



**CONGRESSIONAL TESTIMONY**

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**PURSUING UNIVERSAL RETIREMENT SECURITY  
THROUGH AUTOMATIC IRAS**

**Testimony before the  
Subcommittee on Select Revenue Measures  
Committee on Ways and Means  
United States House of Representatives**

**June 26, 2008**

**David C. John  
Principal  
The Retirement Security Project  
Senior Research Fellow  
The Heritage Foundation**

**J. Mark Iwry  
Principal  
The Retirement Security Project  
Nonresident Senior Fellow  
The Brookings Institution**

# PURSUING UNIVERSAL RETIREMENT SECURITY THROUGH AUTOMATIC IRAS

## Testimony before the Subcommittee on Select Revenue Measures Committee on Ways and Means United States House of Representatives

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Chairman Neal, Ranking Member English, and Members of the Subcommittee, we appreciate the opportunity to testify before you.<sup>1</sup> We are submitting our testimony as a single joint statement because we believe strongly in the need for a common strategy to expand retirement savings in a manner that transcends ideological and partisan differences.

Our statement focuses on your bill -- H.R. 2167, The Automatic IRA Act -- which had its genesis in our joint proposal to expand retirement savings for small business workers<sup>2</sup>. We are pleased by the positive responses the proposal has received and are grateful to you for introducing and sponsoring it, and to our

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<sup>1</sup> **Mark Iwry** is a Principal of the Retirement Security Project, a Nonresident Senior Fellow at the Brookings Institution, Research Professor at Georgetown University, and formerly the Benefits Tax Counsel, in charge of national private pension policy and regulation, at the U.S. Department of the Treasury. **David John** is a Principal of the Retirement Security Project and a Senior Research Fellow for Retirement Security and Financial Institutions at the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. (Biographical information attached.)

The Retirement Security Project is supported by The Pew Charitable Trusts in partnership with Georgetown University's Public Policy Institute and the Brookings Institution.

**The views expressed in this testimony are those of the two witnesses and the Retirement Security Project, but should not be attributed to The Heritage Foundation, the Brookings Institution, Georgetown University's Public Policy Institute, The Pew Charitable Trusts, or any other organization.**

<sup>2</sup> This testimony is based on a more detailed proposal the witnesses have set forth in a series of research and policy papers (see, e.g., Retirement Security Project Publication No. 2007-2 "Pursuing Universal Retirement Security through Automatic IRAs") which are available at [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org). (Major portions of this testimony are taken verbatim from the witnesses' research and policy papers cited above.) As noted, the proposal has been introduced in the 110<sup>th</sup> Congress as the "Automatic IRA Act of 2007", H.R. 2167, sponsored by Rep. Richard Neal (D-MA) and Rep. Phil English (R-PA), and S. 1141, sponsored by Senators Jeff Bingaman (D-NM) and Gordon Smith (R-OR), with additional cosponsors in the House and Senate.

This testimony also briefly addresses the Report of the Government Accountability Office ("GAO") to the Committee titled "Individual Retirement Accounts: Government Actions Could Encourage More Employers to Offer IRAs to Employees" (GAO-08-590, June 2008) (the "GAO Report").

colleagues, including those in government and in various stakeholder organizations, who have contributed to the ideas reflected in the proposal.<sup>3</sup>

With the looming retirement security crisis facing our country, policy-makers from both parties are focused on ways to strengthen pensions and increase savings. Our proposal for automatic IRAs would provide a relatively simple, cost-effective way to increase retirement security for the 75 million Americans working for employers (usually small businesses) that do not offer a retirement plan.<sup>4</sup> It would enable these employees to save for retirement by allowing them to have their employers regularly transfer amounts from their paycheck to an IRA.

These people – half of our workforce – have no effective way to save at work. This fact, a national saving rate that has been declining steadily since the 1980s (to the point where it has dropped below zero), and the expectation that Social Security is unlikely to provide increased benefits, make inadequate retirement saving a major national problem. Research and experience both point to a simple and effective solution, which your bill calls the "automatic IRA."

We are by no means suggesting that the automatic IRA proposal is the only step that should be taken to expand retirement savings for small business workers or others. In fact, we have long believed in the primacy of employer-sponsored retirement plans as vehicles for pension coverage.<sup>5</sup> Additionally, the Retirement Security Project continues to advocate strongly for the expansion of pension coverage through automatic features in 401(k) and similar retirement savings

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<sup>3</sup> See <http://www.retirementsecurityproject.org/pubs/File/AutoIRAQuoteSheetFinal7.6.07.pdf>. Crenshaw, Albert, "Automatic IRAs – a Quick Fix for Workers Without Pensions?" Washington Post, February 19, 2006; "The Way to Save" Editorial, New York Times, February 20, 2006; Bernard, Tara, "Groups Propose Payroll Deductions for IRAs," The Wall Street Journal, February 16, 2006; Editorial, Newsday, February 22, 2006; Marketwatch.com (February 16, 2006); Lambro, Donald, "A Broader Retirement Plan," The Washington Times, April 12, 2007; "Another Black Eye for H&R Block" Editorial, New York Times, March 18, 2006; Quinn, Jane Bryant, "A Nest Egg for Low Earners," Newsweek, February 26, 2007; Commission on the Regulation of U.S. Capital Markets in the 21<sup>st</sup> Century, Report and Recommendations, March 2007. The automatic IRA proposal emerged as one of the leading recommendations of the 2006 National Summit on Retirement Savings (Saver Summit).

<sup>4</sup> Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2005: Employee Benefit Research Institute Issue Brief No. 299," November 2006 (referred to below as "Copeland, EBRI Issue Brief No. 299"), Figure 1, p. 7. An additional 16 million workers either are not eligible for their employer's plan or are eligible but fail to participate. Similar but updated figures for 2006 are available in the Employee Benefit Research Institute Issue Brief 311.

