SPEECH

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Stevens Outlines Realistic Reform Agenda for Retirement System (speech)

Remarks at the National Press Club

Staying the Course in Turbulent Times

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Thank you, Mark, and thank you to the National Press Club for inviting me here today.

It's been said, "Prosperity is a great teacher, adversity is a greater one." Well, all of us as investors have had quite a teacher over the past few months.

This bear market is wider, deeper, more complex, and more unsettling than any downturn in generations. Companies in the Standard & Poor's 500 have lost almost 6 trillion dollars—that's TRILLIONS—in market value.

Fifty-six million Americans are saving for their retirement security through 401(k) plans and other private-sector defined contribution plans. For them, this last year has been a very rough ride.

I imagine almost everyone in this room has a 401(k) or similar account. No matter what your investments are, I imagine that you take a deep breath before opening your quarterly statement. I know I do—lately it's been a very deep breath.

In partnership with employers, workers, and other financial institutions, mutual funds helped build the 401(k) system. Today, half of the assets in K plans are invested in mutual funds. ICI members administer plans for millions of workers.

So we have an up-close and personal look at the impact of this bear market. Our members are hearing from investors every day about their concern for their financial future.

The question is: How should we as a nation respond? Here, there's a jarring disconnect.

Some policymakers would have us abandon the K system. But millions of Americans who are saving for retirement through that system say they want none of that. Let me explain.

To begin with—401(k) investors have seen a bear before. From 2000 through 2002, they tended to stay the course and continued to save and invest. Markets rebounded, and they reaped the rewards.

Let me back that up with some data. The S&P 500 fell by 37 percent between 1999 and 2002. But for workers who had 401(k) accounts with the same employer throughout that period, the average account balance declined by only 8 percent. Those workers benefited from diversification of their holdings and their ongoing contributions.

By 2006, the S&P still had not reached its 1999 level. Yet for these consistent K plan participants, their average account balance was 79 percent higher.

So one message for today's 56 million retirement investors is: Stick with it. History tells us that markets will recover—and your accounts will rebound along with them.

History also tells us that new bull markets regain most of what they lost to the bear in the first months of the uptick. Neither you nor I should ever try to forecast the market. But one thing is certain: If you cash out of stocks now, it will be impossible to time your return so that you can participate fully in the rally. Success and a secure retirement require continued participation.

ICI's recent research, which I'll discuss in a minute, tells us Americans are staying the course yet again. Yes, many have seen their account balances fall sharply. But they are not reacting out of panic. And they have not lost faith in their retirement plans.

Some of the commentary you hear from politicians and academics paints a very different picture. Quite frankly, there are some who want to exploit this financial crisis to scrap 401(k) plans as we know them. Their message is: Abandon ship.

These alarmists have been touting some fairly radical ideas. One notion is to replace your 401(k) with a promise that the Treasury would put $600 a year into an account for you. Instead of choosing among assets from the full range of America's and the world's financial markets, workers would get yet another government promise—sign over your savings to Uncle Sam, and get a return of 3 percent over inflation. Gone will be today's tax incentives, and with them your control over your retirement savings.

Other, similar ideas are gaining currency. And an agenda like that makes this a very dangerous moment for the future of America's retirement system.

Does 401(k) need an "extreme makeover" like this? No—and most importantly, the vast majority of Americans know it.

Workers want to keep the basic strengths of 401(k)s—tax-favored savings, individual choice in investing, and personal control of these retirement assets.

To be sure, the system can—and must—be improved. We are open to reforms and innovations in the retirement system, and I will discuss some ideas.

But when asked about scrapping the current system, Americans respond: No. Don’t take away my 401(k).

How do we know that? We looked at what 401(k) investors are really doing, and we asked them what they really think.

First, we turned to our members and other large firms that administer these plans. They gave us data on more than 22 million accounts. And we looked to see: Are Americans abandoning 401(k)s? As you can see on this chart, the answer is a resounding “no.”

Contrary to what you might be reading—or even writing—Americans have not quit saving. Only 3 percent stopped contributing to their defined contribution plans in 2008.

Nor are they raiding their retirement accounts: Fewer than one in 25 has taken any withdrawal in 2008.

Some 15 percent of participants have loans outstanding from their accounts this year—but as you can clearly see, that’s in line with what we’ve seen for many years in our studies with the Employee Benefit Research Institute.

In sum: 401(k) investors are NOT racing for the exits.

We also asked members of the public about their views. We began surveying in late October, immediately after some of the most jarring days in the history of our financial markets. We kept polling into December. In all, we surveyed 3,000 households across the country.

The results were clear.

First—Americans don’t want the government directing investments for retirement savers. Almost nine in 10 households in our survey—87 percent—rejected the idea that the government, and not individuals, should make investment decisions for retirement accounts.

Second—Americans don’t want to see the tax advantages of 401(k)s and similar plans reduced. More than 70 percent support those incentives to invest. And that support is almost as strong in households where no one has a retirement account as among those who do.

Third—Americans value their 401(k)s because they help them to save and invest. Overwhelmingly, they say that payroll deduction makes it easy to save, and immediate tax deductions offer a big incentive to contribute. Among 401(k) investors, nine out of 10 say their plan helps them think about the long term—not just their current needs. Significantly, more than half of the lowest-income households say they probably would not invest for retirement at all if they didn’t have a plan at work.

