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Keynote Address:

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Welcome & Moderator:

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P R O C E E D I N G S

MR. JOHN: Well, good morning, and welcome. Contrary to what the schedule says, I'm not Bill Gale. Bill had hoped and expected to be here, but a conflict has come up at the last moment. He does send his regrets and will definitely be around for other events that we do probably later in the year.

I'm David John. I am a principal at the Retirement Security Project. Welcome to what we think will be a very interesting discussion.

Retirement Security Project is a co-project of Brookings Georgetown University. It's funded by Pew and Rockefeller, and our goal is to promote retirement savings among moderate income workers. We've been very active in areas such as automatic enrollment. We are now looking at areas such as annuitization and various other things.

Now, a minor part of this program is that we are releasing three papers today, and I recommend not reading them while we're talking at this point, but we have -- let's see, first off, is "Automatic Annuitization," which is by Mark Iwry and John Turner, which is a new way of including annuitization over time in retirement savings accounts. We have the latest edition, which has some improvements in it of the paper on automatic IRAs by Mark Iwry and myself. And last but not least we have a paper on the national retirement systems in Australia, Chile, New Zealand, and the U.K. by myself and Ruth Levine.

Let me turn the podium, for just a second, over to Len Burman, who is the head of the Tax Policy Center, which is one of the co-hosts of this event.

MR. BURMAN: Thank you, Dave, but I want to also welcome you on behalf of the Urban-Brookings Tax Policy Center. This event and the speaker you have today is, I think, one of the things that we could do to learn more about how to improve our own tax and retirement system. I was in Australia in February, and it was so exciting, because they're actually doing a major tax reform project there, and one of the things that's most impressive is that people in the Treasury were so well informed and actually allowed to speak in public about principles for tax reform. So, I look forward to hearing what Senator Sherry has to say and hope that maybe (inaudible) tax reform (inaudible) we can get him to come back and talk about tax policy as well.

Thank you.

MR. JOHN: Thanks, Len.

Now, it's my great pleasure to introduce our main speaker this morning, Senator, the Honorable, Nick Sherry, who is the Assistant Treasurer for the Australian government. Nick was promoted to Assistant Treasurer, which is a very high office in the Australian government on the ninth of June, so I think it's, what, six weeks now in that area. Prior to that, he'd been the Minister for Superannuation and Corporate Law since the new government came into office in 2007. As Assistant Treasurer, he assists the Treasurer in the development, implementation, and administration of policies in the Treasury portfolio, which include commonwealth state reforms to boost participation and productivity. In this case for today, Nick is also one of the architects of the Australian Superannuation Retirement Savings System; has been active in this for quite some time. Nick has been a Senator from Tasmania since 1990. He was the shadow minister responsible for superannuation for eight years prior to becoming the Minister at the change of government and is one of those rare people who actually started as an administrator and knows pensions from pretty much every level there.

So, it's my pleasure to introduce Nick Sherry.

SEN. SHERRY: Well, good morning to you all, and thanks, David, for the introduction.

I'd also like to acknowledge today's panel members, who I expected to be sitting up here. There are name tags there, but anyway.

And David, of course, the principal -- David John, principal of Retirement Security Project and good friend of Australia. And I might say, David, it's always great -- David and I have had an association going back, gosh, 12, 15 years now.

Mark -- pronunciation -- Iwry, Senior Advisor to the Treasury Secretary -- congratulations on your recent appointment.

Dallas Salisbury, President and CEO of the Employee Benefit Research Institute, and David Harris, Managing Director of Tor

Financial Consulting -- again, a friend of mine. We go back many, many years.

The Brookings Institute and the Heritage Foundation are two of the world's great policy institutes. While they obviously come at policy challenges from quite different perspectives, I think it's this diversity that gives policy debate here in Washington a great strength. Both parties sit at the core of the range of global policy debates, and through their advocacy and policy development shape both today and tomorrow's big issues. Indeed, our Australian prime minister, Kevin Rudd, addressed Brookings here in March last year.

Of course I've been here now for five days, and this is my seventh or eighth trip to the US in the last decade, and I note this week in Washington is dominated by health care reform, financial regulatory reforms, and of course Judge Sotomayor's confirmation hearing, so I think it's a bit challenging to engage policy thinkers on anything else. But that's what we're here to do. Through the Retirement Security Project, it's an innovative joint effort of Brookings and Heritage, and we're here today to engage on another great policy issue facing the world: retirement incomes, public and private components, and how to sustainably fund our aging population.

Certainly in my considered view and observation, having been a participant in this debate now for almost a quarter of a century, this is one of the three or four great policy debates that almost every country in the world is currently engaged in.

So, this morning I'd like to update the Retirement Security Project on the current state of Australian public policy and reform initiatives in these areas. Before I do, I think it's worthwhile to touch briefly on some key aspects of the economy back in Australia as well as the challenges being thrown up by the global recession. They're important in a retirement income context, because clearly some of the challenges increase skepticism about market-related investment activity -- for example, budget deficits -- by our key issues and themes that are important in considering our retirement income, the nature-structure of our retirement system, and I'll come to some specifics shortly.

Firstly, I'd like to emphasize the importance of Australia's relationship with the United States. The association between our two countries has been very long, and it runs very deep on both sides. It transcends political parties and administrations on both sides of the Pacific, and it's designed to respond to any situation.

As I'm sure we all know, economically we face the greatest set of challenges in some 75 years. The global economy is experiencing the sharpest, synchronized economic downturn since the Great Depression with global output expected to contract in 2009 for the first time in six decades and a time -- but relevance --I don't intend to go into the reasons as to why this has occurred. I think, again, it's been very, very well debated.

Just a few observations from the Australian perspective, and I think it is worth noting. If we compare what's occurring in the world economy, benchmarked against the Great Depression, it's particularly illustrative. In the 12 months at the start of the Great Depression, global stock markets fell by 20 percent. In the equivalent 12 months most recently, global stock markets have fallen by more than 40 percent. On other fronts, the comparison is extremely sobering. Global trade fell by 17 percent in the first 12 months of the current global recession compared to 10 percent in the first 12 months of the Great Depression. On these metrics at least, the current global recession is, in several critical respects, of comparable magnitude to the Great Depression. The story of how we got here, of course, is well known.

To move directly to today's topic, I'll take the chance to point out to the audience several key facts about just how Australia is faring, and it is important, because the relative strength of the Australian financial system and a key component of this of course is what we call superannuation, in our case compulsory superannuation. Not only is it an important social policy; it has very important economic implications, given the great depth of savings in Australia through that compulsory superannuation system. It's a great pool of savings. It's diversified savings in Australia's case and I think one of the little (inaudible) strengths of Australia in the current economic circumstances.

Let me now turn to Australia's retirement in the 21st century. A key element in support of a retirement income system has been what I'd call an innovative approach to retirement incomes and pension policy in Australia. Like many other countries, Australia's population is aging, and spending pressures in health age pensions and age care are projected to increase. According to Treasury's 2007 intergenerational report -- Australia regularly produces an intergenerational report, which forecasts forward some 40 years at various areas of expenditure due to what we know as the aging population -- according to that 2007 report, over a quarter of Australians will be 65 or older by the year 2047. This compares to 38 percent in 2007.

In 2007, there were approximately five people of working age -- that's 15 to 64 -- to support every person age 65 and over. By 2007, this will halve to 2.4. Life spans continue to stretch longer and longer in what is described as longevity risk, making the post-retirement challenge that much more difficult.

As many of you would know, as was mentioned I personally have had a very long-term engagement with our system and always kept a very close eye on global retirement incomes policy. One of the key observations I'd make is that, as I've indicated, most countries are debating these issues. I mean, the issues, the challenges, the problems are common to most countries, and I think it is important to look internationally. Whilst I'm very proud of the Australian system, I still think it's important we still have some challenges. It's important to look at solutions in other countries rather than attempting simply to try and develop home grown solutions, given the experiences and the commonality of many of the issues we face.

As was indicated, I was the Minister of what is known as superannuation. That's the private pension system in Australia. But my responsibilities changed approximately six weeks ago. I now have responsibility for revenue and tax reform, an equally challenging issue.

Briefly, to a description of the Australian system, Australia has a three-pillar approach to retirement incomes. That includes an age pension, which in Australia's case is noncontributory; compulsory superannuation -- it's known as the superannuation guarantee; and voluntary savings, including superannuation. So, they are the three pillars.

Our first pillar, very similar to the Social Security pension of the US, but it does differ in some key respects. Access to our payments is means tested in Australia, and the funding for payments is made directly off budget rather than through separate, individual contributions accrued over time.

The second pillar and most of the third pillar revolve around a superannuation system. This is a private savings vehicle in a text-preferred mechanism to encourage individuals to privately save, to either supplement or replace the age pension.

But the core of this is a compulsory pillar, and I was actively involved in the introduction of this in 1992, when I chaired the Senate Committee on superannuation. This requires employers to make superannuation contributions to eligible employees complying with superannuation funds, and the required right of contributions was gradually increased from 3 percent in 1992 to 9 percent in 1 July 2002.

Before the mid-1980s, only about 40 percent of Australian employees had superannuation coverage. The 40 percent who had coverage, which was over and above the basic pension, tended to be higher income earners in defined benefit contributions -- middle, middle-higher management, public-sector, and overwhelmingly male -- and what struck the labor government of that period was the unfairness of that system, a basic state pension, which I'd say in Australia is one of the lowest in the Western world, although it recently increased a bit. A low, basic safety net state pension with the add-on, the income-related add-on superannuation system, are confined to a minority and are extensively tax preferred . We had the reverse of a progressive retirement income system in respect to superannuation. The main beneficiaries were overwhelmingly higher income earners, full-time employees.