<sup>5</sup> We have previously written and testified before Congress on various aspects of employer-sponsored retirement plans. David John has written and testified about the funding problems faced by defined benefit pension plans and about the United Kingdom's pension situation. Mark Iwry led the Executive Branch efforts in the 1990s to develop the SIMPLE plan for small business, the startup tax credit for small employers that adopt new plans, and the saver's credit for moderate- and lower-income workers, as well as the Executive Branch initiatives to define, approve and promote 401(k) automatic enrollment, automatic rollover to restrict pension leakage, and automatic 401(k) features generally. See also William G. Gale, J. Mark Iwry and Peter R. Orszag, "The Saver's Credit" (The Retirement Security Project, Policy Brief No. 2005-2; available at [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org)).

plans<sup>6</sup> and for several other initiatives designed to expand retirement security, especially for the moderate- and lower-income households that comprise a majority of the U.S. population.<sup>7</sup>

Making saving easier by making it automatic has been shown to be remarkably effective at boosting participation in 401(k) plans, but roughly half of U.S. workers are not offered a 401(k) or any other type of employer-sponsored plan. We would extend the benefits of automatic saving to a far wider array of the population by combining several key elements of our current system: payroll deposit saving, automatic enrollment, low-cost, diversified default investments, and IRAs.

The automatic IRA approach we propose offers most employees not covered by an employer-sponsored retirement plan the opportunity to save through the powerful mechanism of regular payroll deposits that continue automatically. The employer's administrative functions are minimal and should involve no out of pocket cost. In addition, the arrangement is market-oriented and realistic: it uses a well established and familiar vehicle, IRAs, provided by the same banks, mutual funds, insurance carriers, brokerage firms, credit unions, and other private financial institutions that currently provide them. As a fallback, if individuals or employers could not find an acceptable IRA on the market, they would be able to use ready-made, low-cost automatic IRA accounts provided by a consortium or pool of private-sector financial institutions or another nonprofit or government-contracted entity that contracts out asset management and other functions to the private sector.

## **The Basic Problem**

In 2004 half of all households headed by adults aged 55 to 59 had \$13,000 or less in an employer-based 401(k)-type plan or tax-preferred saving plan

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<sup>6</sup> William G. Gale, J. Mark Iwry and Peter R. Orszag, "The Automatic 401(k): A Simple Way to Strengthen Retirement Savings," (The Retirement Security Project, Policy Brief No. 2005-1; available at [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org)); William G. Gale and J. Mark Iwry, "Automatic Investment: Improving 401(k) Portfolio Investment Choices" (The Retirement Security Project, Policy Brief No. 2005-4; available at [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org)).

See also the description of the joint AARP, FINRA, Retirement Security Project "Retirement Made Simpler" campaign, below.

<sup>7</sup> See, for example, the following (all of which are available at [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org)): J. Mark Iwry, William Gale, and Peter Orszag, "The Potential Effects of Retirement Security Project Proposals on Private and National Saving: Exploratory Calculations," Retirement Security Project Policy Brief No. 2006-2; Peter Orszag and Eric Rodriguez, "Retirement for Latinos: Bolstering Coverage, Savings and Adequacy," Retirement Security Project Policy Brief No. 2005-7; William G. Gale, J. Mark Iwry and Peter R. Orszag, "The Saver's Credit," Retirement Security Project Policy Brief No. 2005-2; J. Mark Iwry, "Using Tax Refunds to Increase Savings and Retirement Security," Retirement Security Project Policy Brief No. 2005-9; Peter Orszag, "Protecting Low-Income Families' Savings: How Retirement Accounts Are Treated in Means-Tested Programs and Steps to Remove Barriers to Retirement Saving," Retirement Security Project Policy Brief No. 2005-6.

account.<sup>8</sup> The U.S. personal saving rate has declined steadily over the last two decades, to the point where it recently dropped below zero.<sup>9</sup>

Moreover, traditional corporate defined benefit pension plans are declining, and few expect Social Security to provide increased benefits in the future. The households that tend to be in the best financial position to confront retirement are the 41 percent of the workforce that participate in an employer-sponsored retirement plan.<sup>10</sup>

The most vulnerable employees are those lacking access to an employer-sponsored plan. In a survey conducted by AARP with 700 private sector workers at companies with 10-250 employees that do *not* offer a 401(k) or some other retirement plan, fewer than half of these workers without access to an employer plan said they had taken the following actions: Saved money in a non-retirement account (45%); Saved money in a retirement account (35%); Read articles or other information about retirement (35%); Talked with friends, relatives, and/or coworkers about retirement (31%); Used a retirement calculator (14%).<sup>11</sup>

Generally, the rate of participation (those who contribute as a percentage of those who are eligible) for 401(k) plans is on the order of 7 or 8 out of 10. An increasing share of plans are including automatic features that make saving easier and raise participation, often to levels exceeding 9 out of 10. While more can and should be done to expand 401(k) and other employer plan coverage,<sup>12</sup> the fraction of the workforce that is covered by employer plans has hovered around half for at least three decades. The uncovered employees have no effective way to save at work. IRAs do not cover enough people because many fail to exercise the initiative required to make the decisions and take the actions necessary to save in an IRA. More broadly, many people find it too difficult or lack the financial sophistication to plan for retirement and defer consumption. As a result, only about 1 in 10 eligible individuals contributes to an IRA.

### A Note on IRAs in the Workplace

IRAs in the workplace are the topic of the June 2008 GAO Report referred to earlier. The GAO Report notes that, as of 2004, IRAs held about \$3.5 trillion in

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<sup>8</sup> Even among those households that had savings in 401(k)s and IRAs, the median account balance was only \$69,000. Authors' calculations using the 2004 Survey of Consumer Finances.

<sup>9</sup> As measured in the National Income and Product Accounts.

<sup>10</sup> Copeland, EBRI Issue Brief No. 299, Figure 1, page 7. Similar but updated figures for 2006 are available in the Employee Benefit Research Institute Issue Brief 311.

<sup>11</sup> Thayer, Colette, "Automatic IRAs: Worker Attitudes and Likelihood of Participation," April 2007

<sup>12</sup> See William G. Gale, J. Mark Iwry, and Spencer Walters, The Pension Protection Act of 2006 and the Unfinished Agenda. (Retirement Security Project Publication No. 2007-1, April 2007).

assets, compared to \$1.9 trillion in employer-sponsored defined benefit (“DB”) pension plans and \$2.6 trillion in employer-sponsored 401(k) and other defined contribution (“DC”) plans. (More recent data suggest that these relationships have not changed fundamentally.)

