

SPEECH

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Slides: How the 401(k) System Is Succeeding (pdf)

Helping Working Americans Achieve A Financially Secure Retirement How the 401(k) System Is Succeeding Ayco Summer InnerCircle Benefits and Compensation Conference July 28, 2011 Saratoga Springs, New York Paul Schott Stevens President and CEO Overview • Why ICI? Role of Mutual Funds in Retirement • Profile of the U.S. Retirement System • Measures of 401(k) Success • Features That Contribute to 401(k) Success • Reaction of U.S. Households to the Financial Crisis • Actions of 401(k) Plan Participants in the Financial Crisis HOW THE 401(k) SYSTEM IS SUCCEEDING 1 JULY 28, 2011 Why ICI? Role of Mutual Funds in Retirement • Mutual funds comprise about half of the assets in defined contribution (DC) plans and individual retirement accounts (IRAs) • Mutual funds are well-suited to retirement plans • Fund sponsors help employers promote and develop the 401(k) system • ICI has a large and active research program on retirement assets, plans, and participants HOW THE 401(k) SYSTEM IS SUCCEEDING 2 JULY 28, 2011 \$2.6 \$2.3 \$2.1 \$2.6 DC Plans IRAs Mutual funds Other investments Mutual Fund Share of DC, IRA Assets HOW THE 401(k) SYSTEM IS SUCCEEDING 3 JULY 28, 2011 Trillions of dollars, 2011:Q1 Source: See Investment Company Institute, “The U.S. Retirement Market, First Quarter 2011” (June 2011) 55% 47% \$4.7 \$4.9 Mutual Funds Are Well-Suited to Retirement Plans • Strong regulatory system □ Diversification, custody, prohibitions on affiliated transactions, strict governance • Transparency, daily pricing • Fiduciary culture • Comprehensive shareholder services • Cost-effective investing • Suitable for use in plans of all sizes HOW THE 401(k) SYSTEM IS SUCCEEDING 4 JULY 28, 2011 Fund Sponsors Help Employers Promote and Develop the 401(k) System • Professional asset management, providing diversification, innovation □ Index funds, lifestyle funds, target date funds • Recordkeeping, communications, and education □ Daily balances available by phone or Internet □ Educational materials □ Website tools and online calculators □ Income stream estimates on participant statements • Research and advocacy HOW THE 401(k) SYSTEM IS SUCCEEDING 5 JULY 28, 2011 ICI Has a Large, Active Research Program • Retirement assets □ Member, financial institution, plan sponsor data • 401(k) asset allocation, balances, loan activity □ EBRI/ICI 401(k) database □ ICI Survey of DC Plan Recordkeepers • 401(k) services, fees, and expenses □ ICI annual “The Economics of Providing 401(k) Plans” □ Deloitte/ICI DC plan “all-in” fee study • The IRA Investor Database™ • Household surveys HOW THE 401(k) SYSTEM IS SUCCEEDING 6 JULY 28, 2011 Profile of the U.S. Retirement System • More than 82 million U.S. households have defined benefit (DB) plans, DC plans, or IRAs • Assets earmarked for retirement have grown as a share of households’ financial assets • DC plans and IRAs make up a growing share of retirement assets • Since ERISA, a higher percentage of retirees are receiving private-sector retirement plan benefits, and in real terms the benefits are higher HOW THE 401(k) SYSTEM IS SUCCEEDING 7 JULY 28, 2011 70 Percent of

U.S. Households Have Employer Plans, IRAs, or Both Own IRA only Have IRA and employer-sponsored retirement plan Have employer- sponsored retirement plan only Do not have IRA or employer- sponsored retirement plan

HOW THE 401(k) SYSTEM IS SUCCEEDING 8 JULY 28, 2011 30% 8% 29% Percentage of U.S. households, 2010 Sources: ICI Annual Mutual Shareholder Tracking Survey and U.S. Census Bureau; see Holden and Schrass, "The Role of IRAs in U.S. Households' Saving for Retirement, 2010," ICI Fundamentals (December 2010) 33% U.S. Retirement Assets Top \$18 Trillion in 2011:Q1 1990 1995 2000 2002 2004 2006 2007 2008 2009 2010 2011:Q1 401(k) plans Other DC plans IRAs Other plans \$4.7 \$4.9 \$1.5 \$1.5 \$3.1