Now, in addition to the compulsory 9 percent, on average -- and this is an average figure, individuals make further contributions of 4 to

5 percent. The total assets in our system have grown to over 1.1 trillion, making Australia the fourth largest pool of funds under management in the world after the US, France, and Luxembourg. So, this has very important consequences for the financial system and, in turn, the structure and nature of our economy.

As I've indicated, the system became compulsory, and that's not a dirty word in Australia -- I know here the word "mandatory" might be as far as I could go, but it was made compulsory in 1997 with an initial 3 percent contribution for the essential (inaudible) reason that I outlined.

Now, these key elements of the system that were introduced in 1987 have continued to evolve with what I would call additional policy initiatives and structures in the Australian superannuation system. It's important to note that in 1997 there was no general assessment of the operation of the then what is known as a trustee governance-devolved system. And I think, in retrospect, that was a mistake, and I'll say a few more comments about that later. So, the savings vehicles in Australia are trustee based, and a rule is applied known as the prudent person test where the trustees must diversify the savings and make the investments in the long-term interests of the member. That is the central investment principal in Australia, and the trustees invest the monies at arm's length from government. Government plays no role at all beyond those principles in the investments of the funds. So, that's an important and I think probably the greatest strength of the Australian system.

Over the last 20 years, there have been a number of changes to our system, some of which I have to say, frankly, cause me concern. The Australian system is extremely complex in its operation. There are some 17 pre-retirement decisions an individual could make as part of a superannuation fund. For example, whilst the majority of members default on investment -- and getting the default investment is a very important issue in any system of compulsory mandatory system -- there are now up to 2 to 300 investment options in many of the funds.

You can split your contributions to your spouse. We have death and disability insurance within funds, and we have increasingly what I would call -- it's called salary continuance or unemployment insurance. So, you have a limited early access, depending on your circumstances -- limited early access hardship provision. So, there is a range of decisions that individuals, at least in theory, can make as participants.

Turning to the age pension -- and I think it is important in a retirement income system to look at both the public and the private, whether it's compulsory or voluntary, and why they interact, why they work together.

The Labor government in this year's May budget decided to increase the base pension payment in the May budget, and as from September this year the basic state pension, flex state pension, will increase by $32.49 per week for singles and $10.14 per week for couples. And the basic state pension is indexed to movement in mild title average weekly earnings. That's the first increase in the state pension in a hundred years. It's a hundred years since it was introduced in Australia.

But at the same time, it was decided to increase the pension age to 67. It's currently 65, and it will increase to 67 I think over the next 13 or 14 years, and that's obviously a consequence of the aging population and people living longer.

I indicated earlier the Australian system is complex in its operation, and this has long concerned me, because a feature of a complex system is it adds to cost. It adds to transactional costs. And I have been long concerned about some areas of cost in our system. And just prior to finishing as Minister, I appointed a group of six -- it's known as the Cooper Review -- that will examine for the first time in our history a thorough root and branch review of the governance, efficiency, structure, and operation of the compulsory superannuation system. And terms of reference have been set down to examine the governance of the system, legal and regulatory framework, levels and fees and charges, governance thresholds -- and these are all critical issues for consideration that were not considered as a whole when compulsory superannuation was introduced in Australia.

Now, looking back -- and I've only traversed over the Australia system in very, very brief and key areas -- but looking back, I would identify a set of key principles that I think apply as an approach to any consideration of retirement income policy in any country, and I'd use these principles as a template or benchmark to examine how to go about reform of a retirement income system in any country. I've identified nine principles, and to some extent they overlap, but I think they're all important to think about in the debate.

The first one is the most obvious, and probably one of the most difficult is political will and leadership. If you strongly believe that there needs to be a change to the retirement income system, you've got to have the political will and determination to implement it. And this is not easy, of course. I mean, obviously I'm a politician. I understand some of the difficulties. But I supposed in Australia's case, when we introduced in a compulsory system in 1987, it was really a top-down approach. It was the prime minister of the day. Key leadership, interestingly, of their trade leadership and some participants in the private sector superannuation industry who believed that compulsion was the way to go. And initially, of course, when we did surveys of the acceptance of compulsion, it was about a 50/50 split in the community. Generally, Australians were wary but interested in the concept of compulsion.

But, interestingly -- and I think the key change -- when members received their statement in the compulsory system some 18 months after it was introduced, acceptance of the system, political support for the system went to some 82 percent, and it's never dropped below 80 percent in 20 years. And the key issue I identify there is the members saw an outcome. They received a personal statement which showed -- it might have been quite modest, a few hundred dollars or a few thousand dollars in their first year -- that was savings for their retirement that they would never have had. So, they saw a benefit through the individual issuing of the statement. So, that's a key issue. The political will and leadership -- and obviously it varies from country to country -- very much a top-down approach in Australia. This was going to happen. The government identified the key reasons, and it went ahead and implemented it, controversially, but they were determined to carry out this major reform.

Second set of issues that I think are important are philosophical. I mean, why do we carry out this reform? And of course it obviously depends on a particular government's philosophical approach. But it seems to me in any retirement income system, it's important that a base retirement income, which we would call a safety net, that is universal is delivered to all of the population in a particular country. And then on top of that, an earnings-related benefit. It is inevitable, I think, that there needs and should be an earnings-related benefit that is kept -- clearly an earnings-related benefit certainly encompassing the earnings of middle to middle-higher income earners is important, but -- and often, of course, the judgment is made that should be about two-thirds of pre-retirement income.

Then the philosophical issue of compulsion versus voluntary approach. I would argue that the issue of compulsion or a mandatory approach was essentially settled by Bismarck back in the 1880s. The approach is that -- and we know that generally individuals fail to save for retirement for the long term. It's too complex, it's too far away. It's human nature. What to save over a 30- to 40-year time horizon. You can have all the incentives in the world. I think incentives in there take up generally (inaudible) the higher income earners. But individuals file to save for retirement, and that's why governments all around the world, to some extent at least, have sort of compulsory system.

The third principle that I think's important, in considering the debate, is look at the evidence, look at the facts; and I think it's important to have a process. Look at issues relating to the outcomes. Who benefits from the outcome of a retirement income system? And look at the international experience. I've touched on that.

Sorry, one point I missed in the philosophical approaches -- I think you can't, in a retirement income system, impose retrospectivity. To break a promise, particularly a long-term promise, I think undermines moral credibility, and so if a promise is given, it should be delivered on, and to retrospectively make a change I just don't think is acceptable in the broader community.

My fourth principle is what I call big practical. I suppose this is the politician coming out in me. It is important where you came to utilize existing structures and to adapt them to your needs and be inclusive of at least some interest groups where they can fit into the overall objective.

Now what do I mean by that? Well, in Australia we've used a trustee-based system, and the monies are invested through the private sector through funds managers. So, we've effectively included the private sector in a compulsory system. Some countries don't do that. The practical reality in Australia was that pride of compulsion superannuation was delivered by the private sector. And so to engage in perhaps the wholesale creation of a government entity was just impractical. So, we co-opted and utilized the private sector in the delivery of compulsory superannuation.

Another key practical issue is phasing in over time. In Australia, to have introduced 9 percent in one year, in one hit, would have had significant economic consequences -- very significant economic consequences on real labor costs. So, we started with 3 percent and then spent 10 years phasing it to 9 percent. And there was a slower phase in (inaudible) for small business. And that was negotiated at the time of the introduction of compulsion. I was on that Senate Committee when we had to strike a deal with the minor parties in the Australian Senate. And relatively important, but in the context of the overall objective, getting to 9 percent over a decade, allowing a slower phase-in, for example for small business, was not significant in the context of achieving the overall objective.

The fifth objective -- simplicity. It's important to minimize options within a system. Now, I've referred to some of the complex options in the Australian system. Individual decision making should be allowed, but the more individual decision making around complex issues -- it adds to costs. It adds to admin costs, distribution, investment, and transaction costs. And the bottom line is in Australia if you have a proportion of your money diverted to, say, death and disability insurance or unemployment insurance, that affects the long-term savings balance of the individual, because it's a diversion. It's a diversion into other purposes.

Now, there's a historical reason for that in Australia's case, but I think it's, in retrospect, elements of our system that we should not have allowed to be incorporated in what is fundamentally a retirement income system.

The sixth principle is one of the system must be cost effective. I've already referred to administrative investment distribution costs in a compulsory or voluntary private sector-based system. And, again, I've been a long-term critic of the overall cost-effectiveness of some elements of the Australian system. In Australia, for example, the average overall fee, total fee, charges 1.25 percent. There's a range of costs, depending on the particular fund you're in from, say, .5 or .6 (inaudible) percent. And I think this is unacceptable. And it's unacceptable that the 1.25 percent cost has not come down over the last decade. So, we've had huge growth in funds under management, huge growth from about 60, 70 billion dollars Australian to $1.1 trillion, and at least in theory and in most cases in practice, the overall fees decline over time, because admin's a fixed cost and because investment charges as to your investment -- there's economy of scale about purchase advantage, but this hasn't happened in Australia, and it's one of the reasons I've set up the Cooper Review to look at causation, why costs haven't come down as they should have done in Australia.

Seventh -- I think it is important to include a level of selection and choice by individuals. It is important to allow active decision making in some areas. However, it needs to be very carefully designed. Now, in most systems, there is a range of investment options typically. But what I think is important is in allowing investment options that individuals select, it's important to always have a sound thought solution, because what we found in Australia was that -- and this is 20 years on -- I keep a (inaudible) of people go into the default investment option. I do not actively select. So, by all means allow people to actively select in a system but have a sound thought solution for those who don't. Because in any compulsory system that draws in 60 percent -- in their case, of the population, you would inevitably draw in a group of people once they accept compulsion do not want to be active participants. So, you have to have sound default structures.

Now, in allowing a level of self-selection and choice, it is important that where individuals make those choices I think again these are two mistakes we made in Australia that need improvement. Worries that you inevitable end up with people advising those individuals to make selections, and we have a significant area of a public policy controversy in Australia, because advice in Australia is, in many cases, delivered by commission payment, and this is particularly controversial.

