INVESTMENT COMPANY INSTITUTE

SPEECH

September 24, 2024

ICI President's Address, 2024 Tax and Accounting Conference

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ICI Tax and Accounting Conference
Boca Raton, Florida
September 24, 2024

Introduction:

Good morning. It's great to see so many of our members and partners represented here. I and the entire team at ICI are thankful for your continued engagement.

It's always awesome to be in Florida. You can really relax and enjoy life down here—and it seems like the sun is always shining. But as I get started, I have to apologize, because my job today is to talk about the dark storm clouds on the horizon. Specifically, I'm going to address a rising threat from Washington and what it means for our industry, the millions of investors we serve, and the future of the American economy.

Next year, we will see one of the most consequential debates over tax policy in American history. That's not hyperbole. It's a fact.

Regardless of which party wins the White House and Congress this November, taxes will dominate DC come 2025. Key parts of the 2017 tax-reform law will expire at the end of next year, and Washington will spend all year debating what to do.

But DC won't just talk about whether to extend the 2017 tax cuts. Republicans and Democrats will use this opportunity to start a broader discussion of both tax policy and spending priorities.

The retirement system, and long-term investing as a whole, will be central to the debate.

One or both parties likely will push for sweeping changes to tax policy. And that's the problem. They're probably going to consider changes that could harm Americans' ability to achieve their savings goals and retire with dignity. The nearly 100 million US households with tax-advantaged retirement savings should be deeply worried. So should everyone who invests in the capital markets.

But I am here also to express hope. ICI is ready to defend American families and the American economy from harmful tax hikes. Our top priority in the coming year is promoting common-sense tax policies that help individual investors use IRAs, 401(k)s, and other plans that make up our country's voluntary retirement system.

And we will oppose any proposals that would make this investing harder. We refuse to let DC disincentivize long-term savings and investment by American families. As lawmakers begin to consider their options, we're already telling them that every law and regulation that impacts long-term savers should be thoroughly vetted, meticulously planned, and actively monitored. Policy changes must create the right kind of incentives for investors and promote real investor protections. Adding tax bills, removing tax deferrals, and piling on regulations don't cut the bill. They're bad for American families and bad for our country's long-term economic health.

The financial security of millions of Americans hangs in the balance. But rest assured: ICI is here to tip the scales toward individual investors—because their financial well-being is what matters most.

Argument:

At this point, I'd like to take a step back and look at what, exactly, could happen next year.

Both parties will look to raise revenue, either to pay for tax cuts or more spending, or both. They'll leave no stone unturned, considering changes to the tax treatment of defined contribution plans, IRAs, ETF transactions, and anything else that could potentially raise revenue. As so often happens in our nation's capital, some policymakers will be too focused on the immediate effects of their actions while discounting the harm such changes would do to middle-class Americans in the future.

And make no mistake: middle-class Americans are in the crosshairs. They're where the money is, potentially hundreds of billions of dollars' worth. That's a lot of cash that policymakers could redirect toward short-term political priorities like tax credits and costly new programs. To be clear, I'm not diminishing the importance of those other initiatives. And, of course, there are serious holes in the budget that need to be filled.

But however much DC thinks it can gain in the short-term by rolling back long-term investment tax treatment, Americans will lose significantly more. Let's call this what it is: A tax hike on retirement and savings. Even supposedly modest changes will do more harm than good, if they do any good at all.

Any policymaker who thinks taxing retirement and savings is a good idea is forgetting or ignoring an important truth. America's retirement system is the envy of the world, and it got that way because it's nearly a century in the making.

Our system isn't some mishmash of policies piled on top of each other over time, as naysayers claim. Just the opposite: policymakers have spent decades painstakingly and expertly crafting a superior system that benefits Americans. From Social Security to ERISA to SECURE 2.0, Democrats and Republicans alike have championed smart reforms to give Americans a secure retirement.

They largely succeeded. That's where this debate needs to start—with a full acknowledgement that the current retirement system works for most Americans. In fact, it works wonders for a growing number of people.