Most current IRA assets were not contributed directly to IRAs but came from tax-free rollovers from employer-sponsored DB or DC plans. As evidenced by the dramatic difference in participation rates noted earlier, employer plans have been a far more effective means of generating participation and contributions than the opportunity to contribute to a non-workplace-based (“standalone”) IRA. This is attributable to employer contributions (matching and nonmatching), the power of regular payroll deduction that automatically continues making regular small contributions, automatic enrollment, default investments and other automatic (default) features, employer-provided education and encouragement to save, economies of scale associated with group saving arrangements, peer group reinforcement, and other factors.

We address the GAO Report briefly toward the end of this testimony.

## **The Automatic IRA**

The Automatic IRA legislation is designed to overcome the obstacles to saving in IRAs. It would give the uncovered half of our workforce an easy, effective way to save through automatic enrollment into payroll deposit IRAs. The AARP-commissioned study shows that workers at companies that would be covered by automatic IRAs favor the automatic IRA concept and are likely to participate: Over seven in ten (71%) of those without access to an employer-provided retirement savings plan agree that “employers who do not offer a 401(k) or other retirement plan should be required by law to offer workers the option to regularly save a part of their paycheck in an individual retirement account” and nearly eight in ten (79%) of those without access say they would be likely to participate if their company offered them the option to regularly save a part of their paycheck in an IRA through payroll deduction.

Very similar results were obtained in a study conducted by Prudential Insurance Company, titled “Saving for Retirement at Work: Employee and Business Reactions to an Automatic IRA Concept”. The Prudential research found that eight in ten employees were interested in the proposed automatic IRA. The study reported, “Employees are positive in their reaction to the Automatic IRA, both in concept and after learning the specific details. *In fact, the more employees learn about the Automatic IRA, the more they are interested in it.*” [original emphasis]<sup>13</sup>

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<sup>13</sup> Prudential Insurance Company of America, “Saving for Retirement at Work: Employee and Business Reactions to an Automatic IRA Concept,” page 19.

In addition, the Prudential study surveyed more than 200 small employers. It found that “Eight in 10 businesses believe the design overcomes their concerns, and support the adoption of the Automatic IRA. . . . The more they heard about its features, the more they liked it.”<sup>14</sup>

The Prudential research concluded,

**“The Automatic IRA can generate “new” savings, rather than merely shifting savings from one vehicle to another. Of the 80% of employees who were “very/somewhat” interested in the Automatic IRA, 68% believe it will generate real additional savings. Projecting this rate to all eligible employees suggests that new savings might be gained by about 54% of eligible employees.”<sup>15</sup>**

### **How the Automatic IRA Would Work**

The automatic IRA approach is intended to help households overcome the barriers to saving by building on the successful use in 401(k) plans of automatic features which encourage employees toward sensible decisions while allowing them to make alternative choices. The automatic IRA would feature direct payroll deposits to a low-cost, diversified IRA. Employers above a certain size (e.g., 10 employees) that have been in business for at least two years but that still do not sponsor any plan for their employees would be called upon to offer employees this payroll-deduction saving option. The automatic IRA would apply many of the lessons learned from 401(k) plans so that more workers could enjoy automated saving to build assets – without imposing any significant burden on employers. Employers that do not sponsor plans for their employees could facilitate saving – without sponsoring a plan, without making employer matching contributions, and without complying with plan qualification or fiduciary standards. They would simply offer to act as a conduit, remitting a portion of employees' pay to an IRA, preferably by direct deposit, at little or no cost to the employer.

The automatic IRA is also designed to address the concern that financial providers have found it less profitable to serve groups of people with a small average account size. The proposal would provide a backstop arrangement contracted to the private sector that would give an option to any employee groups that the financial services industry is not currently interested in serving.

### **Little or No Cost to Employers**

Direct deposit to IRAs is not new. In the late 1990s, Congress, the IRS, and the

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<sup>14</sup> Id. at 20. Prudential stated that “to obtain unbiased objective reactions to the ability of the concept to meet their established concerns about retirement programs and specific needs for the future,” it did not tell employers until the last part of the survey that the proposal would require, not merely permit, certain employers to adopt automatic IRAs. (The optional approach to payroll deposit IRAs has been tried and has resoundingly failed. Payroll deposit IRAs have been permitted for at least a decade, and were publicized by the U.S. Treasury and Labor Departments in the 1990s, but virtually no employers have adopted them.)

<sup>15</sup> Id. at 20.

Department of Labor all encouraged employers not ready or willing to sponsor a retirement plan to at least offer their employees the opportunity to contribute to IRAs through payroll deduction.<sup>16</sup> However, employers generally did not respond to this option. As noted, few employers have ever adopted direct deposit or payroll-deduction IRAs – at least in a way that actively encourages employees to take advantage of the arrangement.

With this experience in mind, your bill proposes a new strategy designed to induce employers to offer, and employees to take up, direct deposit or payroll deposit saving. For many if not most employers, offering direct deposit or payroll deduction IRAs would involve little or no cost. The employer would not be maintaining a retirement plan, and employer contributions would be neither required nor permitted. Firms would *not* be required to

- (1) comply with plan qualification or ERISA<sup>17</sup> rules,
- (2) establish or maintain a trust to hold assets,
- (3) determine whether employees are actually eligible to contribute to an IRA or are complying with the limits on contributions,
- (4) select investments for employee contributions,
- (5) select among IRA providers, or
- (6) set up IRAs for employees.

Employers would be required simply to allow employees to make a payroll-deduction deposit to IRAs. This dovetails with what employers are already required to do by way of withholding income (and payroll) tax from employees' pay (based partly on employee elections on IRS Form W-4) and remitting those amounts to the federal tax deposit system.

### **Tax Credit for Employers that Serve as Conduit for Employee Contributions**

Firms that do not provide employees a qualified retirement plan, such as a pension, profit-sharing, or 401(k) plan, would be given a temporary tax credit to establish automatic IRAs. The tax credit would be available to a firm for the first two years in which it offered payroll deposit saving to an IRA and would be

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<sup>16</sup> In the Conference Report to the Tax Reform Act of 1997, Congress stated that "employers that choose not to sponsor a retirement plan should be encouraged to set up a payroll deduction [IRA] system to help employees save for retirement by making payroll-deduction contributions to their IRAs" and encouraged the Secretary of the Treasury to "continue his efforts to publicize the availability of these payroll deduction IRAs" (H.R. Rep. No. 220, 105th Cong., 1st Sess. 775 [1997]). IRS and Labor guidance was given in IRS Announcement 99-2, "Payroll Deduction IRAs," and Department of Labor Interpretive Bulletin 99-1 (June 18, 1999), 29 C.F.R. 2509.99-1(b).

