset available to them if crunch time comes and they need it for college or some other necessity, it can be accessed.

So this jump is a big thing. And Peter and I were just speaking before this event this morning, the reason this happens—and actually this probably applies to everyone who's here today—the reason it happens is when somebody hands you a big complicated set of papers and says you can opt in to the 401(k)—and particularly if you're not an investor and it's not what you do for a living—then the easy thing to do is put it off. Don't make the decision now; don't do anything. And the result is that these—so many of these workers don't in fact enroll in a 401(k).

On the other hand, if you know that you're automatically enrolled, if you know and are confident that someone else who's qualified and sophisticated will make the investment decisions for you—that's why these numbers go up so dramatically, because it's easy. It's not that low-income workers and all workers don't want to be in a 401(k) and don't want to have retirement security, they do. But the easier you make it for them,

the more effective [it] is and the more people who participate. So, I think this is actually a very important step.

And the reason we're here at Costco—and I know Jack's going to speak about this in just a minute—the reason we're reaching out to corporate America is because corporate America has the capacity to do this on its own. I mean, if business make the decision that their 401(k) is going to be an automatic enrollment plan, so that all workers will be enrolled automatically unless they choose not to, they've made the decision; number one, that most of their workers are going to be in the 401(k), because we know from history that that's what in fact will happen.

They've also made the decision on behalf of their employees that they're going to have some assets. That they're going to build up some retirement security. And this is important both at an individual and family level, because then families have something, they have something to fall back on, they have something to use for their retirement security.

It's also important for a macro level, not just for the employees of that particular company, but nationally; I mean, if we can make this the prevailing mechanism in corporate America, we will have a significant impact on the savings rate in this country, which is very important—not just for the workers, not just for their assets, not just for their security—but it's important for our economy.

So I applaud Peter for the work that he's done in this area. I'm very proud to be participating in it and advocating for it, which we intend to do with corporations and CEOs all across America. Costco itself has proven that when you put the automatic enrollment plan in place, that percentage that participate goes up significantly, which is exactly what's happened at Costco. We can do the same thing for the entire country. If we can get businesses, corporations to participate, I absolutely believe that our businesses in America want to do the right thing, they want their employees to have retirement security, and we're going to do everything in our power to encourage them to do what I think they would be inclined to do anyway.

And I also want to say, just while I'm at the podium, it's been such a great pleasure for me to work with my friend Jack Kemp. This is one of a number of projects we've worked on together; I have a huge personal and professional respect for him. We don't agree on everything, that's obvious, but here's an example—here's an example of something that has bipartisan support, both of us believe in. I might add something, this idea of asset building, something that this man's worked on over a very long period of time, and I'm proud not only to be here with Peter in this great effort, but I'm proud to be here with my friend and colleague Jack Kemp. Thank you.

(Applause.)

MR. ORSZAG: As I'm sure all of you know, Secretary Kemp has enjoyed a long and distinguished career in public service. He was the secretary of Housing and Urban

Development. He served in the House of Representatives for 18 years and as Chairman of the Leadership of the House Republican Conference for seven years, and of course he was also one of the nation's greatest quarterbacks. (Laughter.)

Today [he is] founder and chairman of Kemp Partners, a strategic consulting firm, and he's also the honorary co-chair of the Free Enterprise Fund. Perhaps more important than all of that, he's well known for his emphasis on saving and asset building, and again has demonstrated his ability to reach across the political aisle, most recently with Senator Edwards. And we're very pleased to have him here today. Thank you.

JACK KEMP: Thank you. Thank you. Thank you very much. Peter, thanks for the introduction. John, thanks for your friendship and your commitment to this whole idea. And I want to congratulate Costco. This is probably one of the most progressive corporations in America by any stretch, by any definition, and the good people here have really done something important for the working women and men of Costco. Sixty-eight thousand people participate in [the Costco plan] all over our country. Tawanna will be speaking about it a little bit later, and I just want to congratulate her and the people of Costco for a very progressive idea as John Edwards has pointed out. And it's not left wing or right wing; it's the just right thing to do for our country and for corporate America.

The Retirement Security Project is something that I at first questioned. Why force people to do what otherwise they would be incentivized to do by 401(k)s and Roth IRAs among other saving ideas? But as John Edwards pointed out and as I think these statistics point out, when you allow it to happen automatically and then give people the freedom to opt out if they want to, it increases the number of participants dramatically as we have found out at Costco and [as we are] finding out in other areas of the U.S. economy.

A number of years ago, John, I was participating with Jesse Jackson on the Wall Street project. How do we get capital from Wall Street onto or into Main Street, U.S., on the radical theory that we can democratize our capitalistic system by bringing working men and women investing into 401(k)s? And he made the statement in front of Allen Greenspan and Bob Rubin. It was during the Clinton years and I was participating quite eagerly because that is something that we tried to do at HUD—encourage home ownership among low-income people, again, on the radical theory that when they own a piece of property, when people own something, they want to improve it, and they want to expand it, and they want to better their own future.

So a long story short, Jesse came up with one of the great lines I have ever heard. I have used it for, but—and I had the honor of doing it at North Carolina University at your poverty center. Jesse said, and I quote, “Capitalism without access to capital is nothing but an –ism”—(laughter)—and everybody laughed, and I did too. And I thought, wait a minute, that is a profoundly important point. Democracy without the vote means that democracy becomes an abstraction. Capitalism without access to capital property, savings, and education is an abstraction.

