

SAVE MORE TOMORROW ACT OF 2012

May 14, 2012

Mr. AKAKA. Mr. President, I rise today to introduce the Save More Tomorrow Act of 2012. This act seeks to make a modest, commonsense modification to the Thrift Savings Plan, or TSP, which is the tax-deferred, defined contribution plan for Federal employees, similar to private sector 401(k) plans.

The Save More Tomorrow Act would build on the Thrift Savings Plan Enhancement Act of 2009, which was enacted with support from large, bipartisan majorities in Congress. Under the Thrift Savings Plan Enhancement Act, new Federal employees are automatically enrolled in the TSP unless they opt out, with a default employee contribution rate of three percent of basic pay. This legislation would adjust the TSP's automatic enrollment mechanism to allow it to automatically increase employee contributions, unless the employee chooses a different contribution rate. To accomplish this, the bill authorizes the Federal Retirement Thrift Investment Board, the agency that administers the TSP, to pair the current auto enrollment at three percent with automatic escalation of one percent per year, for at least two consecutive years following the first year of enrollment. This promotes a goal of the Federal Employees' Retirement System Act of 1986, often referred to as FERSA, which was designed to encourage Federal employees to save at least five percent of their pay in the TSP.

This "three plus one plus one" model closely mirrors the model Congress prescribed for the private sector in the Pension Protection Act of 2006, which Mr. Boehner of Ohio introduced, the House and Senate passed with significant bipartisan support, and President George W. Bush signed into law. In enacting the Pension Protection Act, Congress endorsed pairing automatic enrollment with automatic escalation, by incentivizing companies to automatically enroll

employees in 401(k) plans at no less than a three percent savings rate, and automatically escalate that rate by at least one percent for at least three years.

This act is informed by rigorous oversight I have conducted as Chairman of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia. For example, at a recent Subcommittee hearing, Dr. Brigitte Madrian, a Harvard Kennedy School professor and leading expert on employer-sponsored retirement savings plans, stated, “the evidence from the private sector is that automatic escalation is, in fact, extremely effective at increasing employee savings rates. And you asked specifically is this [automatic escalation] something that should be considered for the Thrift Savings Plan, and I would say absolutely.”

To preempt any possible misconceptions or misunderstandings that may arise regarding this act, I want to be clear from the outset about which employees the Save More Tomorrow Act applies to, and the voluntary nature of the bill. Since this act builds on the statutory framework established by the Thrift Savings Enhancement Act, it only applies to newly-hired Federal employees who are eligible to participate in the TSP’s automatic enrollment feature. Additionally, just like the TSP’s auto enrollment feature, auto escalation authorized by this act would be voluntary, and allow participants to terminate default contributions, or change contribution rates, at any time.

This bill has a limited, targeted scope. It would increase the savings only of the small percentage of new employees who enroll in the TSP, but do not raise their contribution rate enough to reach the goal Congress established with FERSA of having most Federal employees contributing at least five percent of basic pay. Under the Thrift Savings Plan Enhancement Act, an impressive 97.2 percent of new Federal employees are enrolling in the TSP - 82,632 Federal

employees have been automatically enrolled in the TSP since the practice began in August 2010. Most of those employees increase their contributions far above the default rate of three percent. These enrollees boast an average TSP savings rate of 12.1 percent. Currently, only about nine percent of employees in the Federal Employee Retirement System enrolled in the TSP contribute less than five percent.

Of course, one must not confuse this act's limited scope with the potential benefits. From the most recent survey of TSP participants, we know that just like in the private sector, low-income workers who can least afford to forgo matching contributions are the most likely to do so. Lower-income Federal employees are more than twice as likely as higher-income employees to cite automatic enrollment as the reason they are contributing to the TSP. Many employees who contribute less than five percent are not even aware of the benefits of increasing the amount they save – 18 percent of this group reported they did not contribute five percent because they were unaware agencies matched contributions dollar-for-dollar on the first three percent of basic pay, and 50 cents on the dollar for the next two percent.

Today's Federal workers must plan carefully to ensure their retirement security. Fortunately, the vast majority of the Federal employees are responsibly saving for retirement, exhibiting average savings rate that are far greater than the private sector. However, I am concerned that the most financially vulnerable Federal employees, individuals earning less than \$25,000 a year, are saving at a lower rate that will hinder their ability to retire with dignity. We should build on the success of the Thrift Savings Plan Enhancement Act by making it as easy as possible for employees to increase their contributions.

The Save More Tomorrow Act is a limited, yet effective legislative response to do just this. Informed by rigorous data from real world experiences in the private sector, this act represents

the best in serious, evidence-based policymaking. The modest authorities provided by the Save More Tomorrow Act will enhance the Federal Retirement Thrift Investment Board's ability to meet FERSA's goal of encouraging TSP contributions of five percent of pay. I strongly urge my colleagues to support this important legislation, and ask unanimous consent that the text of the bill be printed in the Record following my statement.

Thank you, Mr. President.