Let's look at the facts:

At this exact moment, IRAs, 401(k)s, and similar retirement accounts have more than $25 trillion in assets. They're a primary source of financial security for everyday Americans, and year after year, more Americans rely on these plans for their financial futures. Balances in these accounts have climbed to or near record highs, helping the average long-term saver build a meaningful nest egg. And while increases in the cost of living have made it harder to set money aside for the future, retirement savings trends are still on the upswing. Clearly, Americans are taking a more proactive approach toward their golden years. The worst thing DC could do is make it harder for them to invest and save.

For that matter, it would be incredibly harmful if DC took away the incentives that future retirees depend upon. According to a study by ICI economists, our retirement system now allows the typical 72-year-old to replace more than 90% of the average take-home pay they had in their mid- to late-50s, even after inflation. This bears repeating—especially because the media often says the opposite. Despite negative headlines looking for clicks, the typical retiree maintains the standard of living they had while working.

And as we look to the future, tomorrow's retirees could be even better off. Today, access and contributions to retirement plans are at or near record highs. Let's take a look at younger Americans. Nearly two-thirds of 401(k) participants are now under the age of 50. Comparing the present with the past, Gen Z households are twice as likely to own a retirement account as Gen X households were in 1989. Adjusted for inflation, Gen Z and Millennial households with 401(k) plans have more than twice as much wealth in those plans as people their age had thirty-five years ago. Across all generations, average retirement assets per household are nearly ten times what they were 50 years ago. Again, that's inflation-adjusted, which makes it even more impressive.

These numbers point to a future of greater financial security for untold millions. And remember: More and more Americans benefit from—and depend on—this system with every passing year.

That's reason enough to protect the tax-advantaged retirement system and oppose any tax hikes. But if DC needs even more justification, they should consider that these everyday investors support and strengthen the entire economy. All told, the funds that Americans invest in for retirement, their kids' education, and other financial goals supply more than $36 trillion to financial markets. That enormous sum helps businesses create jobs, expand their operations, and foster the next era of innovation. It also helps governments finance essential services that we all rely on.

Policymakers need to take a step back and account for this fact. They need to realize that mutual funds and other registered investment funds direct trillions of dollars to their highest use, turning breakthrough ideas into commercial successes and make thriving companies even better. Frankly, investment funds have helped make America the world's economic leader, providing endless opportunities for companies and uplifting millions of people. And with the right policy framework in place, these funds will propel the economy to even greater heights and feats of innovation.

I could keep going about the many benefits of America's retirement system. And I can't say enough that none of these benefits happened by accident. They are the direct result of smart reforms by generations of policymakers, who gave more and more Americans the ability to access marketplace innovations. We have built an unprecedented retirement system that promotes a nationwide culture of investing for the future. Our system is so superior that Japan, European states, and other countries are trying to emulate it. They're encouraging more IRA- or 401k-like plans, precisely because they've seen them work in the United States.

These voluntary retirement plans and the funds that fill them are a national treasure. To be clear, they're not the only pillar of American retirement. Social Security is important, too. But voluntary retirement plans are the part that's thriving. And they're only growing more important, which is why more and more Americans are turning to them for their long-term financial security.

As a nation, we should build on this historic progress. After all, as amazing as our retirement system is, it can also be made even better. The recent passage of the SECURE 2.0 Act put even more workers on the road to retirement, while showing our ability to make improvements to the broader system. We should be looking for more such constructive ideas. But taking away the foundational tax benefits of 401ks and IRAs isn't constructive. To the contrary—it would be profoundly destructive, tearing down the system that millions of American workers depend upon.

It's not hard to predict what would happen next. Decades of progress would suddenly reverse. Fewer young people would save for retirement. Current and future retirees would have less income and smaller accounts. Less capital would flow into the economy, holding back job growth and the next era of innovation. And America would further divide between the "haves" and the "have nots." That may be the most concerning consequence of any tax hike. Policymakers are threatening to take us back to the days when fewer people formally planned for retirement—when investing was mainly for the wealthy and well-connected. None of us want to go back to those days. We'd much rather move forward, toward the day when every American has affordable access to a well-funded voluntary retirement plan.

This is the message that ICI will deliver to D.C. in the coming days, weeks, and months. We're already telling policymakers on both sides of the aisle that this is no time for a retirement tax hike. Actually, we're telling them there's never a time for a retirement tax hike. Few policies would do so much damage to so many Americans.

