

## **GAO REPORT UNDER-REPRESENTS THE SUCCESS OF EMPLOYER DEFINED CONTRIBUTION SYSTEM**

CHICAGO – (BUSINESS WIRE – December 12, 2007) – The results of the new Government Accountability Office (GAO) report on the adequacy of the private sector defined contribution system needs to be considered in light of other studies showing different results, according to the [Profit Sharing/401k Council of America](#).

The GAO report is based on the 2004 Federal Reserve Board Survey of Consumer Finances, which, according to the report, “appears to provide a lower bound on the estimation of pension coverage among four major data sets.” The report acknowledges and then dismisses other studies, including a 2007 study by the Congressional Research Service (CRS), that provide significantly different projections regarding the success and outlook of the defined contribution system. The CRS report estimates that a middle-income worker who contributes eight percent of compensation to a 401(k) plan for thirty years would generate savings adequate to replace fifty percent of income.

The GAO report cites 2004 data about participant rollover behavior even though a measure implemented in 2005 drastically changes how employers handle small plan assets when an employee terminates employment so that retirement assets are defaulted to an IRA or retained in the plan. Also, the report does not quantify the future impact on defined contribution savings-related behavior resulting from the passage of The Pension Protection Act of 2006, which provided permanency for the 2001 pension provisions, including the [Saver's Credit](#), and paved the way for a dramatic growth in automatic enrollment. These changes are already resulting in new savers.

The GAO study projects outcomes including individuals who are not participating in a plan. Expected replacement rates would be higher if only those who participate were included. “That’s akin to judging the efficacy of a medicine by including patients who do not take it,” stated PSCA President David Wray. “Employers bend over backwards to get all employees to save, including offering lucrative matching contributions, and the law limits benefits for higher paid workers unless lower paid workers participate. The system has been remarkably successful in creating new savings by low- and middle-income workers.” For example, a recent ICI/EBRI study reports that workers continuously participating in a 401(k) plan from 1999 through 2006 had a median balance of \$66,650. Those in this group in their thirties had an average balance of \$61,368.

This report could have consequences as policymakers have already used it to make assumptions and suggest changes to the employer-based retirement system. Congress, with its passage of the Pension Protection Act of 2006, has already provided the changes needed to take the employer-sponsored defined contribution system to a new level. PSCA urges Congress to consider the many other studies, both by the government and private entities, before moving forward with a legislative response that could result in fewer American workers saving in an employer-provided retirement plan. We hope that Congress will redirect its efforts to working with employers to encourage even more businesses to elect to offer a retirement plan to their workers.

**About the Profit Sharing/401k Council of America**

The Profit Sharing/401k Council of America (PSCA), a national non-profit association of 1,200 companies and their six million employees, advocates increased retirement security through profit sharing, 401(k) and related defined contribution programs to federal policymakers. PSCA makes practical assistance available to its members with profit sharing and 401(k) plan design, administration, investment, compliance and communication materials. PSCA, established in 1947, is based on the principle that “defined contribution partnership in the workplace fits today’s reality.” PSCA's services are tailored to meet the needs of both large and small companies with members ranging in size from Fortune 100 firms to small, entrepreneurial businesses.

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