And, secondly, if you do allow individuals to self-select sound investment, I think again -- and this is not what's happened in Australia -- I think the individual -- the outcome of the individual needs to be very clearly benchmarked against the default. So, if I did nothing, they need to know the consequence of being active versus the consequence of being active default. And in my experience, the most people in a soundly based default solution, particularly if it's what I would call a (inaudible) non-active, diversified -- given the very low levels of fees and charges. In most cases, it doesn't pay people to adopt an active investment option. And I think also importantly in allowing levels of selection and choice, clear public reporting of the outcomes in the aggregate, as well as clear, simple reporting to the individuals.

Eighth -- sound governance. In the Australian case, we have used the trustee structure, and I think this is one of the great strengths of the Australian system -- arm's length, independent from government, and tasked with the overall job of maximizing the savings in the best interest of the member and no other interest, no other vested interested. And the trustee structure in Australia I think is a great virtue, a great strength. Government does not get involved in directing investments down to particular firms or particular sectors of the economy. But the trustees are charged with that role, and maximizing in the best interest of the member diversification long-term returns exercised by independent trustees I think is a very, very sound governance system.

And, finally and lastly but probably one of the most important issues particularly in current context, there's affordability. Inevitably, any change to a retirement income system will involve some additional cost to budget. So, inevitably governments have got to weigh up the short- and long-term cost to budget; and, of course, in current circumstances, given the range of priorities, government has affordability. Affordability to the broader community through the budget is often very, very difficult to achieve.

So, there are the sort of principles with particular reference to Australia that I would indicate I think are almost universal in their application.

Just in concluding, I think, on reflection, the Australian system is very good. It delivers increasingly over time an additional -- an additional add-on -- and I think that's important to emphasize -- to the basic state pension, which is income related, and it spreads the income-related add-on across some 92 percent of the working population. And that's an add-on that the lower middle-income earners, casuals, part-time workers, majority women had no access to prior to the introduce of compulsion. So, fundamentally, the change to the system was about fairness, extending income-related retirement benefits to a significant group of the population who had nothing, nothing other than a very, very basic state pension . And it was sold on that basis. An add-on to deliver (inaudible) through a compulsory system.

Now, it's not perfect. I've already reflected on a number of key areas where I think we need and can make improvement. But, again, much of that is retrospective.

One of the key issues, and I'll finish on this, is, as I've mentioned, with compulsion whether you adopt what's called soft compulsion, opting out, which gives largely the same outcome -- the UK is adopting opting out; you are in the system unless you opt out; you reverse inertia and people don't make a decision generally, therefore, they are in the system, so the decision is made them for them effectively, which will give almost the same outcome as the Australian position of compulsion in terms of members participating.

One key listen set against the principles I've outlined. If you compel people to participate either through compulsion or self-compulsion, do not expect them to be activists. I will accept the system but the majority do not want to actively participate. There is a significant group of people for a whole range of regions who find that being activists, even educating themselves in what can be quite complex financial decisions, at the end of the day it is too difficult and they don't want to it, and it's a serious mistake to believe and design a system around any base that believes they do want to do it; hence, the need for sound (inaudible); hence, the need to minimize conflicts of interest. Where individuals do make a decision, inevitably they're advised to make a decision.

And I'll give you a classic example of something -- a major inefficiency in the Australian system. When you move from one employer to another, often you change -- your fund changes automatically as a default mechanism and the contributions go into a different fund despite the fact that Australians legally can consolidate multiple accounts. They might have an account-defined contribution from a previous job 10 or 15 years ago. Australia has 30 million accounts for 10 million people in the work force. We have 6.3 million lost accounts. A lost account is no contribution for two years and they can't find the member because they failed to notify their current address. And so that's obviously highly inefficient. But it's a reflection of a mobile work force, a certain segment of the population who do not want to make active decisions. So, you have to have a default, and in that case we'll have a default, I hope, to solve that particular problem of lost accounts.

So, all of these issues I think are important. I applaud a lot around the world. I should stop here because I've gone on too long, David, despite the fact I know you weren't going to give me a time bill. But it's a fascinating policy area I think. It's going to be with us for many, many years, and I certainly, in my various trips here to the States and elsewhere -- I know it's been actively debated for many years. David and I know. I have to say there doesn't seem to have been a great change in the system, but of course some people might not want that. So, I certainly hope today's event at least is stimulating to the extent that moving forward you can develop some stronger policy approach with a little more decisive implementation action. But that's for you to decide, not me. Thank you.

MR. JOHN: I'm going to ask the panel to come up, please. Hopefully you can see the slides over us.

Now, whenever you do an introduction or a beginning, you sit down and you realize that you've left out something really crucial, and one of the things that I left out was the fact that we also need to thank David Harris, who I'm about to introduce anyway, and Tor Financial Consulting for their great help with this program. If it had not been for Tor, basically we would not be here today -- well, maybe not, but thank you very much, David.

All right, now, we have a panel of three, one of whom is approaching. The first speaker -- and what we're going to do here is we're going to have people speak in the order that I introduce them. I don't see a need for me to get up each time, so when one finishes, the other will take over.

Our first speaker is David Harris, who is the Managing Director of Tor Financial Consulting in the UK. David actually started in the US with Watts & Wyatt a number of years ago. He then moved to Watts & Wyatt in London and from there formed his own company. He has worked in financial services and consumer protection with the regulators in Australia and the UK. His expertise includes individual and corporate RAPs ; international pension systems and reform programs; consumer protection; compliance strategies, communication, education, and distribution systems.

David will be followed by Mark Iwry -- who are you again? I mean, that's -- Mark is one of our former principals at the Retirement Security Project. He became respectable a few months ago and became -- he is now a senior advisor to the Secretary of the Treasury at Deputy Assistant Treasury Secretary for Retirement and Health Policy. He has been active in just about everything over the years. He was a non-resident Senior Fellow here at Brookings. He was the Treasury Benefits Counsel during the Clinton administration and basically knows everything that is worth knowing on the retirement area. And if he doesn't, Dallas does.

Dallas is the president and CEO of the Employee Benefit Research Institute. He was the founding Chief of Staff back in 1978 and has headed it ever since. I've tried to go to any event that Dallas is participating in, because I always come up with at least one thing that I had never thought of and wish that I had, and very often, unfortunately, that's after I've said something contrary to what Dallas was about to present about.

So, we are honored to have this panel, and, David, you're up.

MR. HARRIS: Yeah? Thank you.

Good morning, ladies and gentlemen. I must apologize for the accent. I like to say it's a Scottish accent of about 155 years ago. My relations got a one-way ticket to Australia way back then.

I had the pleasure of living in the United States for three years from '97 to 2000. It's actually 10 years since I spoke before the House Ways and Means Committee on Social Security Reform in other countries principal Australia, and today what I'll take, if I may, is the ability to just give you a thumbnail sketch, if you like, of what's happening globally, mainly drawn from data from the OECD. I (inaudible) a new report to Pensions at a Glance, a third edition, and our dear friend, Edward House, has done some magnificent work on this, so the presentation will largely from that data that came out about -- the report came out about a month ago.

So, I'm going to go around the world, not in 80 days but about 9 minutes, and bear with me but you'll see the magnitude of the change that has been confronted by many governments.

Pension reform -- and it is really now a period of uncertainty, ladies and gentlemen -- it started with a financial crisis, as we know. It's moved to an economic crisis and now pension (inaudible) impacts are global, and I can stress some considerations. A most extreme example of this is Iceland. Iceland had a very strong, very capable pension reform initiative, and they look like their GDP will be 16 percent GDP this year -- that's negative 16 percent. And hope for CLUD prices to improve in the future.

But with all seriousness, it's a very sobering experience, because what we're seeing, ladies and gentlemen, clearly for the employer and employee challenges going forward is there's a sharp increase in defined benefit -- defined contribution transition taking place globally, especially in the United Kingdom where I reside. 96 percent of (inaudible), 100 companies recently said -- they said they will close their defined benefit schemes to accruals, so they've closed largely their schemes to new members, and that will preclude that and then you will see increasingly a move to define contribution.

What we also talk about a tour is about the democratization of risk for the plan of scheme members. What we were seeing globally is that increasingly where people were tying on a percentage of their salary and being able to plan and budget, they're now more exposed to risk, and whether these people are equipped to handle risk is a challenge.

We're seeing a sort of breakdown of paternalism. In France when I go there and talk to some of our French clients, it's quite interesting. They talk about solidarity and working together. But, clearly, in the European Union and also in other areas in these countries there's a fragmentation of paternalism. And, clearly, if we're moving from day to day, say who's going to pay for the transition.

Nick touched on the role of government and the political risk. Well, I'll talk about New Zealand where New Zealand recently reneged on its contribution or its commitment by the government to contribute to their KiwiSaver. And that was quite a significant impact.

And also finally default funds member engagements going forward.

Big question we're asking, certainly in Europe, is can we make members into chief investment officers if you provide them with a lot of member engagement materials, and it's a big challenge.

Okay, one of the big challenges and one of the big investments we're seeing globally is the psychological barriers and behavioral economics. We've seen Richard Thaler and Cass Sustein's book, *Nudge*, and this had really grabbed the imagination of a lot of OECD countries around the world who are considering pension reform, and accepts this consumer behavior and tries to take account of myopic behavior.

But what we're going to now talk about is, you guessed it, the financial crisis. Yeah. They said pitch is (inaudible) thousand words, and I believe this graph tells you a thousand words as well.

