



TESTIMONY

of

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**On behalf of the
Independent Community Bankers of America
Washington, DC**

**“Banking on Retirement Security: A Guaranteed
Rate of Return”**

**United States House of Representatives
Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit**

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Mr. Chairman, Ranking Member Sanders and members of the Committee, my name is Lamar Roberts, I am President and CEO of the First National Bank of Pasco, a \$105 million community bank in Dade, City, Florida. I am pleased to appear today on behalf of the ICBA¹ and its nearly 5,000 members to testify on ways the community banking industry can contribute to the important retirement security debate and Social Security reform. Today, too many Americans are simply not saving enough for retirement. The ICBA is glad to have the opportunity to assist this committee and Congress in examining policies that can help improve retirement security for all Americans.

ICBA Supports House Resolution 209

We thank Chairman Bachus and Representative Tom Feeney for holding this important hearing and for recognizing the need to include our nation’s community banks in the ongoing Social Security reform debate. We appreciate all your efforts on behalf of the community banking industry. Specifically, the ICBA would like to thank Reps. Feeney and Sessions for introducing House Resolution 209. This resolution expresses the sense of the House of Representatives that any plan to reform Social Security should include a “community bank” option.

In particular, ICBA applauds Chairman Bachus, Reps. Feeney and Sessions, and the 16 additional signatories on a recent letter sent to Ways and Means Committee Chairman Bill Thomas urging any Social Security reform plans include an opportunity for investments in federally insured certificates of deposits (CDs) offered by community banks.

Importantly, deposits in local community banks support the community investment and job creation throughout Main Street America. We are greatly encouraged that lawmakers are genuinely considering the full range of personal investment options in the Social Security reform debate, rather than just a limited selection of stock and bond investments.

Community Banks Play Key Role in Savings

The ICBA supports bipartisan efforts to strengthen Social Security and retirement savings and the opportunity for new individual savings account contributions for community bank customers. Community banks have always served an essential role in the U.S. economy as a steady and trusted place for consumers to save for life’s events such as retirement. ICBA’s community bank members deliver financial advice and services in 17,000 locations nationwide, and provide personal retirement savings advice and products for their customers.

¹ The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to promoting the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace. For more information, visit ICBA’s website at www.icba.org.

Therefore, community banks are well-positioned to help implement and offer savings products should Congress choose to enact new, or expand the existing personal retirement accounts as part of Social Security reform. I believe the community banking industry can continue to help encourage more Americans to better save for retirement with the right mix of investment products.

Community bankers will continue to do their part to foster solid individual savings opportunities so all Americans can have a secure retirement. The vast majority of our nation's commercial banks are community banks. The geographic dispersion of community banks and thrifts around the country fosters a financial system where saving and lending resources are made available to individuals not only in urban areas, but in suburban and rural areas as well.

Need to Diversify Savings

Individuals will always need to diversify their retirement savings to help mitigate unwanted risk. As the timeless saying goes, "don't put all your eggs in one basket." When it comes to nest eggs, this lesson is paramount. It only stands to reason that a broad array of savings options and financial service providers should be considered in the Social Security reform debate so assets are not unevenly concentrated. The dispersion of our nation's assets and wealth helps preserve the safety, soundness and stability of our entire financial and economic system. Therefore, ensuring the Social Security reform debate is well balanced and includes a full range of savings options is important.

Bank products such as CDs are an attractive and safe product for the retirement savings needs of Americans. As savers look to reduce risk as they get closer to retirement, bank CDs can provide both a reasonable rate of return and preserve the savers' principal.

Local Economies Benefit from Diverse Savings

Allowing a community bank savings option is also very important to support local economic vitality. Ample personal savings is vital not only to meet retirement needs, but also to provide the economic lifeblood for our communities as banks leverage private savings to meet the borrowing needs of individuals, small businesses, farms, and Main Street America. Money deposited in the local community bank is reinvested locally to provide small business loans, home mortgages, and other forms of credit. This investment fosters economic growth and job creation. It's simply "Economics 101" to realize that savings equals investment, and investment means jobs, innovation, and a growing economy and standard of living for all. Without solid savings flowing into our local communities, economic prospects are diminished.

Today and for generations, community banks have always been there to help people save; offering customers personal assistance and a range of savings accounts, CDs, money market accounts, IRAs, 401(k)s, education savings accounts, health savings accounts and much more. Community banks are delighted that the importance of fostering adequate personal savings is now at the forefront of political debate. There is a genuine recognition that the low U.S. savings rate combined with the swell of baby-boomer

retirees and the associated stress on the current Social Security system simply cannot be ignored if we want to maintain or improve our nation's economic strength and our standard of living. Today, the personal savings rate hovers around 1 percent. This is dangerously low and simply unacceptable.

Assuring ample retirement savings is far too important a national issue to be sidestepped any longer. We must ensure our savings policies are the best they can be. Several bipartisan commissions to strengthen Social Security over the years have already conducted solid analysis on the problems facing Social Security and recommended a number of broad reform ideas that are being given serious attention in the current debate. The challenges in achieving long-term solvency for Social Security are well documented.