And I really believe, John, you and I are involved in helping democratize our capitalistic system, in bringing the opportunity to be a capitalist to the worker of America. It throws Karl Marx on his head. And if he—as Yogi Berra would say, if he were here today he would turn over in his grave. There is no doubt in my mind, Peter, that we are on to something very big for working men and women in this country. And, again, my hat is off to Costco. I am an eager participant along with John Edwards in trying to elevate the idea that poverty in America is something that—it's inexplicable to me that this country can't be a greater participant in eradicating the type of poverty that was uncovered in the post-Katrina events, the tragedy of the Gulf region.

Poverty in urban America is not only inexplicable or unexplainable; it is something America cannot afford to allow. We need to encourage better education, more home ownerships, more access to capital and property and opportunity. So the saving society, the idea of a Savers Society is something that the right and the left, the Senate right and the Senate left—Rahm Emanuel of the Democratic Party in the Congress of the United States and from Illinois and Rick Santorum from Pennsylvania. So these are things that we need to work together on so that we can make this country what it was meant to be 230 years ago this July Fourth.

I will finish with one of my favorite stories about the power of compounded rates of returns and the power of compounded interest, something that is very important for every parent and every worker to teach their children. There was a story in *The Wall Street Journal* a number of years ago when I was I think just leaving HUD in 1993, and it was about a young woman—not young anymore—she had started saving in 1946. She was a waitress and she invested her savings in three stocks: Costco wasn't around in 1946 but she might have invested in it—IBM, Merck, and Coca-Cola. There were 39 splits of each company. Her \$4,000 in 1946 ended up \$22 million 65 years or so later.

We are not suggesting that everybody at Costco is going to end up with \$22 million through a 401(k), but it is the road to understanding the power of compound and rates of return for working women and working men, and it's something that I as a grandparent of 17 make a point of teaching my children and grandchildren. I am very excited to be a small part of this Retirement Security Project. And thank you, Peter, for your energy, your vision, and the Pew Family Trust, the Georgetown University School of Public Policy, and Brookings Institution. I think this is a marvelous time, John, for you and me to try to shape up the Congress to start working together to promote a cause that has such great consequence for the future of our free-enterprise system. Thank you very much.

(Applause.)

MR. ORSZAG: (Audio break, tape change) ...the fact that everything running so well is, at least in large part due to Paul. And he is going to share his company's perspective on the automatic 401(k). Paul?

(Applause.)

PAUL PULVER: Thank you, Peter.

I am honored to be part of this launch and proud to represent Costco Wholesale, a company with a deep and ongoing commitment to the well being of its employees. At Costco, we believe that a company can provide good benefits for its workers while at the same time growing shareholder value. We went automatic in our 401(k) plan about a year-and-a-half ago, and the results have been dramatic. This relatively simple switch has meant an additional 11,000 of our employees are on a path to a more secure retirement, and we are adding to that number every day.

We often get asked why we decided to make this change. Our CEO, Jim Sinegal, sums it up best when he says our employees take care of every aspect of our business so taking care of them isn't just altruism, it's good business. Making it easier for our employees to save for retirement through an automatic 401(k) is extremely important and just one of the many ways we show how much we value them.

I would now like to introduce one of our employees, Tawanna Freeman, who works here at the warehouse as our payroll clerk. Tawanna knows first hand how her fellow employees benefit from our retirement plan and show what it means to her on a personal level. Tawanna?

(Applause.)

TAWANNA FREEMAN: Thank you. I am here to share my personal experience as a Costco employee and as a 401(k) contributor. I began my career here at Costco Wholesale in 1987 as a 17-year-old college student. When I was first approached about entering the plan I chose not to for a couple of reasons. First, like most young people I felt it was too soon for me to begin thinking about retirement. Secondly, I was living for the now.

When the enrollment window was opened again for me I decided to take full advantage of the opportunity. After completing college, getting married, and having three children, 19 years later I have the comfort and security of knowing my retirement, which is still many years away, is being prepared for. As a payroll clerk I have seen the 401(k) plan help improve our employees' lives. It has helped purchase new homes; it has helped fund college educations.

Our employees are very fortunate because Costco has automatic enrollment which begins immediately planning for their future. I am grateful for the plan and looking forward to a secure and worry-free retirement. Thank you.

(Applause.)

MR. ORSZAG: I think we have a little bit of time for questions if anyone has any.

Yes.

Q: My name is Lynn Mitchell. I am with an organization called Corporate Voice for Working Families.

We are very interested in the opt-out program as well. I wanted to know if Costco provides any sort of financial education along with the opt-out program for its employees to educate them about the opportunities for home ownership, borrowing from their 401(k), and the like.

MR. PULVER: Thank you. We do provide ongoing information in regards to our 401(k) plan through our partner, T. Rowe Price in this. We have an 800 number dedicated to answering whatever question employees might have about the 401(k) program and the opt-out program, where they can [find out] how they can allocate their assets, how they choose to invest them, how they can borrow from their own 401(k) plan, and it has worked out very well.

We also do ongoing training with our warehouse managers and our payroll clerks so that they are familiar with the program, so that they are able to talk to our employees directly about them.

MR. ORSZAG: Other questions or comments? We were so clear and compelling that I think we can wrap it up. I want to again thank both the Costco representatives and in particular Secretary Kemp and Senator Edwards for joining us. And this—I just want to just emphasize—the launch of the Savers Society, not the end of it. We will be making the case to American companies that this type of thing works and helps American families. Thank you very much for joining us.

(Applause.)

(END)