<sup>17</sup> Employee Retirement Income Security Act of 1974, as amended.

designed to avoid competing with the tax credit available under current law to small businesses that adopt a new employer-sponsored retirement plan. Also, it would be available both to those employers required to offer payroll deposit and to very small or new firms that are not required to but do so voluntarily.

### **Tax Credit for Employers that Adopt a New Employer-Sponsored Retirement Plan**

Under current law, an employer with 100 or fewer employees that starts a new retirement plan for the first time can generally claim a tax credit for startup costs. The credit equals 50 percent of the cost of establishing and administering the plan (including educating employees about the plan) up to \$500 per employer per year for three years. To maintain employer incentives to adopt an employer plan, the automatic IRA tax credit would be lower, e.g. \$25 per employee enrolled, capped at \$250 in the aggregate per employer. Employers could not claim both the new plan startup credit and the proposed automatic IRA credit.

### **Direct Deposit and Automatic Fund Transfers**

The automatic IRA would capitalize on automated or electronic fund transfers. Many employers retain an outside service provider to manage payroll, including withholding, federal tax deposits, and direct deposit of paychecks to accounts designated by employees or contractors. For the numerous firms that already offer their workers direct deposit, direct deposit to an IRA would entail no additional cost, even in the short term. A large proportion of the employers that still process their payroll by hand would be exempted under the exception for very small employers. As a result, our proposal focuses chiefly on those employers that already use electronic payroll but have not used the same technology to provide employees a convenient retirement saving opportunity. Employers that do not use electronic payroll would have the option of "piggybacking" the payroll deposits to IRAs onto the federal tax deposits they currently make, whether online, by mail, or by delivery to the local bank.

### **Employees Covered**

Employees eligible for the automatic IRA would include those who have worked for the employer on a regular basis (including part-time) for a specified period of time and whose employment there is expected to continue. Employers would not be required to offer automatic IRAs to employees who are already covered by a retirement plan or are excludable from coverage (such as recently-hired employees, those who work less than 1,000 hours a year, union-represented employees or nonresident aliens without US source income) under the qualified plan rules. Accordingly, the proposal is not intended to apply to employers that

offer 401(k), SIMPLE, pension or other qualified retirement plans to their employees.<sup>18</sup>

## **Portability of Savings Through Choice of Roth or Traditional IRA**

Like a 401(k) contribution, the amount elected by the employee as a salary reduction contribution generally would be tax-favored. It either would be a contribution to a Roth IRA, which receives tax-favored treatment upon distribution, or a "pre-tax" contribution to a traditional, tax-deductible IRA. To spare households the need to undertake the comparative analysis of Roth versus traditional IRA, one or the other would be the default or presumptive choice. Of course, presented with an automatic or standard option, many households will simply go along with it, while others will consider whether to choose the other alternative. Accordingly, the automatic approach strikes a balance between simplicity and individual choice. In either case, the use of IRAs maximizes portability of savings. IRAs generally continue in existence without regard to changes in the owner's employment status and, in general, are freely transferable by rollover to other IRAs or qualified plans.

## **Expanding Saving through Automatic Features**

### **Obstacles to Participation**

Today, individuals who want to save in an IRA must make a variety of decisions to open an account. In addition, they must overcome a natural tendency to delay making important decisions until the last minute. At least five key questions are involved:

- whether to participate at all;
- which financial institution to use to open an IRA (or, if they have an IRA already, whether to use it or open a new one);
- whether the IRA should be a traditional or Roth IRA;
- how much to contribute to the IRA; and
- how to invest the IRA.

These obstacles can be overcome by making participation easier and more automatic.

### **Automatic Enrollment or an Explicit "Up or Down" Employee Election**

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<sup>18</sup> The only exception would be an employer that sponsored a retirement plan but excluded a major portion of its workforce – for example, excluding an entire division or subsidiary that is not union-represented or foreign – in which case the employer would be required to offer payroll deposit saving to the rest of the workforce.

Automatic enrollment (more often applied to newly hired employees but now increasingly applied to both new hires and other employees) has produced dramatic increases in 401(k) participation.<sup>19</sup> In view of the basic similarities between employee payroll-deduction saving in a 401(k) and under a direct deposit IRA arrangement, the law should, at a minimum, permit employers to automatically enroll employees in direct deposit IRAs.

However, simply allowing employers to use automatic enrollment with direct deposit IRAs may not be enough. Requiring employers to use automatic enrollment in conjunction with the payroll deduction IRAs (with a tax credit and legal protections) likely would increase participation dramatically while preserving employee choice. However, a workforce that presumably has not shown sufficient demand for a retirement plan to induce the employer to offer one might react unfavorably to being automatically enrolled in direct deposit savings without a matching contribution. In addition, some small business owners who work with all of their employees closely each day might regard automatic enrollment as unnecessary.

Accordingly, automatic enrollment would be the presumptive or standard enrollment method, but employers could opt out of it in favor of an alternative approach, which is in effect a variation on automatic enrollment. The alternative requires all eligible employees to submit an election that explicitly either accepts or declines payroll deposit to an IRA. Requiring an "up or down" election picks up many who would otherwise fail to participate because they do not complete and return the enrollment form due to procrastination, inertia, inability to decide on investments or level of contribution, and the like.<sup>20</sup> Any employee who fails to comply with the election requirement is automatically enrolled. In either case, to maximize participation, employers receive a standard enrollment module reflecting current best practices in enrollment procedures.<sup>21</sup>

In addition, employees like automatic enrollment. Retirement Made Simpler -- a coalition of advocacy, regulatory and policy organizations, including AARP, the Financial Industry Regulatory Authority (FINRA), and the Retirement Security Project (RSP) – was launched to encourage employers to help their employees

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<sup>19</sup> Brigitte Madrian and Dennis Shea, "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," *Quarterly Journal of Economics* 116, no. 4 (November 2001): 1149-87; and James Choi and others, "Defined Contribution Pensions: Plan Rules, Participant Decisions, and the Path of Least Resistance," in *Tax Policy and the Economy*, vol. 16, edited by James Poterba (Cambridge, Mass.: MIT Press, 2002), pp. 67-113. See also Sarah Holden and Jack VanDerhei, "The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement," *Employee Benefit Research Institute Issue Brief No. 283* (July 2005).