If you're in (inaudible) today, it's tough. It's extremely tough. And how do you bail out a bank or how do you bail out large banks? You go to your Social Security reserves and borrow from them and help deal with free nationalizing your banks or putting capital back in. They're a challenge. Big loss in Ireland. You see also Australia. You see also United States. But it's a big challenge. You're seeing the Czech Republic there in Germany -- and Spain. These are countries largely in bonds. But this has really had a direct impact on people's private pension savings. People are scared rabbits in headlights, deer in headlights. But it's a challenge.

And the challenge goes forward when you consider this slide. If you're in Ireland. I'm thinking I'm Irish and (inaudible) before they will kill me, but Ireland is doing it tough. And if you look at this trend line, clearly Australia, the United States, and Ireland are up there, but how about the UK. The United Kingdom did relatively better, and I've done some research, and we're trying to work out how it did better, but it seems that they got out of ranking stocks a little bit quicker than the other folks.

But, you can see with countries like the Czech Republic, Hungary in particular -- Hungary's minister recently said the private pension sector was inappropriate and they should move back to socialize its interest, government-sponsored schemes, and reverse what they've been moving toward private pension savings. So, it's a big challenge.

So, I hope I'm not depressing you out there, but this will make you even feel a little bit worse. The economic crisis. How bad? Well, if you look at the OECD data, it's pretty -- this is based on the

OECD-30 countries. It's pretty comprehensive, reclining output, so you can see here dramatically rising unemployment clearly impacting on the major countries. You guessed it. Budget deficits that are really starting to spiral out of control. And I come from the United Kingdom, and I'm very proud to own banks. I'm a taxpayer and I own banks. I don't think I voted for any banks, but I own banks.

And to the (inaudible) where people are quite rightly asking why do I want to own a Scottish bank that's you know, 70 percent owned by the government? We didn't vote for that. So, it's a real challenge. And the challenge equally then moves to, you guessed it, public spending on pensions.

Now, I like the style of Mr. Berlusconi from Italy. (Inaudible) I don't like the style of these pension systems and the reaction to them not performing, and 10 years ago I said that Italy had challenges. Today they've got big challenges (inaudible) GDP and public spending is going on in social security. That's he equivalent to their health care. I mean, education budgets or combined expenditure each year. That number is expected in 20 year's time, ladies and gentlemen, to top out at 22 percent of GDP on Social Security. That means you don't build roads, you don't have schools, and you contain your military expenditure. Big challenges, but you see Austria, France, Greece, Poland -- big promises -- and in this public time of containment or security, what happens or what needs to happen to countries that are facing big challenges?

Clearly, from our dear friend Assistant Treasurer Sherry -- commentary on Australia contained -- New Zealand contained -- well, see, you know, the kingdom in the United States relatively contained along with Canada, clearly (inaudible) been the countries.

Okay, so the impact. Their country and their pension system is really immune from the effects of the crisis whether the pensions and other savings are significant. (Inaudible) work is pretty near retirement. We're seeing quite clearly workers are approaching retirement and retirement is still in the equity heavily suffered enormous losses where people's retirement savings are invested -- is -- these are the real considerations. Where public pension spending was already high, there's going to be difficulties in making pension from I think, clearly, ladies and gentlemen, and the two points I'll add, where old age safety nets and automatic stabilizers are weak and questions on default investments and member engagement are actively being asked, and asked clearly in the United Kingdom, clearly in Europe.

But what do you do? What do you do when the replacement rights are so high? Replacement rights, you see, gross pension replacement rights for every (inaudible) Greece, Iceland, the Netherlands, Turkey. The question I'd ask you and pose to you, ladies and gentlemen, is there are a lot of trading partners, a lot of OECD nations that are facing some very, very, very uncertain times. But, you see clearly in the United Kingdom the replacement right with its very meager first bill of pension is very low. It's the bottom of the league table, (inaudible), Japan, and Ireland and Mexico. So, it's contained.

But what does it mean when contributions of the private savings toward your total are time and income (inaudible) to be put into play? Canada is clearly there, you know, the States -- Australia's clearly there, and no supplies, you guessed it, Austria, Poland, Czech Republic, new countries in Eastern Europe coming into the private pension sector but equally France, Spain, and Italy dragging their heels. So, a real challenge going forward.

Okay, you might say, gee, Dave, I'm feeling really depressed here. I'm feeling very sad. What -- can you cheer me up? Well, this slide won't do it. This is looking at US savers, the retirement savers that I always that I always (inaudible) data, and just trying to look at age profiles and also percentage of 401(k) members and equities. And you can see here some really striking profiles that during the time we had some people approaching retirement in the United States who are heavily involved in equities brought up to just a (inaudible) upon retirement, and it's quite stark. And there's explanations for that type of dead fund (inaudible). What's noticeable is certainly OECD has picked up this trend of people approaching retirement were heavily weighted equities.

Okay, so what's the policy responses? How are we going to solve this? What are countries doing? What are the options and the arguments?

Well, Australia has in part led the way. It's increased its stronger -- its safety net. It used to be our old-age pension was 25 percent of male total average weekly earnings equivalent. It's now going to go up to 27.8 percent. Greece has certainly made big significant changes. It's made giveaways. Spain has made giveaways. And other countries are strengthening their safety nets. How about a runoff payment. Maybe this is going to help things with a stimulus package. People are being paid quite significant amounts of money in old age. Australia led the way again in terms of giving large cash grants of cash handouts to old-age pensions of retirees. Maybe early access to some retirement savings due to hardship. Will they exist? But it is a challenge. And I suppose fundamentally where the OECD and other organizations globally are looking at is how can we encourage workers to move towards less risky assets in a more systematic way going forward? And these are really options of policy arguments and challenges, ladies and gentlemen, that a lot of countries globally are confronting, and equally, I would argue, the United States going forward will have to confront as well.

Okay, so you are saying now, Dave, I'm really depressed, I'm feeling a bit sad. What can cheer you up? Well, this slide can't. But it maybe can if we see behaviors not reflecting what happened in the 1980s. In Europe especially what happened in 1980s was there was a rapid explosion in disability and unemployment insurance benefits, but largely what was happening in the 1980s was governments to smooth unemployment rates were encouraging people to take an option of going on disability benefits, and you saw this certainly in France and Germany. So, it's certainly a long-term problem. There hasn't been any significant changes in government policy in Europe, especially where they're encouraging their workers potentially who are unemployed to take disability insurance, but it was a problem and you see in this graph in the 1980s where people transitioned between retirement and unemployment using a disability mechanism.

Okay, you might say, now, pension age -- what's happening with pension age, retirement age, mandatory retirement age. In the United Kingdom 70 years old. It was muted by Lord Turner, who ran a report recently that the mandated retirement age when you can get the old-age pension in the UK should be 70 years old. It was a suggestion. It's probably going to be now 68, and it's moving towards 68. But what you see in this slide, ladies and gentlemen, is the difference between men and women and their pension on average. And what's interesting is that people are living longer but actually on an average in the late '90s their actual entitlement or their ability to get old age was falling. So, they're living longer, but actually the ability to get their old-age pension was declining.

Now, I think the politicians realized quickly after 2000 the fiscal imperatives and the costs and you see this great Georgia climb. But -- and certainly from 2000 up to 2010.

But a number that's really interesting to me is in Poland. You still have men who can get their old-age pension at 65 and women at 60. So, there's still a disparity there in Poland and yet no anti-discrimination laws (inaudible) together.

Okay, so what happens? Are we living longer? Damn right we are. And so -- so, if you're a worker on the French metro -- and I encourage people in the audience to go to Paris. It's a lovely place. It's great. But not when there's a strike of the metro workers. When the metro rail workers decide to go on strike, it is hell. Combine that with the taxi drivers, that's even worse. So, the metro workers retire on about 63 percent of their final salary -- train drivers -- and they can start drawing their pension at 50. And their life expectancy -- you guessed it -- is to 81. So, there's a challenge.

Who pays? And that's the old days. It's an old calculation of course when train drivers used to stoke trains, but now they push buttons largely. But trying to move France away from solidarity is a challenge.

Okay, so what are the policy issues in the UK? As outlined, the UK is moving towards a voluntary system or what we call self-compulsion, very much influenced by the United States in terms of 401(k)s. The question is will they recycle and reuse their pension infrastructure? It seems that they'll be delivering personal accounts. I can commend David's report in picking up some issues. But the real challenge in the UK at the moment is what will happen with public-sector pensions?

Public-sector pensions owed to fire brigade workers or firemen, fire people -- more politically correct? -- police people and, more importantly, civil servants.

The current liability, we can determine, is it's around 692 billion pounds -- is owed in pension funded -- unfunded liability. Some estimates get it close to more like 940 billion. That's a challenge, isn't it, because -- hang on -- isn't in the private sector. It's moving to (inaudible) Australia's containment to democratization (inaudible) another group sitting on the (inaudible) you're going to be on (inaudible) benefit schemes and being very generous. But UK's got major challenges.

New Zealand you saw. New Zealand's changed (inaudible) on this slide. They have an opt-out provision, but between day 14 and day 54, you could opt out of the existing KiwiSaver structure. The big challenge here is national government came in and reassessed its finances, said we're running a deficit, and we're now not going to make a co-contribution KiwiSaver and picking up each point that caused a lot of worries. Clearly, in New Zealand 4 million people lose an incredibly low-level pension coverage beforehand 17 percent, and you've seen in the replacement rate for New Zealand they first feel a pinch in pay-as-you-go, something around 62, 63 percent in the New Zealand Super for 4 million people. Good if you can afford it in 10 year's time. Challenge. And very much based on commodity prices.

Not asked the question what's happening in Germany. German's a fascinating country in terms of where they would go with the first Bill of Pensions. I believe (inaudible) on slides on this thinking about Germany, Germany has got a very generous first Bill of Pension to current retirees. That's a subtle thing.

There was generation X and generation Y for people out there in the audience (inaudible) Germany. It's not a good place, the reason being what they're doing very subtly is altering the calculation for the

pension for workers and younger workers. So that generosity will rapidly hacksaw down.

