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Institute Endorses Simpson-Kerrey Personal Investment Plan Act, August 1995

Institute Endorses Simpson-Kerrey "Personal Investment Plan Act"

Washington, DC, August 2, 1995 - The Investment Company Institute today strongly endorsed a bill aimed at strengthening the Social Security system by permitting American workers to voluntarily invest a portion of their Social Security payroll taxes in personal investment plans (PIPs). "This legislation is a thoughtful and timely proposal to enhance our current pay-as-you-go Social Security system by introducing an element of individual saving," said Institute President Matthew P. Fink in Congressional testimony on the Simpson-Kerrey "Personal Investment Plan Act" of 1995 (S. 824).

Mr. Fink told the Senate Finance Subcommittee on Social Security and Family Policy that legislation addressing the coming retirement saving crisis is imperative, and that S. 824 begins to address the projected inadequacy of the current Social Security system by allowing workers the option to invest two percentage points of their OASDI payroll taxes in their own personal investment plans.

"A self-directed account incorporating the best features of the IRA is the optimal means for achieving partial funding of our Social Security system," Mr. Fink said, citing these reasons:

- Workers would be permitted to realize the power of positive compounding within their PIP accounts.
- Contributions could be invested in assets such as equities, which historically have produced higher rates of return than Treasury securities.
- Investment of PIPs in stocks, bonds, and mutual funds would provide much needed capital for economic growth.
- PIPs would increase the personal savings rate and help develop an investment habit.
- The PIP program would promote Americans' sense of personal responsibility for their own financial futures.

Although certain transition problems may arise in efforts to fully fund the Social Security system, these problems would be less acute in the case of a partial funding proposal, such as the PIP, Mr. Fink said. With respect to the costs of administering the small amounts involved in individual PIP accounts, he cited the mutual fund industry's experience in pooling and administering the investments of millions of investors to obtain economies of scale. "We believe that this issue can be satisfactorily resolved," he said.

The Institute, which is the national association of the mutual fund industry, has long supported legislative efforts to enhance both individual and employment-based retirement plans, Mr. Fink said, noting that approximately 35 percent of total mutual fund industry assets are held by retirement savings vehicles.