The American people aren’t ready to give up on 401(k). And that’s a message our lawmakers should heed. Americans don’t want to see 401(k) “restructured” along the lines that some critics are pushing.

Now, don't get me wrong. We can improve our system of retirement security. Indeed, we must.

But to do so, we must look at the whole system, including Social Security, retirement plans at work, and personal thrift. All three must contribute. Weaken any one of them, and retirement security will suffer.

The first step in bolstering America's retirement security is to put Social Security on a sound financial footing. Social Security is the foundation of our system for retirement income. It is important to all, and especially to those least able to save on their own. For the lowest-paid workers, Social Security benefits are projected to replace up to two-thirds of their working income.

That's the promise. The fact, however, is that Social Security faces a huge funding shortfall: By 2018, Social Security will start paying out more money than it is taking in—and by 2041, it will only be able to pay 78 percent of scheduled benefits.

So Job One is to ensure Social Security meets its promises. I'm not here today to endorse any specific plan. But I will tell you one plan that the mutual fund industry has and will continue to oppose: We do not—I repeat, do not—advocate privatizing or personal accounts for Social Security. The system should remain what our grandparents knew it to be: a universal, employment-based, progressive safety net for all Americans.

Social Security has been a crucial social compact across the generations. As Ronald Reagan said when he signed the Social Security amendments of 1983—"Today we reaffirm Franklin Roosevelt's commitment that Social Security must always provide a secure and stable base so that older Americans may live in dignity." Surely President Obama will renew that commitment.

Atop Social Security's "secure and stable base" are employer-sponsored retirement plans. Roughly half of all working Americans are covered by such plans. As you know, these come in two broad categories—defined benefit and defined contribution.

Defined benefit plans are what most people call "pensions"—and it's tempting to think that they might be the answer to the insecurity created by today's markets. But that doesn't square with the facts:

- Defined benefit pensions never were universal. In 1981, before the creation of 401(k)s, not one in five retirees received benefits from a private-sector pension.
- Nor do they offer immunity from market turmoil: Just last week, Congress acted to ease funding requirements for corporate pension plans hard-hit by the market's decline. Both private and public pensions face serious challenges: One recent study by the National Bureau of Economic Research found that pension plans for state and local governments are underfunded to the tune of $2 trillion.
- One more thing: In traditional pensions, workers earn significant benefits only by staying with one employer for many years. But today's typical worker will hold seven or more jobs in his or her career. For today's mobile American worker, traditional pensions can be a poor fit.

So what about 401(k)s and other defined contribution plans? They offer flexibility, control, and portability—all very desirable characteristics for a mobile workforce.

And our studies indicate that as the 401(k) system matures, today's young workers can expect to replace much of their working income through the combination of savings in their plans and Social Security benefits.

Remember, 401(k) plans are less than 30 years old, and only rose to prominence in the past 15 years.

Can 401(k) do even better? Yes.

In the short term, we endorse the proposals enacted by Congress last week and supported by President-elect Obama to allow retirees to postpone required minimum distributions from 401(k)s and IRAs.

Congress also should give workers—particularly older workers—the opportunity to contribute more, to help them make up for ground lost in the last year.

Longer-term, we must encourage more employers to offer 401(k) plans, and more workers to participate. For those workers who have the ability and desire to put funds aside for retirement, we must make that saving as easy as possible. We can do so by protecting the tax-exempt contribution limits for these plans, and streamlining their administration. We should continue to encourage automatic enrollment and sensible default investments, building on the progress made in the Pension Protection Act.

Once workers sign up for a plan, they must have access to sound investment advice. And they need investment options that can help them build a nest egg and to manage it during their retirement to meet their goals.

They also must get information that they can understand and use on key topics, such as investment risks, returns, and fees. That’s the kind of information that mutual funds already provide to 401(k) investors today. And it’s the disclosure that retirement savers need on all other investment options in their K plans.

Critics say that the current market has proven that not all Americans are adequately equipped to manage their investments. There’s some truth to that.

That’s why we need to redouble our efforts to provide financial and investor education to all Americans at every level, elementary school through adulthood. Mutual funds already provide much information, advice, and help to their investors. But I have challenged our industry to do more—far more—to meet this vital need.

These are troubled times in our markets and our economy. Americans are suffering, and they are rightly anxious.

Yet I remain confident that most of us have not lost faith in the robust strength of the American economy, nor in the resilience of our capital markets. America has always been a sound investment—it remains so today.

For the average American worker, 401(k) is the best way to join in that investment. As I’ve said today, our retirement system can be improved—and 401(k) can do a better job for the millions it serves. It can—and, with the right reforms, it will.

How can I be so confident that we can improve 401(k) to meet the needs of today’s workers? Because we have a record of innovation in this area and a solid base to build upon.

Working with employers and other allies, mutual funds have pioneered products, such as lifecycle funds, and services, such as investment advice, that enhance the average American's opportunities to meet his or her goals and to enjoy a secure retirement. And we have advocated sound policies—like automatic enrollment and robust default investments—that have extended the reach and the impact of K plans.

The American people want Washington to build on this success—not to start from scratch. Our industry is dedicated to working constructively with all parties—lawmakers, regulators, other financial institutions, employers, and workers—to make America's retirement system even better. The American people deserve no less.

Thank you, and I look forward to taking your questions.