<sup>20</sup> James Choi, David Laibson, Brigitte Madrian, and Andrew Metrick, "Optimal Defaults and Active Decisions," *NBER Working Paper No. 11074* (January 2005).

<sup>21</sup> A national website could provide firms these standard enrollment and election forms, as well as provide an opportunity to promote employee education and best practices as they evolve, such as automatic enrollment and potentially, lifetime guaranteed income.

be better prepared financially for retirement. Retirement Made Simpler recently released a survey on employee satisfaction with automatic enrollment. The survey, a first of its kind, reached out to employees who work at firms that use automatic enrollment. The results are striking. Of these employees, 97% agreed that they were satisfied with automatic enrollment, and 74% of them were "very satisfied." Agreement that automatic 401(k) has helped them start saving for retirement earlier than planned is 85%, with 62% at "Strongly agree". And agreement that automatic enrollment has made saving for retirement easy is 95%, with 71% at "Strongly agree." Even among those who opted out of their company's 401(k) plan, a full 79% were glad their company offered automatic enrollment to employees.

## **Compliance**

Whether using automatic enrollment or explicit "up or down" elections from employees, employers would be required to obtain a written (including electronic) election from each nonparticipating employee. That way, no one would be left out by reason of inertia. If the employer chose to use automatic enrollment, the notice would also inform employees of that feature (including the automatic contribution level and investment and the procedure for opting out), and the employer's records would need to show that employees who failed to submit an election were in fact participating in the payroll deduction saving. Employers would be required to certify annually to the IRS that they were in compliance with the payroll deposit saving requirements.<sup>22</sup>

## **Making a Saving Vehicle Available To Everyone**

Under the automatic IRA, individuals who wish to direct their contributions to a specific IRA can do so. To make this happen, the employer has two choices:

- remitting all employee contributions in the first instance to IRAs at a single private financial institution (chosen by the employer), from which employees can transfer the contributions, without cost, to their own IRA, or
- if the employer or employees could not find an IRA provider willing to serve their market for an acceptably low fee, or if the employer preferred not to designate a particular financial institution for provide IRAs for

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<sup>22</sup> This might be done in conjunction with the existing IRS Form W-3 that employers file annually to transmit Forms W-2 to the government. Failure to offer payroll deposit saving would ultimately be backed up by an excise tax similar to (but much lower than) that imposed for employer violations of the COBRA health care continuation coverage requirements. The intent is that employers would never have to pay such an excise tax; it is simply a deterrent to noncompliance, accompanied by a rather forgiving array of exceptions, opportunities for correction, and relief for unintentional noncompliance that is generally patterned after the corresponding COBRA provisions. Compare Internal Revenue Code Section 4980B.

employees, employers and employees would have access to a standard fallback IRA account, as described below.<sup>23</sup>

### **A Low-Cost Standard Automatic Account**

The fallback arrangement, which might take the form of an industry consortium or nonprofit organization, would make a standard IRA account automatically available to receive direct deposit contributions from employees. These accounts would be maintained and operated by private financial institutions under contract with the federal government. By contrast to the wide-open array of investment options provided in most current IRAs (which can be daunting for many savers) and the high (and costlier) level of customer service provided in many 401(k) plans, the standard account would provide only a few investment options (to maximize economies of scale and reduce cost). It would permit individuals to change their investments only once or twice a year, and would emphasize transparency of investment and other fees and expenses. Like the investment options under the federal Thrift Savings Plan for federal employees, it is contemplated that costs could be minimized, for example, through the use of passive investments such as index funds provided and managed by private financial institutions or other private-sector investments that are similarly low-cost. This would not limit anyone's choices: individuals who preferred other IRA investments could simply continue contributing to an IRA outside the context of these proposed new arrangements.

### **Automatic Investment Fund Choice**

The IRAs selected by employees or employers from among those offered by private financial institutions as well as the fallback standard IRAs would provide low-cost professional asset management to millions of savers, with a view to improving their aggregate investment results. To that end, these IRAs would offer an automatic or default investment fund (generally similar, at least initially, to the kinds of investments described as "Qualified Default Investment Alternatives" in Department of Labor regulations)<sup>24</sup> for all deposits unless the individual chose otherwise. This automatic investment choice could be a highly diversified "target asset allocation" or "life-cycle" fund comprised of a mix of equities and fixed income or stable value investments, and probably relying heavily on index funds or other cost-minimizing approaches. It could also make available some

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<sup>23</sup> Moreover, nothing would prevent an employer willing to do so from following employee directions as is ordinarily done when employers make direct deposits of paychecks to accounts specified by employees..

<sup>24</sup> "Default Investment Alternatives Under Participant Directed Individual Account Plans; Final Rule," Department of Labor Employee Benefits Security Administration, Federal Register (Vol. 72, No. 205), October 24, 2007. See also letter from J. Mark Iwry, Principal, Retirement Security Project, to Department of Labor Employee Benefits Security Administration, dated November 13, 2006 (available at [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org)), commenting on the Department's proposed regulations.

elements of guarantee against loss of principal, in exchange for a limited reduction in the rate of return.

One approach to minimize cost and maximize simplicity might be a temporary, short-term default investment in a guaranteed, principal-preserving option such as a bank certificate of deposit or other fixed income vehicle. Such a default would apply, if at all, only until account balances grew large enough to make them more self-sustaining.

Because it is desirable to maintain a degree of flexibility in order to accommodate and reflect market creativity, best practices, and the evolving consensus of expert financial advice over time, the proposed legislation would not fully specify the automatic investment. General statutory guidelines would be fleshed out at the administrative level after a process of extensive consultation with private-sector investment experts. In addition, the IRAs employees or employers select from private financial institutions would also offer at least a few investment alternatives, consistent with normal market practice, but would not be limited to any prescribed array of investment options.

### **Employers Protected from Risk of Fiduciary Liability**

Employers making payroll deposits would be insulated from potential liability or fiduciary responsibility with respect to the manner in which direct deposits are invested in automatic IRAs, even if the IRA provider is selected by the employer. Nor would employers be exposed to potential liability with respect to any employee's choice of IRA provider or type of IRA. This protection of employers would be facilitated by regulatory designation of standard investment types that reduces the need for continuous professional investment advice. In addition, employers could avoid responsibility even for the selection of an IRA provider for their employees by specifying the government-contracted fallback automatic IRA (or, if the employer wished to, allowing each employee to specify his or her preferred IRA provider).