Savings Reform Must Make Sense on Wall Street and Main Street

New voluntary personal retirement savings accounts have been proposed as a Social Security reform option. Both "add-on accounts" to the existing Social Security system and "carve-out accounts" from the current Social Security payroll tax have been proposed. Should enhanced personal savings accounts emerge as a bipartisan remedy to improve retirement savings, the structure of such accounts does demand close attention so that all segments of our nation can participate in both the savings and associated investment opportunities.

Simply stated, a solid retirement savings option for individuals must make economic sense on Wall Street and Main Street. It is important that our nation's wealth is not concentrated in only a handful of investments. The decentralized dispersion of our nation's assets and wealth helps preserve the safety, soundness, fairness, and stability of our entire financial system. And community banks are often the linchpin to the survival and well-being of local communities, particularly in small towns and throughout Main Street America. They specialize in doing business in their respective towns and most importantly, reinvest any savings deposits back into their communities through local lending. Therefore, community bankers, as always, will support sound savings options for their customers and communities.

Other Policies to Encourage Retirement Savings

Other important savings policy issues also deserve attention, and I would like to highlight a few. To address the low U.S. savings rate, ICBA supports efforts to end punitive double taxation on savings and investment, and to promote expanded savings options initiatives for new Lifetime Savings Accounts (LSAs) and Retirement Savings Accounts (RSAs).

The current tax code too often discourages or punishes savings and investment with double or even triple taxation. While the Code offers some tax-advantaged savings accounts, they are often too limited, restrictive, complex, and confusing -- which only works to discourage much-needed savings.

Our tax system should promote savings not punish it. ICBA recently advocated the adopted changes in tax laws to promote greater savings including allowing contribution

amounts for IRAs to increase from \$3,000 to \$5,000 by 2008, and 401(k) plan contributions to expand from \$10,500 to \$15,000 by 2006. While this was a positive tax policy step to encourage savings, much more must be done. These recent increased savings incentives are set to expire and should be made permanent and indexed for inflation.

We encourage this Committee and Congress to consider the ICBA-backed savings accounts that have been advanced by the Administration in the FY 2006 federal budget and introduced in Congress. Specifically, the proposed Retirement Savings Account (RSA) and Lifetime Savings Account (LSA) would go a long way in removing the tax complexities and restrictions on current savings accounts. Today's array of complex, restrictive and fragmented savings plans prevents Americans from having a simple and flexible account to meet their various savings needs. It is no secret that millions of Americans cannot qualify for today's tax-advantaged savings plans because of complex restrictions.

RSAs and LSAs would help more people save. These new simplified savings options would allow many more Americans to save up to \$5,000 after-tax per year in both accounts and remove counterproductive restrictions now seen on savings accounts. Earnings and qualified distributions would be tax-free and the accounts would be available to all individuals with no income or age limit restrictions. ICBA will work to have such accounts passed into law.

Improved CD Product

Multiple layers of tax on the same income impairs saving and causes tremendous administrative and compliance costs and complexities in the tax system. Double taxation of savings and investment distorts the choice to save income in favor of spending. The current tax system more-heavily taxes savings verses consumption.

An ICBA-recommended policy change that could help individuals save more for retirement is to address the punitive tax-treatment of CDs. The ICBA-backed Communities First Act (HR 2061) contains a provision that would allow consumers to defer recognition of interest income on long-term CDs (one or more years) and to reduce the top tax rate on this interest to the long-term capital gains tax rate.

This would help put CD products more on par with the tax treatment of stock investments, where income tax is paid only when the stock is sold and any gain gets a lower capital gains tax rate (currently 15 percent). Conversely, tax on interest income from a CD is paid every year and at a top tax rate of 35 percent. Therefore, for the typical saver, equity investments get better tax treatment than bank CD products. This tax disparity distorts investment decisions and works to encourage more savings to flow into riskier stock investments verses bank CD products. ICBA would encourage Congress to promote greater tax parity for CD savings products so consumers can have greater choices to protect their retirement savings. This change would dovetail nicely with a community bank CD option as part of a Social Security reform with private account opportunities.

Conclusion

ICBA appreciates the opportunity to testify on this important issue. Community banks are a safe and effective place for Americans to save for retirement. Community banks will continue to work closely with Congress to help strengthen Social Security and improve retirement savings opportunities for all Americans. The ICBA appreciates the interest of this Committee to help ensure community banks have a meaningful role in the retirement security debate. Specifically, should personal “add-on” or “carve out” accounts be part of any bipartisan Social Security reform, ICBA urges that community banks have the ability to serve their customers savings needs with a CD, RSA, or similar safe bank product option. We believe having diversity of savings products and risk options can only better serve America’s retirement needs.

We applaud this important debate on strengthening Social Security and retirement savings and look forward to working with Administration and with both sides of the aisle in Congress to achieve positive change.

Thank you.