But yet, the recent reforms, individual personal pension savings have been growing, and have been growing, most interestingly, in this current period of time. Which is interesting for Germany. And they -- you guessed it -- want further pension reforms. They've appointed a “pension czar” -- I think I won't use that word now in Washington these days. It seems a bad word. But they have appointed a pension reform czar, a specialist, to consider the next reform process.

But, of course, what Germany is facing in September -- you guessed it -- is an election. And it's throwing down the pension reform initiatives. So, onward and upward, Germany.

Okay, so you're saying, “What is happening particularly on private pension coverage?” You guessed it: Canada is pretty high.

Germany, by age group, declines quite sharply. And, you guessed it, the United States is there, and very clearly there. But the worry for people like the United Kingdom is, you guessed it, after 45 there's a severe dip off, or turn off, for older workers to contribute to private pension savings.

Expressed in another way in terms of earnings, no surprise here in terms of the decelerating in distributions of private pension coverage.

Germany's interesting. For those people who do participate in this, they do contribute quite significantly but, again, (inaudible) going forward.

Okay. So what are the key observations I'd leave you with? I've bombarded you with 22 slides. I was told to take seven minutes. I'm overtime by about six minutes. I do apologize to David John in advance.

So what are the key observations?

I think global pension reforms will need to increase in tempo -- there's no doubt about that -- based on the financial and economic considerations. But it's hard. As a politician, having worked with politicians like the assistant treasurer, it is tough -- it is a tough sell.

If you try to bring in pension reforms, say in Greece, you face riots, you face strikes, and you face flares and guns being sort of, you know, shot. You know, people literally have been shot in Athens in previous riots induced by social security reform.

Equally, in France, they have a propensity to march down the Champs Elysees and burn car tires when they brought in pension reforms over five years ago.

So -- challenge. How do you do it? How do you sell it?

But the financial and economic considerations, ladies and gentlemen, will undoubtedly shape pension reform. And we really need to make a clear distinction here: what do we do to get people saving for their retirement? Is it tax incentives? IS it soft compulsion, auto enrollment? Or is it mandation — as Nick would say, “compulsion.” And they’re all being considered by national governments going forward.

So -- time is up. I’ve got that point.

So -- demographics are driving the pace of pension reform. And clearly -- finally, I’ll leave you with this thought, the big one that’s driving government thinking at the moment, certainly in Europe, is what we do with default funded investment structures going forward -- to mirror, or mirror a lifestyle, but also minimize consumer detriment.

I’ve spoken for too long. Thank you so much.

(Applause.)

XXXSPEAKER??: David, Nick, those were terrific presentations. I feel like they have covered so much useful ground, and have taken us on a complete whirlwind tour of the entire world, from a pension standpoint, that I’m going to take a very different approach -- be very insular, provincial and narrow -- and talk about the history of U.S.

strategies relating to retirement savings, that pick up on David's points about mandation versus soft compulsion, including auto enrollment. All these are foreign words as spelled on David's slides. I'm trying to do some simultaneous translation.

We have been experimenting with soft compulsion, auto enrollment -- though we spell it differently. And considering the contrast between those and what we would call "mandatory" approaches in the U.S. -- and of course we have a combination of a mandatory and voluntary pension system. And we have a combination of a public and private pension system. Social Security, of course, is our public mandatory system, the bedrock and foundation. And the private pension system, and other savings -- personal savings -- are our second and third pillars, as the rest of the world calls them, or second and third legs of the stool as we persist in calling them.

And we've seen, of course, within the second pillar, the employer-sponsored private pension system, a continued faith in the United States that a non-mandatory and a private sector-oriented system with public tax incentives and regulation continues to be what we're most comfortable with in terms of our political culture, ideology and traditions.

Within that, we've seen the decline of the defined-benefit plans that we're all all too familiar with, and the shift over to not so much defined contribution as 401(k) employee-initiated savings, where the key is not really the difference in format between a defined-benefit promise and a defined-contribution promise, but more the shift in initiative and risk from the employer providing the savings, taking care of the investments, prescribing the forms of distribution to a greater degree and deciding how much will be saved for people in the form of employer contribution -- shift of that over to a kind of do-it-yourself world in which 401(k)s put the onus on the employee to decide whether to save, if so, how much, how to invest, and how to take the money out.

That shift is something that many of us, including David John and Bill Gale and, formerly, Peter Orszag and I at the Retirement Security Project -- Brookings, Georgetown, Pew Charitable Trusts-supported non-profit -- we've been trying to make that do-it-yourself 401(k) system into something that works better as a matter of policy, and that gives guidance to individuals so that, in fact, they do accumulate wealth to supplement the Social Security benefits that they mandatorily have, and to make our private sector orientation, voluntary orientation work.

So in the U.S. it seems a very comfortable strategy to start with that private sector, voluntary nature of our second and third pillars, our non-Social Security system, and to look to the behavioral economists and the common-sense insights that we might bring to this based on experience, to make that system work better.

So what has transpired over the last decade or slightly more has been a kind of shift of this do-it-yourself 401(k) back toward what one might called a "pension" -- that is, something that's lifetime guaranteed, that pays regular income that essentially replaces one's paycheck. A pension paycheck, if you will -- something that has risk that's appropriately mitigated or allocated to the parties that can bear it best, and that strives for adequacy in amount -- which begins with actual participation, making sure that people are, in fact, getting these benefits.

And as a broad balancing, that seems to strike a chord with our citizenry and our political establishment, in the sense that the combination of income security, which Social Security provides, and income security to the extent that our defined-benefit system continues to provide benefits -- the combination of that with a much more flexible asset accumulation, personal savings, individual account-oriented component is something that seems to work in the U.S.

We have both impulses -- the need for security, the need to make sure that there's a bedrock foundation, and the hope that accumulation of assets, that personal wealth-building, brings the sense of empowerment or control over one's own destiny, potentially breaking out of a cycle of debt and despair to see oneself being able to build one's own nest egg. But that has a lot of power, I think, in the American ethos -- not only for upper income or relatively affluent people, but also for lower and moderate-income, people who are all too often left out of our system.

So what we have focused on, many of us, is making that do-it-yourself 401(k) into something more like a pension, or at least moving in that direction, with a kind of behavioral strategy that tries to transplant some of the cardinal virtues of the defined-benefit pension into the part of our system that is still vibrant and growing -- namely, the 401(k), the individual account, parts of our private pension system.

So the defined-benefit plan covers everyone. It's a kind of universal coverage -- you draw the analogy to health care. Once the employer decides its workforce is going to get a pension, they all get it. 401(k), in its original form, was do-it-yourself in the sense that a third or a quarter of the employees didn't get around to signing up so they were left behind. Automatic enrollment -- simply enrolling people and letting them opt out if they don't want to be saving in that plan -- has proven to raise that participation rate, or take-up rate, from something like two-thirds or three-quarters to 90, 95 percent.

That resolve approach is the results of what David would call "mandation," of a mandate that people participate. One could even argue that a mandate might be less effective than a 95 percent voluntary arrangement, insofar as perhaps there are a few people who at some point, given their circumstances, shouldn't be saving if they need to feed their children and pay the rent, and should put the saving off for a later year.

The success we've had with automatic enrollment has been striking. About half of the large 401(k) market is now using it, and is using the related "automatic investment" strategy. That is, instead of letting employees fend for themselves among 18 or 25, for them confusing, investment options, without much guidance as to how to allocate their funds, we've had a successful move toward default investments -- an investment mix, typically something that is reflective of the asset allocation literature that suggests that asset allocation traditionally has driven returns more than anything else. And we've given employees the freedom to depart from that default if they want to, to suit their own circumstances. But the majority, who don't really want to be their own investment managers -- including many who are quite knowledgeable about financial managers, who are financially literate, we're giving them the freedom not to have to make their own investment management decisions and let professionals, or the consensus of professional opinion, do that.

That's worked very well, as well, in the sense that employees have been willing to shift to, to go along with default investments.

Of course the economic crisis that we can be in has reminded us that we nee to bring humility to the issue of what the best investments are. But the strategy is not based so much on a conviction that we know exactly what the best investments are, but on the perception that when individuals who are distracted by all the demands of daily life have to save on their own, they shouldn't be left to be their own investment managers, and what we can at least do is assemble the consensus of expert opinion on these matters and make that available to people in the form of a default.

We've found that defaults work more powerfully than education -- that education's necessary, critical, but insufficient, and that defaults produce action that education often doesn't.

Finally, we are looking hard at extending this behavioral strategy -- the sensible use of automatic or default arrangements -- to the payout phase. David was referring to the annuitization issue, mandatory annuitization in the U.K., of course, and in many other countries. Here we have mandatory annuitization in Social Security but not beyond. And we've seen our defined-benefit plans erode, in terms of annuities, even when the defined-benefit plans are still active and in effect.

We've seen a shift to 401(k)s erode the whole system's inclination to pay annuities. And so one of the papers in your packet today, and another paper that the we've -- the Retirement Security Project has authored, set out strategies that are designed to draw on this same behavioral approach to promote lifetime income -- to promoted lifetime income in 401(k)s and bring these plans back toward somewhat more closely resembling a pension, rather than only an individual account savings arrangement, and to help people with the almost intractable problem of determining how to husband a pile of assets -- a nest egg -- on an individual basis without collective sharing of risk over an uncertain life-span, with uncertain demands on one's assets, and potential economic shocks that can upset the best laid plans.

I look forward very much to our give-and-take, and especially to comments, ideas and discussion with all of you.

Thanks.

(Applause.)

XXXXSPEAKER?: Thank you. It's a pleasure to be here. And, David, I appreciate the invitation that Bill Gale extended, now in absentia.

I will start by stressing that comments I make are my own. They clearly do not represent my employer, my wife of 34 years, Stephanie, or my mother, about to turn 93, who reminds me regularly that I'm never allowed to speak for her.

