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Stevens Outlines Strengths, Goals of 401(k) System

Retirement Savings Summit Welcoming Remarks

by
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Good morning. I am Paul Stevens, president and CEO of the Investment Company Institute, and it is my great pleasure to welcome you to today's Retirement Savings Summit.

I have the honor of opening this meeting, but the inspiration and effort that brought this event to pass were widely shared. Today's gathering was shaped by ICI and six partner organizations representing employers and financial services firms of all kinds. All of us have a deep interest in the 401(k) system and an abiding commitment to its continued success.

Our members, collectively, have played critically important roles in building that system. All of us recognize the great responsibility we have in helping provide for the financial security of millions of today's retirees and millions more yet to come. At the end of our program, leaders of each of these groups will participate in a panel discussion to help distill the lessons of the day.

Our agenda is challenging and substantive; our speakers are noted policymakers, experts, and practitioners. I know you join me in extending sincerest thanks to each one of them for their participation.

Of course, a program like this does not put itself together. It is the product of long hours and hard work by all the sponsoring organizations. The contributors are numerous and we are grateful to them one and all. But I want to thank by name some who have done the heaviest lifting:

- From the American Bankers Association: Lisa Bleier
- From the American Benefits Council: Lynn Dudley and Diann Howland
- From the American Council of Life Insurers: Walter Welsh and Jim Szotek
- From the ERISA Industry Committee: Kathryn Ricard
- From the Profit Sharing/401k Council of America: Ed Ferrigno
- From the Securities Industry and Financial Markets Association: Liz Varley
- And my colleagues at ICI, Mary Podesta and Mike Hadley

Let me also thank ICI's conferences team, particularly Shani Armon, for their great work.

Please join me in a warm round of applause for these and others who have made today's event possible.

It's also important that I thank all of you, our participants, for taking a day from your busy schedules to join us here to consider these issues. From the start, we have called this meeting a “summit.” That may sound grandiose, but it reflects the vision that all seven groups shared—a vision of a conversation among leaders like all of you. We hope it is one that will yield greater understanding of steps we can take to improve retirement security—and a commitment to take those steps together. So I thank you for coming, and I invite you to enter fully into today’s dialogue.

We have also included some of the best academic thinkers in our program as well, to help build a solid foundation for the policy ideas we will discuss. Another goal in assembling today’s program was to establish a common base of knowledge on retirement security. It’s not always evident in the public debates, but there is a vast body of research available on what Americans need to achieve retirement security, how retirement plans meet those needs, and how plans might be made even more effective.

Collectively, our organizations are leaders in that research because we have a wealth of market experience to bring to bear on these questions. Our groups gather and analyze data from employers, plans, households, and from investment and other service providers. We are constantly seeking to extend that base of knowledge. Let me mention just one example: At ICI, we are engaged in a study with Deloitte Consulting to examine in detail the fees charged by a large and diverse sample of 401(k) plans. One of our early findings is that the median plan’s total annual fees and expenses—including administration, record keeping, and investment management—equaled 0.72 percent of plan assets. That’s 72 basis points for an all-in fee, compared to the figures of 200, 300, even 500 basis points one sometimes hears bandied about by critics of 401(k) plans. We look forward to sharing that research with you and with policymakers, soon.

As you know, we meet today at a critical moment for our private system of retirement savings and security. The bear market that we are in is wider, deeper, and more unsettling that any downturn in generations. And it has had a significant impact on retirement savings of all kinds—not just defined contribution plans, but also IRAs, private and public sector defined benefit plans, and the federal Thrift Savings Plan. Literally everyone takes a deep breath before opening an account statement these days.

Much of Washington’s attention has focused on 401(k)s and DC plans. And many voices are calling for change. Some critics would have us abandon the 401(k) system altogether. Some call for government to impose new retirement saving mandates, new government-backed guarantees, or both, on top of Social Security and outside the current structure of DC and DB plans. Others would eliminate or greatly scale back tax incentives for savings—incentives that have proven to work so well for so many.

These critics disregard or discount the success of the defined contribution system. One measure of that success is that Americans have accumulated $8 trillion in DC plans and IRAs—and many of those dollars would not have been saved without 401(k)s. Private defined benefit pensions, with $2.3 trillion at the end of the third quarter, likewise play a vital role in the retirement security of countless American families.

The critics also would have you believe that working Americans are abandoning their 401(k) plans in the face of the market’s ravages and that participants favor a radical overhaul of these plans.

Hardly. The truth is, working Americans strongly support 401(k)s.

Account records of 22 million DC participants make it clear they are not panicking. Through all of 2008, only 3.7 percent had stopped contributing to their accounts, and fewer than one in 25 had taken any withdrawals.

ICI also surveyed 3,000 households between October and December. In the teeth of the worst markets in 70-plus years, our survey respondents affirmed their support for 401(k) plans. Almost three-quarters want to preserve the tax incentives of these plans, and more than 80 percent reject the idea that government should take over investment decisions for individuals’ retirement accounts.

None of this is to suggest that today’s retirement system is flawless. We know that it can be improved—and that it must be improved. When I testified at the House Education and Labor Committee last week, I offered a range of proposals that ICI believes Congress should consider that would strengthen our retirement system. These are complex issues and I didn’t expect immediate applause and approval from the Committee … for that matter, I’m not expecting hosannas from all corners in this gathering! But I hope that, together, we can arrive at a compelling agenda that builds on the proven strengths of our current retirement system.

That is the challenge. Meeting it will not be easy. But I hope that today’s conference will launch a conerted effort to do so.

The various groups represented here approach the retirement system from different perspectives. We hae different roles, as employers or as providers of financial and other services to plans. Certainly, the financial firms represented—whether they are banks, insurers, brokers, or investment managers—all compete fiercely in the marketplace every day. Not all policy issues are of equal importance to us all, and on some policy issues, we are at odds.

Of greater importance for today’s purposes, however, is what unites, not what divides. What unites us is a common belief—the belief that a multi-layered, flexible, and innovative retirement system is in the best interests of America, its workers, and its retirees. The bedrock of our current system is Social Security—a universal, employment-based, progressive safety net for all Americans. Atop that base, we have private and public employer-based plans that have grown and evolved by tapping the creativity of employers, service providers, and financial firms to meet the individual needs and preferences of millions of workers. For millions of Americans, personal thrift and discretionary savings are, and will remain, an important contributor to retirement security.

Our common goal is to preserve the considerable strengths of our private retirement system—including its flexibility and innovation—and make it even stronger. With that goal firmly in mind, I'm looking forward to a day of thought-provoking insights, vigorous discussion, and shared purpose. I'm glad that each of you is here to share in that process. Welcome, and let's begin.