HOW THE 401(k) SYSTEM IS SUCCEEDING 9 JULY 28, 2011 Note: For definitions of plan categories, see Table 1 in "The U.S. Retirement Market, First Quarter 2011." Components may not add to the total because of rounding. Some data are estimated. Source: See Investment Company Institute, "The U.S. Retirement Market, First Quarter 2011" (June 2011) Trillions of dollars, end-of-period 39% 48% 53% \$3.9 \$7.0 \$11.7 \$10.5 \$13.8 \$16.7 \$17.9 \$13.9 \$16.0 \$17.6 \$18.1 \$3.2

Pensions (DB and DC) Make Up a Growing Share of Retiree Income 1975 1985 1995 2005 2009 Social Security Public assistance Private pension Gov't pension Asset income Other

HOW THE 401(k) SYSTEM IS SUCCEEDING 10 JULY 28, 2011 Source: ICI tabulations of the March Current Population Survey; see Brady and Bogdan, "A Look at Private-Sector Retirement Plan Income After ERISA," ICI Perspective (November 2010) 19% 26% Percentage of total retiree income, on a per capita basis, selected years 4% 11% 8% 3% 54% 3% 12% 13% 13% 58% 19% 1%

Retirees Receive More Income from Private- Sector Pensions (DB and DC) \$4,553 \$3,909 \$4,670 \$5,842 \$6,000 1975 1985 1995 2005 2009

HOW THE 401(k) SYSTEM IS SUCCEEDING 11 JULY 28, 2011 On a per capita basis, median, 2009 dollars, selected years Source: ICI tabulations of the March Current Population Survey; see Brady and Bogdan, "A Look at Private-Sector Retirement Plan Income After ERISA," ICI Perspective (November 2010) Share of retirees whose only pension income is private-sector 20.0% 25.7% 30.5% 31.2% 30.9%

Measures of 401(k) Success • Retirement assets are growing, and DC plans and IRAs account for an increasing share • Participants have positive attitudes:

- Appreciate features of plans
- Express confidence in plans
- EBRI/ICI and academic research projections indicate 401(k) plans can generate significant retirement income and wealth

HOW THE 401(k) SYSTEM IS SUCCEEDING 12 JULY 28, 2011 DC Savers Appreciate DC Account Features 92% 82% 96% My employer-sponsored retirement account helps me think about the long term, not just my current needs. The immediate tax savings from my retirement plan are a big incentive to contribute. It is important to have choice in and control of the investments in my retirement plan account.

HOW THE 401(k) SYSTEM IS SUCCEEDING 13 JULY 28, 2011 Percentage of DC-owning households agreeing with each statement, fall 2010 Note: Figure reports the percentage of DC-owning households who "strongly agreed" or "somewhat agreed" with the statement. Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, Commitment to Retirement Security: Investor Attitudes and Actions (January 2011) 83% 90% 88% 17% 10% 12%

Households not owning DC accounts or IRAs DC- or IRA-owning households All households Disagree Agree Large Majorities of Americans Want to Keep DC Plan Tax Features

HOW THE 401(k) SYSTEM IS SUCCEEDING 14 JULY 28, 2011 75% 87% 82% 25% 13% 18% Households not owning DC accounts or IRAs DC- or IRA-owning households All households

Percentage of U.S. households agreeing or disagreeing, fall 2010 Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, Commitment to Retirement Security: Investor Attitudes and Actions (January 2011) The government should take away the tax advantages of DC accounts The government should reduce the amount that individuals can contribute to DC accounts

Three-Quarters of U.S. Households Express Confidence in DC Plans Very confident Somewhat confident Not very confident Not at all confident