I think that interesting piece of the front end -- and particularly the Senator's presentation -- is that it underlines against his principles the unique difference between parliamentary systems as opposed to our non-parliamentary system, and thus the unique power of prime ministers who control parliaments, as opposed to presidents -- as is shown right now, clearly -- do not control Congresses, even if their own party has clear dominance.

And more telling vis-à-vis the slide set from Mr. Harris is the degree to which even in numerous nations around the world that are in the decision-framework blessed by parliamentary systems, have proven ineffectual at making the hard decisions that would, by his presentation underlines, need to be made -- even where, in essence, under the parliamentary system, if the prime minister and the party in power wanted to make the change, they essentially could do it on a unilateral basis and, if you will, the worse that happens is that they get forced to go to a short-term election and the public can determine whether or not they liked what they did, as opposed to the U.S. system.

So I think that the fact that other nations have found it so difficult is a very telling piece.

The third comment I'd make is that I feel, actually -- appreciate your highly optimistic presentation, because it leaves me highly optimistic about he situation of the United States relative to the world. We have -- and the Senator mentioned -- the advantages of -- even though his nation, Australia, does not have it -- the virtues of an income-related Social Security system, which is how ours has been structured since it was created in the ‘30s, so that you are doing, building a pension tied to earnings throughout your career.

Secondly, as most particularly your slides indicated from the OECD, the United States is blessed by a Social Security system that takes a relatively low proportion of GDP to finance, and has a relatively low replacement rate on average. But what was not in the slides, but what could be added, is that because of the complications but joys of the bend-point formula in Social Security the lower two quintiles by income can manage to come relatively close, with the bottom quintile near total replacement of their pre-retirement income, however inadequate it might have been. And you have two-thirds of our nation's retirees that do get primary income from Social Security, and essentially, by their actions, suggest that that is sufficient as a base, since they have not saved, and most of them have not gone back for a second job until quite recently.

In addition, you essentially showed a fundamental difference -- and this goes particularly to Australia -- and it was stressed quite heavily by a book that was released in this room that I would recommend to all of you on pensions and Social Security and privatization types of issues, that was edited by Mr. Ornstein, and actually the person who did the first edit of it is now a colleague in the administration of Mr. Iwry as the Deputy Director of the National Economic Council, so it does have a clear bent toward some of the attitudes of the Administration, and therefore is worthwhile reading to get a feel for what many in the Administration think might be appropriate policy as it relates to defaults, mandates, compulsion, et cetera.

But against the Australian point, what is emphasized is that many of the foreign systems, including Australia, pay for their super-annuitization programs -- the equivalent of our Social Security -- out of general revenues. Very few use the payroll-tax method used in the United States.

And the presence of the payroll-tax method in the United States essentially has allowed a maintenance subject to the unemployment rate for full cash flow to continue for the Social Security program, without the disadvantage that has been referenced in many other countries, brought on by the financial crisis, because if it is a major component of general revenues funding, and general revenue goes through the floor, it's tough to become an owner of the banks and simultaneously pay the Social Security benefits, plus defense, plus, plus, plus.

So to a degree that I had not appreciated fully prior to this presentation, even though I've read it many times, that other countries did this with general revenue -- in this country frequently that's been presented as an advantage, and that our payroll-tax system was an intense disadvantage, today far more than at any point in the 35 years I've been working on this subject, I now have a new found appreciation for the virtues of the payroll-tax financing system, and the strength that it gives to our Social Security system, which -- there may be many in this room like me, for my about-to-turn-93-year-old mother, in fact, at this point, Social Security is her only source of income. And since my father, when he passed away two years ago, the defined-benefit pension went away because, on the advice of my mother he had not taken a joint and survivor option. She tells me to this day, she knew it was because he would like until two months short of 94, and that she did have a picture of his longevity, therefore knew that it would be a very good investment to not take the JNS because he'd be around of a long time. I thought she was crazy at the time, but she proved once again she’s far smarter than her son.

Now that we look at the other data you have presented, the demographic challenges -- in this country we’ve been for some time at about 12.5 percent of the population over the age of 65 -- we will top out based on our current census numbers, we’ll top out about 21.2, 22 percent. That actually gives us a fairly good-news picture relative to many of the other nations involved here. And, again, the payroll-tax structure provides secondary advantages, based on what I saw today.

So, again, a greater appreciation as a result of these presentations than I might have had in the past.

And then I did -- because, specifically, Bill asked me to do so -- want to mention briefly the context of the history in this country of our experiments with the issue of defaulting, compulsion, et cetera. The Employee Retirement Income Security Act which is, as you know, our primary regulator of the private system -- not public pensions, but the private system -- came out of a commission on pension policy that was appointment by President Kennedy in the early 1960s, and actually in the report of that commission there was a recommendation for a compulsory defined-contribution/defined-benefit choice system that the Congress did not subsequently enact.

In 1972, the then vice-chairman of the Segal (ph.) Company, one of the few remaining private employee benefit actuarial consulting firms left in the United States, one of the few still privately held, essentially, he wrote and published in the New York Times on October 22, 1972, an editorial essentially -- if I put it in other terms -- advocating the second-tier compulsory Australian system for the United States, on top of Social Security. Mr. Paul's last time of writing about that was prior to his death in 2002, and he lamented that we did not have the parliamentary system of the United Kingdom because if we did he was sure that by then we would have done that.

Flip back into sequence, and one says, well, but Congress, did they consider this? Yes, Senator Vance Hartke, Democrat of Indiana, did present on the floor of the United States Senate an amendment to ERISA in late 1973, and then again on the floor in the early summer of 1974, that would have created a mandatory plan for all employers with less than 300 workers, run by the also-to-be-created Pension Benefit Guarantee Corporation, with contracted-out private operation and private investment management through a trusteed system.

Again, the equivalent, somewhat, of the Australian compulsory system, proposed by Senator Hartke on the floor. The leadership of the Democratic party would not allow a vote on the amendment, so it died under parliamentary procedure.

And then in 1978, then-President Carter appointed a President's commission on pension policy. They presented their report, "Coming of Age: Towards a National Retirement Income Policy," on

February 26, 1981. They also proposed something resembling the system, and that proposal never got into legislative language in the subsequent years of the Reagan, Bush, Clinton, or Bush administrations.

Most recently -- and of relevance to this -- would actually be Congressional action in the 1980s, when Congress had for its workers, they were not part of Social Security. They had a 2.4 percent per year formula defined-benefit pension plan with full inflation indexation post-retirement. In 1984, the Congress, with the signature of President Reagan, acted to replace that system, putting new Federal hires into Social Security, a 1.1 percent per year formula DB plan, and a 6 percent government match contribution so that 1 percent, and then matching, that would get the government putting in 6 percent if the employee put in 5 percent to the defined-contribution system -- with many of the choices that we have described, and with an investment default into the equivalent of a stable-value fund, but a special one managed by the Treasury Department.

And then very recently there's been lots of discussion, including many proposals in the book that I just noted. Senator Bingaman of New Mexico, I will note, lest he find out that I left him out, that Senator Bingaman did introduce in multiple Congresses the creation of a Federal pension portability clearinghouse, and a mechanism that would have had the ability to avoid the lost-account, lost-pensioner issue by when individuals left employment, be they DB or DC, if they did not rollover accounts to an IRA or to a new employer, the employers would have had to send the money to the portability clearinghouse, which would have been coordinated with Social Security records in order to avoid the problem that the PBGC now has, which is “where do we find those participants?”

So it’s been a long haul in these United States. Mark mentioned the default enrollment and all. McDonald’s corporation started doing that in their 401(k) plan, just short of 25 years ago. It’s been around in this country for quite some time. PPA (ph.) of 2006 moved it the next step. And to the global front, you may have seen in the paper in the last couple of days, IBM froze its United Kingdom defined-benefit plan. I think 75 percent of UK DB plans have been frozen or terminated in the last four years.

So the global systems are clearly in flux. An based on these presentations, I find myself happy and optimistic that I live in America.

(Applause.)

XXXX???MR. JOHN: All right. Thank you.

Let’s see -- this seems to work. We have microphones to our left.

What we’re going to do is to open things up so that we can have interaction among the panel. And then we’re going to open things up for questions or comments -- hopefully, brief comments, please -- from the audience.

When we start that phase in a couple of minutes, if you'll wait to get the microphone, and if you'll let us know who you are before you speak.

Gentlemen, any comments or response, Nick, for —

MR. SHERRY: I'd be happy to turn it over to questions, comments, discussion.

MR. JOHN: All right. Anyone else?

MR. SALISBURY: No, just that it's an extraordinarily tough audience. You know, they are so serious. Would somebody stand up and tell a joke?

MR. JOHN: All right. We're going to open it up for questions or comments. If you'd raise your hand, please, and then they'll bring you a microphone.

While we're starting, here, let me also say that while we here have made the speeches, the reason the room exists, and the reason that all the logistical details have been handled is due to Jamie Matthews (ph.) of the Retirement Security Project. And, Jamie, thank you very much for all of your efforts on this. And the people who are helping here, thank you also.

And, Christina, I was very impressed -- Christina is our timekeeper. She didn't have to resort to violence once.

SPEAKER: I appreciate that.

MR. SHERRY: So do I.

MR. JOHN: Comments, please.

Yes?

MS. WHITE: Hi. Jane White, from Retirement Solutions. And, Dallas, I'd love to say something funny. But the bad news is that things are even worse that you guys laid out.

One of the -- I think the most important thing about the Australian superannuation system is the 9 percent mandatory contribution. And that's why many Australians can afford to nest eggs of half a million to $700,000.

Unfortunately, automatically enrolling people in a 401(k) plan certainly improves participation, but at a 3 percent rate, nobody can retire unless they save 10 percent of pay for their 40-year career.

