

**MEMO# 23274**

February 25, 2009

# **ICI Testimony to House Education and Labor Committee on Strengthening Worker Retirement Security**

[23274]

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TO: PENSION MEMBERS No. 12-09  
FEDERAL LEGISLATION MEMBERS No. 1-09  
BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 11-09  
BROKER/DEALER ADVISORY COMMITTEE No. 13-09  
OPERATIONS COMMITTEE No. 4-09 RE: ICI TESTIMONY TO HOUSE EDUCATION AND  
LABOR COMMITTEE ON STRENGTHENING WORKER RETIREMENT SECURITY

On February 24, Paul Schott Stevens, President and CEO of the Institute, testified before a House Education and Labor Committee hearing entitled “Strengthening Worker Retirement Security.” A copy of the written testimony is attached.

Stevens began with data on the impact on the recent economic crisis on retirement savings, which has affected not just 401(k) and other defined contribution plans but also private and governmental defined benefit plans and IRAs. [\[1\]](#) The testimony described the importance of ongoing contributions and a long-term investment outlook in helping participants share in the rebounds the market historically experiences after a significant downturn. The testimony then described recent research by the Institute showing that participants have not pulled out of 401(k) plans en masse; to the contrary, 401(k) participants have continued to contribute. [\[2\]](#) In addition, the research reported on a survey of 3,000 households in which respondents strongly supported the current 401(k) system and greatly valued the tax incentives 401(k)s provide.

The testimony acknowledged that America’s retirement security system can be improved, and recommended the following areas for improvement:

- Improve disclosure about all investment options in 401(k)s to ensure that participants have information on fees, risks, historical returns and other key information.
- Relax the required minimum distribution rules to reflect changing life expectancy and to help retirees manage assets in retirement. The testimony suggests either extending the temporary waiver for 2009[3] or increasing the age at which distributions must begin from age 70 ½ to, for example, age 75.
- Remove obstacles to allow employers to diversify participants out of heavy concentrations of company stock as they approach retirement.
- Consider requiring all 401(k) plans to incorporate automatic enrollment and automatic escalation features at some point. The testimony notes this step should not be taken until there is more time to learn from the rapid growth of these features so there is a better understanding of the costs of automatic enrollment on employers, especially small businesses.
- Help more employers to offer savings plans by making it less complex, and explore ways to help workers of modest means to put away something for their retirement. The testimony suggests two approaches that might be considered.
- Increase efforts to provide financial and investor education to all Americans at every level.
- Put Social Security on sound financial footing.

Finally, the testimony addressed certain criticisms of the 401(k) system and of mutual funds serving 401(k) investors. Stevens stated:

- Congress should retain flexibility in the 401(k) system and should not mandate investments or distribution methods or attempt to regulate exposure to investment risk.
- Congress should not undermine the ability of plans to pay for services using asset-based fees.
- The fees of a typical 401(k) plan are very reasonable.

Also testifying at the hearing were Dean Baker, Co-director, Center for Economic and Policy Research, John C. Bogle, Founder, Vanguard Group, and Alicia Munnell, Director, Boston College Center for Retirement Research. [4]

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[Attachment](#)

#### **endnotes**

[1] The Institute filed a statement with the Education and Labor Committee in October 2008 addressing many of the same issues. See Institute Memorandum to Pension Members No. 69-08, Federal Legislation Members No. 15-08, Bank, Trust and Recordkeeper Advisory Committee No. 32-08, Broker/Dealer Advisory Committee No. 38-08 and Operations Committee No. 20-08 [23010], dated October 22, 2008.

[2] The Institute's research was attached to the testimony and a copy is available here: [http://www.ici.org/pdf/ppr\\_08\\_ret\\_saving.pdf](http://www.ici.org/pdf/ppr_08_ret_saving.pdf).

[3] See Institute Memorandum to Pension Members No. 79-08 and Federal Legislation

Members No. 17-08 [23123], dated December 12, 2008.

[4] Copies of the witness statements, as well as the opening statement of Chairman George Miller, are available here:

<http://edlabor.house.gov/hearings/2009/02/strengthening-worker-retiremen.shtml>.

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