HOW THE 401(k) SYSTEM IS

SUCCESSING 15 JULY 28, 2011 Percentage of U.S. households, fall 2010 Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, Commitment to Retirement Security: Investor Attitudes and Actions (January 2011) DC accounts can help individuals meet retirement goals 24% 51% 16% 9% EBRI/ICI Finds Full Careers with 401(k)s Generate Significant Retirement Income • The EBRI/ICI 401(k) Accumulation Projection Model moves 401(k) participants through their careers, with decisions as they age that reflect actual participant behavior on contributions, asset allocations, job changes, rollovers, withdrawals, and loans • Study focuses on 401(k) participants who will turn 65 between 2030 and 2039 (now aged 37 to 46) • For more than 60 percent of this cohort, their 401(k) accumulations are projected to replace more than half their salaries HOW THE 401(k) SYSTEM IS SUCCESSING 16 JULY 28, 2011 Source: EBRI/ICI 401(k) Accumulation Projection Model; see Holden and VanDerhei, "The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement," ICI Perspective and EBRI Issue Brief (July 2005) Academic Research Finds Full Careers with DC Plans Generate Significant Nest Eggs "Our projections suggest that the advent of personal account saving will increase wealth at retirement for future retirees across the lifetime earnings spectrum." —James Poterba, MIT; Steven Venti, Dartmouth College; and David Wise, Harvard University HOW THE 401(k) SYSTEM IS SUCCESSING 17 JULY 28, 2011 Source: See Poterba, Venti, and Wise, "The Changing Landscape of Pensions in the United States," NBER Working Paper (September 2007) Features That Contribute to 401(k) Success • Plan sponsors and service providers highlight the importance of retirement saving (education and tools) • Employers play a fiduciary role • Plans offer discipline—saving paycheck-by-paycheck (payroll deduction; dollar-cost averaging) • DC plan design is well-suited to a mobile workforce (portability) • Plans offer investment opportunities and flexibility • Sponsors, providers innovate in plan design HOW THE 401(k) SYSTEM IS SUCCESSING 18 JULY 28, 2011 Growth of Automatic Enrollment Reflects 401(k) Innovation 5% 10% 15% 19% 21% 24% 2005 2006 2007 2008 2009 2010 HOW THE 401(k) SYSTEM IS SUCCESSING 19 JULY 28, 2011 Source: The Vanguard Group; see How America Saves 2011 24% 16% 48% 45% All <1,000 1,000 to 4,999 5,000+ 2010 automatic enrollment by plan size Percentage of plans Number of participants Innovation in Automatic Enrollment Design Increases Contributions HOW THE 401(k) SYSTEM IS SUCCESSING 20 JULY 28, 2011 Source: The Vanguard Group; see How America Saves 2011 Contribution design among plans with automatic enrollment; percentage of plans 27% 15% 46% 58% 12% 10% 15% 17% 2005 2010 5 percent or more 4 percent 3 percent 1 or 2 percent Initial default contribution rate 31% 74% 1% 2005 2010 2 percentage points 1 percentage point Default automatic increase Automatic Enrollment Turns Nonparticipants into Savers HOW THE 401(k) SYSTEM IS SUCCESSING 21 JULY 28, 2011 Source: The Vanguard Group; see How America Saves 2011 Average contribution rates by plan design, percent of income, 2010 7.4% 6.3% 4.2% 5.2% Voluntary enrollment Automatic enrollment Voluntary enrollment Automatic enrollment Participant contribution rates Employee contribution rates Default Investment Options Increase Focus on Growth and Diversification 30% 3% 10% 1% 17% 14% 37% 80% 6% 2% 2005 2009 Other Target date fund, lifestyle fund, or managed account Balanced fund Money market fund Stable value fund HOW THE 401(k) SYSTEM IS SUCCESSING 22 JULY 28, 2011 Default investment options among plans with automatic enrollment; percentage of plans 57% use target date funds Note: "Fund" includes mutual funds, collective investment trusts, and other pooled investments. Source: Profit Sharing/401k Council of America; see annual PSCA member surveys Target Date Funds Claim a Growing Share of 401(k) Market HOW THE 401(k) SYSTEM IS SUCCESSING 23 JULY 28, 2011 57% 62% 19% 5% 67% 68% 25% 7% 75% 72% 31% 7% 77% 71% 33% 10% Plans offering Participants offered Participants holding Target date fund assets 2006 2007 2008 2009 Percentage of total, 2006–2009 Note: "Funds" include mutual funds, bank collective

trusts, life insurance separate accounts, and any pooled investments product primarily invested in the security indicated. Source: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Alonso, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," ICI Perspective (November 2010)