MR. SALISBURY: I guess I go back to the payroll tax, and I go back to Social Security. And having taken the time before the meeting to go look at the benefit levels and the income tests and all in the Australian system, it is a very meager system.

And then there's the affordability issue, is American workers are paying their payroll taxes, their employers are paying in to that system. They pay for health care. The amount of co-pays on health care is going up rapidly. Were the Congress to enact the bill that was just -- will be going before the House of Representatives as the health reform, then there will be a mandatory significant additional expenditure for health care.

So I think, just as a practical -- the practical issue, given that we know all too well the U.S. incomes data for the last -- and history of income growth or lack thereof over the last five, 10, 15 years, is basically the fundamental concept in this country right now, between what people can afford to set aside. Can they, in fact, afford to set aside additional funds? So I think that's the challenge.

It would be highly desirable if people set aside more, but there's just that fundamental question, for low and moderate-income people in particular.

MR. JOHN: (inaudible)

SPEAKER: I agree with what Dallas is saying. Jane, certainly it would be great if we could have, indeed, employers providing those voluntarily. And many of us look back to a somewhat mythic golden age, when we had more defined-benefit plans, and we had something called a "money purchase pension plan," and something called a "profit-sharing plan," in which employers, whether in a defined-benefit or defined-contribution format, would contribute substantial amounts, without the employee having to take the initiative, for the employee's long-term security.

That has been declining, not only with the erosion of the defined-benefit plan, but, you know, one might note that companies that have expressed concern about the volatility of a defined-benefit funding obligation, about the lack of budgetability, about the long-term commitment that it has entailed relative to their competitors who are coming from countries that often have, you know, national health care and other things that don't require the competing company to bear the same kinds of costs -- that the companies who have been concerned about those aspects of defined-benefit pensions have not, when they froze those plans, generally moved to an equivalent profit-sharing -- flexible, budgetable, predictable, and not long-term committing kind of employer contribution.

If one took the average spending, let's say, or cost to the employer of a defined-benefit plan back in the heyday of those plans, over a decade perhaps, and translated it to, Jane, your sort of Australian-inspired model of a 9 percent 10 percent of pay contribution, it might come out in that ballpark. Obviously, it depends on the specifics. But one would have hoped that perhaps we'd get the migration, if the concern was really one about volatility and maybe long-term lock-in. But we haven't seen that on a voluntary basis, which I think is why you've been suggesting for some time that perhaps we emulate Australia.

I think that, you know, Dallas' concerns are very much to the point on that, and that when it comes to the automatic enrollment approach with 401(k)s, the thought is not that that by itself would be adequate. The thought is more that as a practical matter, that's a place where we can make some progress, given the fundamental situation we're in, economic, ideological, political.

And there's a sense in which that has -- that quiet revolution in defined-contribution saving has occurred without any legislation. The 2006 PPA that Dallas referred to came along long after automatic enrollment had taken hold. It helped, but we already had a major takeover of the 401(k) large-plan market by automatic enrollment.

Three percent is not what most policy folks would recommend, of course -- consistent, Jane, with what you're saying. But 3 percent was what, when I was at Treasury in a previous incarnation, we started with as an illustrative level, because we wanted to get something accomplished. We at least wanted all these millions -- tens of millions -- of lower and moderate-income people who are completely out of the system, who aren't saving a penny, to be introduced into the saving system. And if it has to start at 3 percent and then step up, as the Retirement Security Project and others have been advocating, that you automatically over time, 4 percent the next year, and 5 percent the year after that, and eventually get to what we might project as a more adequate level -- that seems to be what the traffic will bear in the United States.

MR. SHERRY: A couple of just brief comments.

I mean, I share the concern about, you know, compulsory system effectively forcing particularly a low-income earner who obviously benefits to a greater degree from a flat state pension. And we've had the debate in Australia about 15 percent across-the-board contributions which is, in fact, what the Prime Minister of the day, Paul Keating, in a the previous Labor Government, wanted to introduce.

Frankly, I've never supported that approach. I've long argued that for middle, higher income earners, it might be -- or it is more appropriate to have a higher level, perhaps 15 percent. But for a low-income earner, who has a very high replacement rate as a consequence for a flat age pension, taking it beyond 9 effectively diverts necessary dollars for consumption for a low-income earner into long-term savings -- and that may not be necessary, depending on the level of your, in our case, flat state pension.

The second point I'd make is that, as I've indicated, we've just increased the flat state pension, because if you look at the 30 or so OECD countries, Australia's flat age pension is close to the lowest.

The only other comment I'd make is that broadly, we have an aging population, and there's a sustainability issue in every country in the world -- but to varying degrees. Australia and the U.S. are better off in the sense that their aging populations, for a range of demographic reasons, is occurring after (inaudible) European countries.

But broadly, people still want to retire at 65. And broadly, most in society want a higher retirement standard of living, whether it's through an income or through a range of other benefits -- health care, age care, et cetera.

So we have, I think, a fundamental contradiction: an aging society, people still broadly wanting to retire at 65 -- and that's very, very hard to change, I think, both in reality and expectation. And, thirdly, people wanting improved benefits.

And my argument is that ultimately it has to be paid for in some way. It has to be paid for. You just can't simply rely on the younger generation to pay for that sort of approach. Which is why I've argued that a decent safety net, flat, however it's paid for, whether it's off budget or direct contribution, plus an income-related compulsory -- whether it's opt-out or compulsory and there's no opt-out.

The only other caution is that we've had 20 years of compulsion in Australia, starting at 3 percent, rising to 9, 1 July, 2002. I don't think, if society's expectation is still to retire at 65, and have an increased retirement income, I don't think it is unreasonable to say -- or for government to say -- "If real wages are increasing long term -- " -- at, say, a rate of 2 percent or 3 percent per annum, it is not unreasonable to require, if society wants this improved standard of living in retirement, against an aging population, not unreasonable to say, through compulsion, " -- you will pay for this by diverting perhaps half a percent or 1 percent of that increasing real living standards each year if that's what you want." It has to be paid for.

The only other point I'd make in the context of Australia is, of course, we reached 9 percent on 1 July of 2002. The reality is that the majority of people over, certainly 45, don't have a significant accrual. The average accrual is about $60,000 Australian -- and you convert that to a draw-down annuity or pension, it's very, very modest. I mean, those who benefit substantially are younger to middle-aged, who are in a defined-contribution system for 35 to 40 years.

So the only other comment I'd make is that a DB is dead in Australia. And I think one of the reasons that I didn't mention for the reasons for compulsion is we say 20 years ago that with labor market mobility we were opening up our economy, economic reform, the days of paternalistic employers' providing a DB was going to come to an end. And in Australia's case, very quickly -- much more so quickly than other countries. And you had to have something to replace it. You have to have something to replace it. It might be imperfect, but you need something to replace it. So the world of DB in Australia is dead.

Every DB in Australia -- including in the public sector -- with two exceptions, is closed to new entrants, and were closed over the last 10 to 15 years, private and public sector, with two exceptions. And I would do it for them if I could get away with it, but I've so far failed. One is judges, and the other is the defense force. They're the only two open DBs in Australia. Even for politicians the DB schemes have been shut. But I've yet to take on the judges and the military successfully.

SPEAKER: Just a quick comment. I think Australian generation X and Y -- I'm in Generation X and Y -- they've worked out that 9 percent is not enough, so they've put on an average of 24 percent.

Secondly, what drove Australia when I was a public servant, a civil servant, enacting some of the reforms that Nick was getting in or developing was, we were keen to get our pension coverage up from 40 percent to 91 percent. And the benefits of that were, in our communities, were women and also from a multicutural background.

Quickly, on the UK, the UK is going to develop and opt-out system and personal accounts, and it's going to go for 4 percent by the individual, 3 percent by the government -- sorry, by the employer, and 1 percent by the government.

Now, the challenge is, it's very aggressive in terms of that introduction. It will be over a three-year period, and we cast doubt on whether it's sustainable in this current economic environment to say to an employer, "Hey, you're just recovering. By the way, you've got to start paying 3 percent in."

The other challenge that you face in the UK, the wealth of DB schemes that are unfunded liabilities. When you jump on a British Airways jet and you enjoy that experience of British Airways, think that their unfunded liability is 2.1 billion. So you've got an airline with a big -- oh, I like to think of it as pension scheme with a little airline.

MR. JOHN: We're actually running close on time, so if we could have some quick comments -- if we can get people -- get a response to all at once.

Len, do you want to —

MR. BERMAN (ph.): Len Berman, Tax Policy Center.

One of the big problems we have -- and I think Nick touched on this -- is that we're not saving enough for before retirement, that I think the recession has really drawn that home.

What do we do about that? In the U.S. I would say that low-income people are actually taken care of reasonably well with Social Security, but they don't have any savings to deal with job losses.

MR. JOHN: Next?

MS. SLATE: My name is Caroline Poplin Slate. My late husband, Martin Slate, was head of the PBGC under Clinton.

My question is for the gentleman from Australia. I don't understand quite how Australia -- or how the people in Australia fund their retirement. Is it funded entirely by the 9 percent contribution? Someone said something about the fact that there are annual appropriations. Is that for the flat means-tested pension?

So if you could explain that, that would help.

MR. BRADY: Pete Brady from ICI.

I'm just going to sort of reiterate comments that Mark and Dallas have already made, but may put a little different spin on it.

The issue for lessons from Australia for the U.S. isn't really "compulsion." We have a compulsory system, it's called Social Security. It takes 12.4 percent of the payroll.

The question is: how big is the compulsory part?

So if you're looking at lessons from Australia, I'm sometimes confused about the lessons people take away. To me, if you wanted to emulate Australia, what the U.S. would have to do is eliminate Social Security -- not only the retirement part, but disability and survivors' benefits -- reduce the payroll tax from 12.4 percent to 9 percent, and then put that into private accounts.

