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TESTIMONY

OF

DAVID O. BROCK

PRESIDENT/CEO, COMMUNITY EDUCATORS CREDIT UNION

ON BEHALF OF THE

CREDIT UNION NATIONAL ASSOCIATION (CUNA)

ON

"BANKING ON RETIREMENT SECURITY: A GUARANTEED RATE OF RETURN"

BEFORE THE

HOUSE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

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Chairman Bachus, Congressman Feeney, and members of the Subcommittee, on behalf of the Credit Union National Association, I appreciate the opportunity to provide CUNA's views this morning on the topic of "Banking on Retirement Security: A Guaranteed Rate of Return." CUNA is the largest credit union trade association, representing approximately 90% of our nation's nearly 9,300 state and federal credit unions and their 86 million members.

You have asked us to comment on Representatives Feeney and Sessions' proposal to give workers the option to invest part of their Social Security into a Federally insured certificate of deposit (CD) offered by a credit union, community bank, or savings association.

First, I should clarify that CUNA has taken no formal position on whether any plan to fix Social Security should include private accounts. However, if legislative changes allow workers to direct part of their payroll taxes into individual accounts, we believe it makes sense to include all financial institutions as one option for participants.

Sound personal financial planning dictates that retirement funds for those nearing retirement be distributed, in part, in lower-risk, safe, liquid investments. Financial institutions offer such accounts. In fact, at year-end 2004, financial institutions controlled a total of $270 billion in Individual Retirement Account (IRAs) deposits.[1]

It is difficult to project the potential effect of allowing consumers to invest Social Security funds in financial institution savings accounts such as certificate accounts. And because such accounts would provide a relatively low, albeit safe, return on the investment, it is likely that it would be used more by those approaching retirement than by younger workers. This certainly would be consistent with the savings trends in IRAs at my credit union, where IRA savings are significantly concentrated in those in higher age categories. In either case, however, an increase on the order of 10% of current IRA balances might serve as a conservative estimate of increase of savings through a CD option. In this case, financial institutions would experience a $27 billion increase in savings and credit unions would garner an estimated total of roughly $5 billion (based on their current 18% share of the depository institution IRA market). An increase of this magnitude could have an obvious impact on the economy and the communities in which workers live. They would become more financially independent and be more likely to have sufficient funds to spend on goods in their retirement, thus stimulating the economy and providing or maintaining employment.

Social Security plays a critical role in the lives of 48 million beneficiaries, and 159 million covered workers and their families.

[1] Federal Reserve and National Credit Union Administration.

The widely-acknowledged challenges facing the Social Security system are compounded by the fact that U.S. consumers generally save very little and specifically put very little aside in private retirement accounts.

The U.S. personal savings rate has been on a declining path for roughly two decades. In the 1975-1984 period personal savings as a percent of personal disposable income averaged nearly 10%, but fell to an average of 7% over the 1985-1994 period, and to an average of less than 3% in the 1995-2004 period. The personal savings rate at the end of April 2005 was just 0.41% -- near its historic low.[2]

Moreover, a recent Brookings Institution Policy Brief found that only about "half of workers participate in an employer-based pension plan in any given year, and participation rates in Individual Retirement Accounts (IRAs) are substantially lower. Further…many households approach retirement with meager defined contribution balances."[3]

Financial institutions can help close this gap. And credit unions in particular are uniquely positioned to assist consumers in doing so.

Credit unions, which pay very favorable interest rates on savings accounts, provide a wide variety of savings product alternatives to their members. At year-end 2004, credit unions had $575 billion in savings accounts. Of this total, 22% was held in share certificate accounts, 18% was held in money market deposit shares, 8% was in individual retirement accounts and the remainder was in other short-term liquid accounts.

[2] Bureau of Economic Analysis.
[3] Brookings Institution Policy Brief #135. July 2004. Improving the Saver's Credit. William G. Gale, J. Mark Iwry and Peter R. Orszag.

As not-for-profit member-owned financial cooperatives, credit unions have a long history of serving as trusted financial advisors and in providing their 86 million members with financial education materials, including those that stress the need for saving and retirement planning.

These characteristics are reflected in the fact that while credit unions have a 12% share of household savings held in depository institutions, they account for an approximate 18% share of IRA balances held in depository institutions.

In summary, we believe that any legislative change allowing workers to direct part of their payroll taxes into individual accounts should include financial institution savings accounts as one option for participants. Financial institutions have extensive experience in providing retirement-related accounts. And financial institution accounts provide a level of liquidity and safety that is not available through other sources.

Thank you.