Reaction of U.S. Households to the Financial Crisis

- U.S. households express less willingness to take financial risk and risk tolerance has declined across many age groups
- Households in their thirties are less likely to hold equities today compared with a decade ago
- A majority of households became more financially conservative in the wake of the financial crisis

HOW THE 401(k) SYSTEM IS SUCCEEDING 24 JULY 28, 2011 U.S. Households Express Less Willingness to Take Financial Risk

	13%	14%	17%	23%	23%	19%	20%	19%	20%	17%	19%
24%	33%	32%	27%	28%	25%	25%	1989	1992	1995	1998	2001
2004	2007	2009	2010	All	U.S. households	DC- or IRA-owning households	HOW THE 401(k) SYSTEM IS SUCCEEDING	25	JULY 28, 2011	Percentage of households willing to take above-average or substantial financial risk for commensurate levels of financial gains	

Sources: ICI tabulation of Federal Reserve Board Survey of Consumer Finances and ICI Annual Mutual Fund Shareholder Tracking Survey; see Investment Company Institute, 2011 Investment Company Fact Book (May 2011)

Age at time of survey	0	5	10	15	20	25	30	35	25	30	35	40	45	50	55	60	65	70	75	80	85
Risk Tolerance Has Declined Across Many Age Groups	26																				

Sources: ICI tabulations of Federal Reserve Board Survey of Consumer Finances and ICI Annual Mutual Fund Shareholder Tracking Surveys

Born 1970 to 1979 Born 1960 to 1969 Born 1950 to 1959 Born 1940 to 1949 Born 1930 to 1939 Born 1920 to 1929

Percentage of all U.S. households willing to take above-average or substantial financial risk, 10-year birth cohorts, 1989–2010

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of all U.S. households willing to take above-average or substantial financial risk	26%	7%	12%	11%	12%																	

30-Somethings Today Are Less Likely to Hold Equities Than 30-Somethings in 2000

Asset Type	2000	2010
Stock fund inside IRA or DC plan	26%	7%
Stock fund outside IRA or DC plan	12%	11%
Individual stock	12%	
Employer stock		
Hybrid fund inside IRA or DC plan		

HOW THE 401(k) SYSTEM IS SUCCEEDING 27 JULY 28, 2011 Source: ICI Annual Mutual Fund Shareholder Tracking Survey

Percentage of households	2000	2010									
2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010

Birth cohort 1960–1969 1970–1979 33% 16% 23% 30% 7% Households Became More Financially Conservative Over the past three years, 58 percent made one or more of these moves:

- Increased regular saving;
- Shifted investments away from stocks (to be more conservative); or
- Delayed retirement or increased retirement age.

HOW THE 401(k) SYSTEM IS SUCCEEDING 28 JULY 28, 2011 42% 58% Sample of 2,039 households with IRAs, DC accounts, or other financial assets Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, Commitment to Retirement Security: Investor Attitudes and Actions (January 2011)

Actions of 401(k) Plan Participants in the Financial Crisis

- Account balances tended to rise and fall with the stock market, but participants were well-served by dollar- cost averaging into equities
- Participants generally stayed the course
- Like other households, retirement savers express less willingness to take financial risk, but 401(k) features help savers maintain a balanced approach

HOW THE 401(k) SYSTEM IS SUCCEEDING 29 JULY 28, 2011 Contributions, Returns Helped Consistent 401(k) Participants Bounce Back in 2009

HOW THE 401(k) SYSTEM IS SUCCEEDING 30 JULY 28, 2011

Year	2003	2004	2005	2006	2007	2008	2009
Average account balance*	\$60,144	\$72,173	\$82,768	\$99,644	\$115,257	\$83,161	\$109,723

*Account balances are participant account balances held in 401(k) plans at the participants' current employers and are net of plan loans. Retirement savings held in plans at previous employers or rolled over into IRAs are not included. Source: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Alonso, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," ICI Perspective (November 2010)