### **The Importance of Protecting Employer Plans**

The automatic IRA proposal is designed carefully to avoid competing with or crowding out employer plans. Probably the most important protection for employer plans is the use of IRAs, which have maximum permitted contribution levels of \$5,000 (with an additional \$1,000 if the contributor is age 50 or older). This is sufficient to meet the demand for saving by millions of households but not high enough to satisfy the appetite for tax-favored saving of business owners or decision-makers, who can contribute up to \$15,500 of their own salary to a 401(k) (or \$20,500 if age 50 or older) plus matching or nonmatching employer contributions that can bring the total annual 401(k) contributions on their behalf to

\$46,000 a year.<sup>25</sup> In addition, by design, the employer tax credit for providing access to automatic IRAs is significantly less than the small employer tax credit for sponsoring a new 401(k), SIMPLE or other retirement plan.

In fact, the automatic IRA is designed to actually promote more employer plans. First, any employer that wants to match its employees' contributions must adopt a qualified plan or SIMPLE; to preserve that incentive, the automatic IRA does not allow employer contributions. Second, any small business owner or decisionmaker who wants to save more than \$5,000 or \$6,000 a year on a tax-favored basis would have an incentive to adopt a SIMPLE or 401(k). Finally, the automatic IRA gives consultants, third-party administrators, financial institutions, and other plan providers a new way to penetrate the small business pension market with 401(k)s, SIMPLEs and other tax-favored employer plans. Because these plans can now be purchased at very low cost, it would seem natural for many small businesses – especially those whose owner would like to save more or to match employees' saving – to graduate from payroll deduction saving and complete the journey to a qualified plan.

## **Encouraging Contributions by the Self-Employed and Independent Contractors**

For the self-employed and others who have no employer, regular contributions to IRAs would be facilitated in four principal ways:

- Expanding access to automatic debit arrangements, including through professional and trade associations that could help arrange for automatic debit and direct deposit to IRAs. Automatic debit essentially replicates the power of payroll deduction insofar as it continues automatically once the individual has chosen to initiate it.
- Extending the payroll deposit option to many independent contractors through direct deposit with firms from which they receive regular payments (without affecting the individual's status as an independent contractor);
- Enabling taxpayers to direct the IRS to make direct deposit of a portion of their income tax refunds to an IRA (which became possible for the first time last year); and
- Allowing the self-employed to transmit IRA deposits with their quarterly estimated income taxes.

## **Matching Deposits as a Financial Incentive**

A powerful financial incentive for direct deposit saving by those who are not in the higher tax brackets (and who therefore derive little benefit from a tax

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<sup>25</sup> The IRA and 401(k) contribution limits (as well as the limits applicable to SIMPLE plans) are indexed for cost-of-living.

deduction or exclusion) would be a matching deposit to their payroll deposit IRA. By increasing assets under management, a match would also increase private financial institutions' interest in providing IRAs. One means of delivering such a matching deposit would be via the financial institution that provides the payroll deposit IRA. For example, the first \$500 contributed to an IRA by an individual who is eligible to make deductible contributions to an IRA might be matched by the private IRA provider on a dollar-for-dollar basis, and the next \$1,000 of contributions might be matched at the rate of 50 cents on the dollar. The financial provider would be reimbursed for its matching contributions through federal income tax credits.<sup>26</sup>

Evidence from a randomized experiment involving matched contributions to IRAs suggests that a simple matching deposit to an IRA can make individuals significantly more likely to contribute and more likely to contribute larger amounts.<sup>27</sup> Matching contributions – similar to those provided by most 401(k) plan sponsors – not only would help induce individuals to contribute directly from their own pay, but also, if the match were automatically deposited in the IRA, would add to the amount saved in the IRA. The use of matching deposits would require procedures to prevent gaming – contributing to induce the matching deposit, then quickly withdrawing those contributions to retain the use of those funds.<sup>28</sup>

## **Guaranteed Lifetime Income**

The automatic IRA could also serve as a natural platform or proving ground for best practices in retirement savings, possibly including, over time, an expanded use of lifetime guaranteed income. There is reason to believe that many households with savings but no lifetime income stream to supplement Social Security would be better off if they converted a portion of their savings to (appropriately priced) guaranteed income. Yet most are reluctant to do so. The same automatic strategy used to promote enrollment and sensible investment could encourage more workers to obtain the security of an annuity or other guaranteed lifetime income, including perhaps “longevity insurance” that provides a deferred annuity beginning at age 80 or 85, for example. The attractiveness of lifetime income options is increasing as providers offer more features that are responsive to consumer concerns (such as death benefits, cash surrender

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<sup>26</sup> This raises a number of issues. For further discussion, see discussion of proposed reforms of the Saver's Credit, e.g., William G. Gale, J. Mark Iwry, and Peter R. Orszag, "The Saver's Credit: Expanding Retirement Savings for Middle- and Lower-Income Americans" (Retirement Security Project Publication No. 2005-02, March 2005).

<sup>27</sup> Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block" (Retirement Security Project, May 2005).

<sup>28</sup> Among the possible approaches would be to place matching deposits in a separate sub-account subject to tight withdrawal rules and to impose a financial penalty on early withdrawals of matched contributions.

options, and products combining guaranteed minimum benefits with potential for growth). The uniform default investment and the backstop automatic IRA for any employees who cannot find an appropriate IRA in the market may lend themselves to exploring means of encouraging greater use of low-cost guaranteed income in IRAs generally as well as in 401(k) and other employer plans.<sup>29</sup>

As former Chair of the Council of Economic Advisers Laura Tyson pointed out in a Wall Street Journal op-ed article endorsing the automatic IRA, “[j]ust as the Automatic 401(k) and Automatic IRA would help to ensure that employees have enough retirement savings, automatic guaranteed lifetime income would help to ensure that they do not outlive their savings”<sup>30</sup> and have an income stream they can count on.

