

Statement of Congressman Pete Sessions (TX-32)
“Banking on Retirement Security: A Guaranteed Rate of Return”
House Committee on Financial Services
Financial Institutions and Consumer Credit Subcommittee
2128 Rayburn House Office Building
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Mr. Chairman, I appreciate the opportunity to address the House Committee on Financial Services on the important issue of retirement security. I would also like to take this opportunity to thank you for the leadership and vision that you have demonstrated on this issue. Few debates in Washington have as great a real-world impact on the quality of life of older Americans as our nation’s retirement security policy. In its current state, Social Security – upon which many workers rely to provide a comfortable retirement income – is supremely inefficient for accomplishing this important and necessary goal. In a little more than a decade, Social Security will reach a critical juncture in its history, as it begins to pay out more in benefits than it takes in through payroll taxes – which everyone understands is an untenable financial situation that cannot continue indefinitely.

It is critical for Congress to examine ways to provide a long-term solution for the problems that currently plague the system. Social Security needs to be reformed – and another short-term fix that fails to address the underlying causes of these problems is simply unacceptable. As Congress examines its options for providing long-term solvency of Social Security, I believe that there is one essential element that must be part of any comprehensive reform – what I call “the

banking option.” The banking option would allow workers to put part of their Social Security benefits in a product similar to a federally insured (FDIC or NCUSIF) certificate of deposit (CD) and receive a guaranteed rate of return. Perhaps most importantly, the banking option would give risk-averse workers the opportunity to own a safe, personal account that would guarantee a set rate of return greater than what is offered by Social Security and one that is as safe as money in the bank.

While studying measures that can serve as components of comprehensive Social Security reform, I believe that Congress should pay particular attention to measures that have already been created and implemented in “field laboratories” at the local level throughout the nation. Fortunately, one such laboratory for studying the real-world effects of the banking option already exists in Galveston County, Texas – the birthplace of the banking model. Over 20 years ago, county employees in Galveston County – recognizing the future problems facing Social Security – voted overwhelmingly to create an alternative to the Social Security system that gives retirees control of their own money at virtually no risk to the beneficiary. These workers’ payroll taxes are deposited in personal retirement accounts that purchase commercial banking and life insurance products already available in the marketplace – like certificates of deposit, annuities, and government bonds – all with fixed and guaranteed rates of interest. The results have been extraordinary, and Galveston County employees have averaged annual returns of 6.5 percent. Even today with our historically low interest rates, workers in Galveston still receive returns of 3.75 percent on their investment, far better than Social Security’s current return of 1.8 to 2 percent. For a person working 37 years in Galveston County, making about \$25,000 a year, they

would receive \$1,250 a month from the alternative plan – as opposed to \$669 from the current Social Security system.

Giving workers this expanded choice is an important option for reforming Social Security because it provides workers with the same or better benefits – including retirement, survivorship, and disability benefits – as an unreformed Social Security system. The other important aspect of this plan is that, as workers get closer to retirement age and more vulnerable to potential swings in investment rates of return, the banking option allows them to move their assets into a conservative investment vehicle that protects their principle from a potential market downturn.

There is nothing new about giving Americans the ability to put their money into an account with guaranteed returns. Because it is a savings plan and not an investment plan, employees benefit from the security of a minimum return and professional management of their account. If the stock market declines, financial institutions bear the burden – not account holders. There is no more risk than what is already inherent in the current Social Security system. That is why I have introduced, along with Congressman Tom Feeney and Congressman Paul Gillmor, H. Con Res. 209. This legislation simply expresses the sense of Congress that any Social Security reform legislation should include this Community Bank option, and I believe that listening to our witnesses here today, we can begin to further explore how this option can be implemented.

I commend the Subcommittee on Financial Institutions and Consumer Credit for dedicating this morning to examining how the banking option could be incorporated into an overall Social Security reform plan. Any long-term solution proposed by Congress must be voluntary and

equal to or greater than the current benefit that workers receive and guarantee the long-term solvency of the system – two tests that the banking option meets. I believe that individual choice and opportunities are crucial for any Social Security reform plan and that allowing workers to diversify their assets will make for a stronger and safer retirement security plan for American workers. Inaction on the issue of Social Security reform is not a solution, and will result in either massive tax increases or massive benefit cuts – both of which are unacceptable options. I look forward to working with the Chairman, and with all relevant parties, on strengthening and improving Social Security for future generations of American workers by giving workers the choice to own personal accounts that include a Community Bank option.