-27.8% +31.9% DC Plan Participants Stayed the Course 3.9% 1.3% 3.7% 14.4%

12.4% 3.1% 1.6% 3.4% 11.8% 10.5% 3.5% 1.7% 2.4% 10.3% 8.0% Took any withdrawal
Took hardship withdrawal Stopped contributing Changed asset allocation of account
balance Changed asset allocation of contributions 2008 2009 2010 HOW THE 401(k)
SYSTEM IS SUCCEEDING 31 JULY 28, 2011 Summary of recordkeeper data; percentage of
participants Note: The samples include more than 22 million DC plan participants for 2008;
nearly 24 million DC plan participants for 2009; and more than 23 million DC plan
participants for 2010. Source: ICI Survey of DC Plan Recordkeepers (January–December
2008; January–December 2009; and January–December 2010); see Holden, Defined
Contribution Plan Participants’ Activities, 2010 (May 2011) 401(k) Participants Have
Tempered Their Account Allocation to Stocks 15% 14% 11% 11% 11% 11% 20% 19% 14%
19% 14% 20% 15% 27% 13% 15% 55% 54% 59% 51% 55% 39% 40% 22% 2000 2009 2000
2009 2000 2009 2000 2009 >80%–100% >60%–80% >40%–60% >20%–40% 1%–20% Zero
HOW THE 401(k) SYSTEM IS SUCCEEDING 32 JULY 28, 2011 *Includes stocks held in funds.
Source: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden,
VanDerhei, and Alonso, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity
in 2009,” ICI Perspective (November 2010) 20s 40s 60s Percentage of 401(k) plan
participants by age, 2000 and 2009 Participant age Percentage of 401(k) account allocated
to equities* 30s Recently Hired Participants in Their Thirties Hold More Target Date and
Balanced Assets 12% 20% 16% 14% 22% 17% 9% 6% 5% 5% 5% 5% 68% 56% 56% 55%
43% 41% 8% 17% 14% 17% 17% 25% 7% 8% 11% 9% 1998 2005 2006 2007 2008 2009
Fixed-income* Company stock Equity funds Balanced funds Target date funds Non-target
date balanced funds HOW THE 401(k) SYSTEM IS SUCCEEDING 33 JULY 28, 2011 401(k)
plan average asset allocation among 401(k) participants with two or fewer years of tenure,
percent of total *Fixed-income investments include bond funds, guaranteed investment
contracts (GICs) and other stable value funds, and money funds. Note: “Funds” include
mutual funds, bank collective trusts, life insurance separate accounts, and any pooled
investments product primarily invested in the security indicated. Percentages are dollar-
weighted averages. Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan
Data Collection Project; see Holden, VanDerhei, and Alonso, “401(k) Plan Asset Allocation,
Account Balances, and Loan Activity in 2009,” ICI Perspective (November 2010) Recently
hired participants in their 30s 34% 28% 20% 25% Questions and Answers Helping Working
Americans Achieve A Financially Secure Retirement How the 401(k) System Is Succeeding
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IRA Contributions on 401(k) Accumulations at Retirement,” ICI Perspective and EBRI Issue
Brief (July). www.ici.org/pdf/per11-02.pdf HOW THE 401(k) SYSTEM IS SUCCEEDING 35 JULY
28, 2011 References, Continued Holden, Sarah, Jack VanDerhei, and Luis Alonso. 2010.
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Company Institute (May). www.icifactbook.org Investment Company Institute. 2011. The U.S. Retirement Market: First Quarter 2011. Washington, DC: Investment Company Institute (June). www.ici.org/pdf/ppr_11_retire_q3_10.pdf Poterba, James, Steven Venti, and David A. Wise. 2007. "The Changing Landscape of Pensions in the United States," NBER Working Paper, No. 13381, Cambridge, MA: National Bureau of Economic Research (September). www.nber.org/papers/w13381 Profit Sharing/401k Council of America. 2010. 53rd Annual Survey of Profit Sharing and 401(k) Plans Reflecting 2009 Plan Experience. Chicago, IL: Profit Sharing/401k Council of America. The Vanguard Group. 2011. How America Saves 2011: A Report on Vanguard 2010 Defined Contribution Plan Data. Valley Forge, PA: The Vanguard Group. <https://institutional.vanguard.com/iam/pdf/HAS11.pdf> HOW THE 401(k) SYSTEM IS SUCCEEDING 36 JULY 28, 2011

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