### **A Note on the GAO Report**

The June 2008 GAO Report on employer-provided IRAs calls for the collection of additional data on IRAs and potentially more regulatory oversight. We agree that additional data would be useful for various purposes, including potentially improving compliance and determining exactly in what ways IRAs are and are not working effectively to fill the gap in retirement savings for those not participating in employer plans. However, improved collection and reporting of data – such as the data referred to in the GAO Report on how many employers and employees currently use SIMPLE or SEP IRAs or payroll deduction IRAs -- should be done in a way that does not impose undue burdens on employers, employees, or IRA providers. Moreover, significantly, our interest in obtaining such data need not and should not delay the development of a basic strategy to expand retirement saving using workplace IRAs.<sup>31</sup>

We already have sufficient evidence of certain fundamental facts that should drive the development of policy in this area. It is clear, for example, that –

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<sup>29</sup> Accordingly, H.R. 2167 and S. 1141 require a joint study by the Labor and Treasury Departments of the feasibility and desirability of promoting the use of low-cost annuities, longevity insurance, or other guaranteed lifetime income arrangements in automatic IRAs, including consideration of – (i) appropriate means of arranging for, or encouraging, individuals to receive at least a portion of their distributions in some form of low-cost guaranteed lifetime income, and (ii) issues presented by possible additional differences in, or uniformity of, provisions governing different IRAs. Section 4(b)(1)(B). The bills also would provide for a joint study of the feasibility and desirability of extending to automatic IRAs spousal consent requirements similar to, or based on, those that apply under the Federal employees’ Thrift Savings Plan, including consideration of whether modifications of such requirements are necessary to apply them to automatic IRAs. Section 4(b)(1)(A).

<sup>30</sup> Laura D’Andrea Tyson, “Some No-Brainer Savings Ideas,” Wall Street Journal, October 30, 2007, page A-18.

<sup>31</sup> As noted, the Prudential research found that, “of the 80% of employees who were “very/somewhat” interested in the Automatic IRA, 68% believe it will generate real additional savings.” (See text at n. 15, above.)

1. Participation in standalone (non-workplace) IRAs is dramatically less than in employer plans (for reasons noted earlier).
2. Payroll deduction IRAs at the workplace could provide much of the same impetus for saving and ease of saving that employer plans provide.
3. Of the many employers that do not sponsor employer plans, very few have adopted payroll deduction IRAs.
4. The cost to an employer of maintaining a payroll deduction IRA involves no employer contribution or other outlay, and therefore generally will be far less than the cost of sponsoring a plan that does involve employer contributions. Moreover, employers that allow employees to make payroll deposits to IRAs already function as a conduit or forwarding agent when they withhold and remit income tax from their employees' pay.
5. Data on the exact extent of employer adoption of payroll deduction IRAs to date do not reflect, and would not have much relevance to, a scenario in which employers would be required to provide them.
6. Since the 401(k) experience strongly suggests that automatic enrollment dramatically raises participation, data on the degree of employee participation in current payroll deduction IRAs (which do not use automatic enrollment) would be useful but not as relevant to the scenario in which employees would be automatically enrolled in payroll deduction IRAs.
7. Accordingly, a major expansion of payroll deduction IRAs using automatic enrollment could increase employees' retirement contributions dramatically.

It is true that we have little data bearing on certain ultimate issues relating to saving for retirement (in IRAs or employer plans) such as --

- The extent to which contributions to plans are offset by additional debt or by a reduction of the household's other balances or assets so that they do not, to that extent, represent real net saving.
- How durable the contributions are: do they leak out of the system or are they used for retirement purposes?

However, the lack of compelling evidence on such ultimate saving issues is not particular to IRAs; it is also true of 401(k)s and other employer plans. Even if the helpful data that is sought by GAO regarding IRAs were reported and collected, they would fall short of answering these questions in the case of IRAs. We cannot afford to suspend for several years all efforts to improve coverage and participation through the use of payroll deduction IRAs (and we do not believe

the GAO Report is suggesting that we do) in order to await the collection and analysis of data that, however useful, are unlikely to resolve the key issues involved in our policy decisions.

## Conclusion

American households have a compelling need to increase their personal saving, especially for long-term needs such as retirement. This testimony summarizes a strategy to make saving more automatic – hence easier, more convenient, and more likely to occur. By adapting to the IRA universe practices and arrangements that have proven successful in promoting 401(k) participation, the automatic IRA approach holds considerable promise of expanding retirement saving for millions of workers.

This bipartisan, cross-ideological automatic IRA proposal put forward in your bill, H.R. 2167, has elicited favorable responses from across the political spectrum. As Congressional Budget Office Director Peter Orszag recently stated, “I do sense that there is significant bipartisan support for this kind of approach.”<sup>32</sup> Indeed, support has come from both the Chair of the Council of Economic Advisers under President Clinton and the Chair of the Council of Economic Advisers under President Reagan, from the New York Times editorial page and the Washington Times’ chief political correspondent.<sup>33</sup>

Similar types of proposals have been introduced by Senate Finance Committee Chairman Max Baucus and advanced by the Commission on the Regulation of U.S. Capital Markets in the 21<sup>st</sup> Century, an Independent Bipartisan Commission Established by the U.S. Chamber of Commerce, while the automatic IRA proposal itself has been supported or has been the subject of favorable comment by a variety of other groups and individuals including AARP, Marketwatch,

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<sup>32</sup> Presentation at the Retirement Security Project conference on “The Automatic Revolution” at the National Press Club, Washington, D.C., June 10, 2008.

<sup>33</sup> The former Chair of President Clinton’s Council of Economic Advisers, Laura Tyson, has stated that the “Automatic IRA would help to ensure that employees have enough retirement savings,” (Wall Street Journal, Oct. 30, 2007), and the former Chair of President Reagan’s Council of Economic Advisers, Professor Martin Feldstein, has said, “I am a great enthusiast of automatic enrollment IRAs. I think as a policy it’s a no-brainer. I think the legislation should be enacted. I can’t imagine why there would be any significant opposition from political players on either side of the aisle.” Presentation at the Retirement Security Project conference on “The Automatic Revolution” at the National Press Club, Washington, D.C., June 10, 2008.

The New York Times has stated, in an editorial, “The best idea yet developed for making savings universal is an I.R.A. that is funded with automatic direct deposits from a paycheck. . . . Congress should pass legislation to establish auto-I.R.A.’s, and the president should sign it.” (New York Times, editorial, March 18, 2006). The Washington Times’ chief political correspondent, Donald Lambro, has said, “The savings rate in our country . . . is abysmal. This [the Automatic IRA] would dramatically turn that rate around, helping millions to build wealth and some measure of retirement security.” (Washington Times, April 12, 2007.)