And, you know, so I see lessons for that in countries that are building new systems. They want to start from scratch and they want a new system, it's a very interesting design. Or if you want to privatize the current Social Security system, it's a very interesting design, a very good design, I think.

As far as adding on to the current Social Security system, unless you think 9 percent is woefully inadequate but everything else is good -- I mean, if you want to, say, double it to 18 percent, you take your 12.4 percent and then have a compulsory 6 percent on top of it.

So, to me, the lesson from Australia for an add-on account can only be: it's good, but it should be twice as big. You can't really take lessons from the 9 percent and then apply it to the U.S.

MR. JOHN: Let’s see -- our next non-controversial proposal? Anyone else?

We’ve got one more right up there.

MS. CLANCHE (ph.): Thank you. Jude Clanche, independent consultant.

I would appreciate more discussion or connection between the need for a (inaudible) for retirement and the prevailing unsustainable consumption pattern that seems to be a fundamental policy in the U.S. particularly, and the modern economic systems in general.

Thank you.

MR. JOHN: I don’t know -- you’ve got your choice of any or all.

SPEAKER: I think we should start with the Australia payment question.

MR. JOHN: Yes.

SPEAKER: Since you came all the way over, and it’s a long flight.

MR. SHERRY: Let me deal with that.

In Australia we have a flat state pension delivered from the budget, from general budget revenues. On top of that, we have a private trustee-governed system, with a 9 percent compulsory contribution, and there are voluntary contributions averaging 4 to 5 percent.

If you were to calculate the -- say, a tax or Social Security charge that's applied to Australians to fund their flat state pension, it would be about 7 or 8 percent. So you have 7 or 8 percent, if that was the way we would (inaudible). And we have a 9 percent compulsory contribution in a private-sector delivered vehicle.

Coming back to the other point, I mean the purpose of the compulsory superannuation system in Australia is not to replace the age pension for the vast majority of people, for the vast majority of people. Because the age pension, the flat age pension, is means tested. And 25 percent of Australian retirees don't get an age pension. Twenty-five percent don't get an age pension.

Because we've taken the view -- and somewhat controversially, because we're one of the few countries that means tests its state pension -- it was basically, frankly, a cost-containment issue, a fairness issue.

The demographics were driving the costs of the basic age pension, and as I say somewhat controversially, the then Labor Government introduced means testing. And it was a very, very difficult political issue to have to deal with -- and then introduced the compulsory private savings, the 9 percent.

So the debate really is, I think: what is the level of contribution? And how much goes into the state-run system, and how much goes into a private-run system, to give you an outcome to meet the expectations of society as it ages?

And I suppose the fundamental issue in Australia was for low-income earners, a very low flat state pension, giving them an add-on, if you like, that builds up over time, because there were excluded from the add-on.

And, secondly, if you look at the aging population, inevitably the political demands, because of the proportion of those people who vote who are over the age of 65 is increasing. In Australia's case, those who didn't have a good replacement rate were middle-income earners. And that's why I would argue a higher compulsory contribution particularly for middle-income earners. It's not such a priority now for low-income earners.

And the reality is, if you can't meet that demands, governments of the day will meet it in some other way. They'll start paying bonuses, or extending health care benefits to that group to meet their expectations.

SPEAKER: I'd add a quick comment on a couple of -- on basically Len's point, and the question about the consumption economy.

There was an interesting piece that came out recently. It was from one of the Federal Reserve Banks. And what it looked at was, over the period 1950 to present, the proportion of total income represented by debt. And during the ‘60s and ‘70s, debt as a percentage of income ran consistently at between 50 and 55 percent.

By the beginning of the problems of 2008, it was at 133 percent. And it’s now down, their most recent adjustment it’s down, robustly, to 131 percent.

They did a series of estimates that basically looked at what if, over the next period, that comes down to 100 percent, to mitigate the focus on consumption economy -- to Len’s point -- to allow people to get to where they actually do have the capacity to save during their working years. Right now, the numbers on how little individual Americans have as reserves, a survey recently done, is 72 percent of workers said that if they had to go without a paycheck for 60 days they would essentially be heading towards the equivalent of bankruptcy court.

Then you look at the 401(k) system, which is Jane’s point, and there’s a lot of good news in the system, but the bad news is that over half of those with accounts, the account balance is less than $10,000. The good news with IRAs is there are 34 million IRA accounts in the country. The bad news is that the average IRA account balance is less than $10,000.

But you look at the numbers that Len’s talking about, and the consumption focus, and it just -- it underlines my response to Jane about the issue of what is the capacity of individuals to do additional savings, given everything else -- payroll taxes at 12.4, Peter’s point -- et cetera.

And so I think we’ve got a much bigger challenge in this. The more far-reaching proposal, that I didn’t mention, was one that former Labor Secretary Reich put out in -- I forget which title, he’s written too many books. But the first book that came out right after he left as Labor Secretary. And the proposal he had in that book was to amend all of our laws to essentially take all of our different approaches to defined-contribution savings -- IRAs, IDAs, et cetera, et cetera, 401(k) -- change all of it into what he -- I forget his name, but it was the equivalent of a “life savings, education and retirement account.” And it would be at the single tax preferred, that you would have individuals and employers put into, and there would be no restrictions on availability of that money over time, on the equivalent of the Australian and -- quotes -- ”hardship basis.”

If you became unemployed, tax-free pullout. If you needed it for a medical -- I mean, not dissimilar to some of the hardship withdrawal provisions that we have in the 401(k) system, but totally devoid of penalty taxes and other things.

So that proposal came out in the early 1990s. There was one similar to that by Pat Shoat (ph.) In a book in about 1986. And that’s something that’s also similar to a proposal that’s floating from some of the insurance companies right now, because of this issue of how can you incent people in what is primarily a consumption-oriented economy to be willing to save more -- and, during job dislocations, during periods of unemployment, the necessity, in a skill-based economy, to go back and get reeducated, et cetera, et cetera -- do we almost have to re-communicate to people that if you don't save or don't have the capacity to save, and aren't willing to live on Social Security alone, then you'll just have to work forever.

And other than that, savings incentives should be towards total life flexibility, education, training. Radical approaches -- been around for awhile, but quite a radical difference from what we're talking about today. Not that radical a difference if you look at the rules that resolve around 401(k) plans.

And, to use Pete's example, it really goes to: relative to other nations, we have a relatively unique Social Security program that actually does a pretty good job, when you look at the income of the retired population, until you get to the top income quintile. And for them, that's a choice of lifestyle you could almost say, if you want to be harsh about it.

MR. JOHN: (Off mike. Inaudible.)

SPEAKER: My fundamental issue, I think, in terms of, I suppose the balance in terms of consumption and economic considerations is how this is going to be absorbed by employers largely, especially in the UK, with the transition from DB to DC.

And the challenge we have, and some of our clients have is they're seeing employers increasingly flattening down their benefits structure. So they're seeing a self-compulsory system coming in in 2012 that will require them to contribute 3 percent of their present salary, and they're currently offering benefit structures upwards of 9 or 10 percent.

So they're sort of saying, well, why do we need to bother, go north of this quasi-mandated level? And the flattening down of benefit structures is a great concern, and a great concern to some of our clients, as well as our organization.

SPEAKER: I'd, Len, invite us to have further dialogue on that. I think you raise a very pertinent point, and I'd be interested in talking about what the evidence in the literature show, on the one hand, about severance benefits which, I think, is not very substantial in helping people with respect to unemployment, and also about the way that the 401(k) is used -- when people have a 401(k) balance. But typically, that's available when people lose their job. And from the narrower standpoint, taking a leaf from Dallas' book here about whether it should be a more integrated approach, from the narrower retirement savings standpoint, there's often a concern about the leakage out of the pension plans or retirement savings plans prior to retirement. But, of course, where there is an unemployment economic shock, if you will, then our system generally tries to accommodate to that.

And with the 401(k)s, what we've been looking at is hardship withdrawals when there's an in-service hardship, while the person's still employed, and a de facto hardship withdrawal when the person is unemployed, when they lose their job and you can take the money and there are some exceptions to the 10 percent penalty from that.

So I think that's something that's well worth focusing on further, and I'd like to talk about that offline.

MR. SHERRY: David, quickly —

MR. JOHN: Yes.

MR. SHERRY: -- the last question, which I didn't respond to, this issue of consumption.

At least we could argue in Australia that -- and I don't think it is capacity to save. If real wages are increasing at, say, 1 to 2 percent -- and that's an important qualification -- year on year on year, on average, and society broadly wants a higher retirement income, they do have the capacity to save. The great problem is, they don't do it. Because human nature is such that -- and I think this is perfectly rational, thank goodness -- people save for short- to medium-term goals. Or they spend it. Or they spend more and borrow.

Now, I think there's a balance here between -- society in Australia is really no different from the U.S. in terms of the personal consumption and debt levels we've seen, credit card usage. We're no different in that respect. But at least every Australian who's employed has, to varying degrees and varying levels, a pool of saving. And, sure, we've compelled them to do it, and we've compelled them to effectively divert a small part of the real increase in their wages over a 10-year period into long-term savings.

Now, some would argue that's not valid. That's not the role of government. But I would argue that at least we've done that, and that there will be that there for them, despite all the massive consumption and borrowing that's occurred in Australia like everywhere else.

SPEAKER: I'd just comment that if, in the United States in the recent past, particularly at the low end, we had consistently had the level of real wage growth that you're describing, then -- but I think that's one of the challenges, is in this country it has been very constrained.

MR. SHERRY: And I agree. I've noted the debate in the U.S. There hasn't been an increase in real wages in the U.S. for the past decade, particularly at the lower level income. That's a sharp contrast to Australia.

MR. JOHN: Well, thank you very much for coming. We've gone over time.

Please join me in thanking the Panel, and Jamie for putting this together.

(Applause.)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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