Newsday, Jane Bryant Quinn, and the 2006 National Summit on Retirement Savings.<sup>34</sup>

Chairman Neal, Ranking Member English, and Members of the Subcommittee, we appreciate the opportunity to testify before the Subcommittee and would be happy to respond to any questions.

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<sup>34</sup> See n. 3, above, and [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org).

### J. Mark Iwry

Mark Iwry (pronounced “Eevry”) is a Nonresident Senior Fellow at the Brookings Institution, a Principal of the Retirement Security Project, Research Professor at Georgetown University, and Of Counsel to the law firm of Sullivan & Cromwell LLP, where he specializes in pensions, compensation and benefits. He was Benefits Tax Counsel at the U.S. Treasury Department from 1995 to 2001, serving as the principal Executive Branch official directly responsible for tax policy and regulation relating to the Nation’s qualified pension and 401(k) plans, employer-sponsored health plans, and other employee benefits.

Recently named one of the 100 Most Influential People in Finance (*Treasury and Risk Magazine*, June 2008), Mr. Iwry has often testified before congressional committees – formerly representing the Treasury and Executive Branch and, since leaving government, testifying as an independent expert -- and State legislatures. He has advised numerous Senators and Members of Congress on both sides of the aisle, five Presidential campaigns (2004 and 2008), GAO, other federal agencies, State officials and legislators, foreign government agencies and officials (including the United Kingdom and Israel), AARP, and other private-sector organizations on retirement savings, and has served as an expert witness in federal litigation. He was formerly a partner in the law firm of Covington & Burling, chair of the D.C. Bar Employee Benefits Committee, and a member of the White House Task Force on Health Care Reform, and has addressed several hundred professional, industry, policy and academic conferences. Mr. Iwry co-edited the book, “Aging Gracefully: Ideas to Improve Retirement Security in America” (Century Fdn. Press, 2006)(with William Gale and Peter Orszag); the automatic IRA proposal he has co-authored through the Retirement Security Project has been introduced as a bill in Congress, and the proposals he has co-authored to leverage State resources to expand pension coverage have been introduced as bills in several States.

A principal architect of the Saver’s Credit to expand 401(k) and IRA coverage (claimed annually on 5.3 million tax returns) and the “SIMPLE” 401(k)-type plan (covering an estimated 3 million workers), Mr. Iwry directed Treasury’s formulation and implementation of an integrated strategy to increase retirement saving by defining, approving and promoting 401(k) automatic enrollment as well as automatic rollover to curtail pension leakage. He has also been centrally involved in initiating or orchestrating many other significant improvements and simplifications of the nation’s pension and health care systems, including development of the Presidential “Universal Savings Accounts” proposal (1999-2000), and strengthening oversight of the PBGC by its Board of Directors.

While in government, Mr. Iwry was widely recognized for his work to expand coverage while simplifying and rationalizing benefits law and regulation. He received the Secretary of the Treasury’s Exceptional Service Award “[i]n recognition of his outstanding leadership and accomplishments ....Widely respected as Treasury’s benefits and pension expert, Mr. Iwry excelled at building coalitions of diverse interests....” At Treasury, he drew upon a wide spectrum of private sector advice, held town hall meetings around the country, and received a special IRS (Office of Chief Counsel) award “[i]n recognition of the collegial working relationship you have fostered between [Treasury] and the IRS Office of Chief Counsel and of your many contributions to our nation’s tax system.”

Mr. Iwry’s views are often reported in the major media and trade press. He is an honors graduate of Harvard College and Harvard Law School, has a Masters in Public Policy from Harvard’s Kennedy School of Government, is a member of the bar of the US Supreme Court, a Fellow of the American College of Employee Benefits Counsel, and is listed in *Who’s Who*; *Best Lawyers in America*; *Washington, DC Super Lawyers*, etc.

Email: miwry@brookings.edu

## David John

David John, Principal to the Retirement Security Project and a Senior Research Fellow with the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation. He has been involved in Washington's top policy debates for almost 30 years and he continues that career as Heritage's lead analyst on issues relating to pensions, financial institutions, asset building, and Social Security reform. He has also commented on corporate governance and financial literacy.

John has written and lectured extensively on the importance of reforming the nation's retirement system. During this time, he has testified before a number of House and Senate committees on subjects ranging from Social Security and pension reform to improving the nation's flood insurance program. In 2001, he testified before the President's Commission to Strengthen Social Security, providing detailed analysis of how personal retirement accounts could be structured and regulated. John also testified before the House Budget Committee's Task Force on Social Security, explaining what the costs of transitioning to a system of Social Security personal retirement accounts might be as compared to the cost of running the current program.

In addition, John has testified before the House Ways and Means Committee on issues such as steps that should be taken to improve Social Security for women and minorities, how to increase the information that the public can receive about Social Security programs, and how the United Kingdom's pension system operates. He also testified before both the Senate Special Committee on Aging and the House Education and the Workforce Committee on proposals to strengthen the funding of defined benefit pension plans.

John has been published and quoted extensively in many major publications, including the Wall Street Journal, Financial Times, Washington Post, New York Times, Chicago Tribune, Los Angeles Times, Philadelphia Inquirer, Washington Times, Forbes, Business Week, and USA Today. He has also appeared on CBS News, NBC News, CNN, MSNBC, the Fox News Channel, BBC radio, and many other national and syndicated radio and television shows.

John came to The Heritage Foundation from the office of Rep. Mark Sanford, R-S.C. John was the lead author of Rep. Sanford's plan to reform Social Security by setting up a system of personal retirement accounts. John's Capitol Hill service also includes stints in the offices of Reps. Matt Rinaldo, R-N.J., and Rep. Doug Barnard Jr., D-Ga. While working for Barnard, John helped write one of the first bills that would have eliminated restrictions on banks to sell securities and insurance. He also authored a bill in 1981 that restarted the national commemorative coin program.

In the private sector, John was a Vice President specializing in public policy development at The Chase Manhattan Bank in New York. In addition, he worked for three years as Director of Legislative Affairs at the National Association of Federal Credit Unions, and worked as a senior legislative consultant for the Washington law firm of Manatt, Phelps & Phillips.

John earned a bachelor's degree in journalism, an MBA in finance, and a master's degrees in economics from the University of Georgia in Athens.