This is our message, but it doesn't actually start with us. This is the clear and unmistakable message from the American people themselves.

Last year, ICI conducted a scientific survey of the public's sentiment on this issue. We found that nearly 9 out of 10 Americans oppose taking away the tax advantages of defined-contribution plans. An even higher percentage opposed reducing the amount that people can contribute to these plans.

I defy you to find another issue where public opinion is so aligned. It cuts across partisan lines, racial lines, socio-economic lines, and more. Our survey even looked at people who don't own defined contribution plans and IRAs. Tellingly, even the Americans who aren't using these options overwhelmingly support them, with 80% backing their current tax treatment.

This makes sense. These individuals may not yet avail themselves of these plans, but they certainly want to, because they want to achieve financial security, as well. As for those who do have these plans, nearly 90% say they make it easier to plan for the long-term and save for the future. And more than 80% indicate that the tax treatment of their retirement plan is a big incentive to contribute. In other words, the current system is essential to achieving their financial goals, especially a secure and stable retirement.

These are the facts that policymakers need to know heading into next year. They have to understand that this isn't about ICI and our members. It's about the nearly 100 million households with retirement savings who would be unequivocally harmed by such a tax hike. Our job, as a trade association, is to elevate their voices to the point that Washington D.C. cannot ignore them.

By the same token, we're making clear that if any policymaker pushes for a retirement tax hike, the burden of proof is on them. Why break in a year the system we built over a century? Why hurt Americans in the name of helping them? Policymakers won't have good answers because there aren't any.

At the end of the day, any policymaker who makes it harder for Americans to save for retirement threatens the financial well-being of future and current generations. That's unacceptable, and Americans deserve better. In fact, Americans deserve more of what our industry provides, and that's affordable and accessible retirement options that help them achieve their financial dreams. And I speak for everyone here when I say we're ready to help make more progress.

Conclusion:

Now, many of you are probably asking: Why is ICI saying all this now? The election is a month and a half away. The actual tax debate won't start until January. Aren't we getting ahead of ourselves?

No, just the opposite: We're getting ahead of the threat. Everything I've said today is what we'll say to the White House and Congress next year, no matter who's in charge. We're letting them know what they're up against if they go down this road. They're not fighting an industry. They would be working against the interests of the nearly 100 million American households with tax-advantaged retirement savings, along with the millions more who want a better and more secure financial future.

But we won't just warn D.C. against undermining America's retirement system. We'll shine a light on a better path. As I said before, our retirement system isn't perfect. Instead of weakening it with tax hikes on savers and retirees, we should strengthen it with real reforms—ones that make it easier for more people to secure their retirement. Right now, for instance, we're championing a bipartisan bill in the Senate that would broaden the investment options available to teachers, nurses, and other nonprofit workers. And we're confident there are more reforms that can bring a stronger retirement to more people.

ICI's history is one of delivering reforms that expand retirement savings. We secured the Pension Protection Act, the retirement-related provisions of the 2001 tax reform, and of course, the SECURE acts, to choose just a few of many examples. And ICI also knows how to defeat the worst policy threats—including the threat I've discussed today. Just seven years ago, in 2017, we prevented tax hikes on retirement. And in the past year, we were vocal opponents of onerous rules from federal and state regulators. The danger will likely be much bigger come 2025. But we can and must work together to meet this challenge, and ultimately, to overcome it.

As an industry, we have a duty to continue welcoming more people into long-term financial security, confidence, and comfort. And we'll remind Washington that we have the same duty as a country. While D.C. is divided between right and left, long-term investors cut across ideological and partisan lines. If we unify and mobilize them, their voices will be impossible to ignore. ICI will be there to make sure of it.

In a way, it's fitting that 2024 is a year of preparation. This year marks the 100th anniversary of the mutual fund—the backbone of many retirement accounts and the breakthrough innovation marking our industry's leadership on behalf of investors. We're now looking to the next 100 years. We'll start that second century by defeating attempts to roll back the clock.

As we celebrate this anniversary and prepare for these efforts, I'm grateful for you and your companies. You show what's possible—ever-expanding access to retirement. And your partnership will enable us to continue moving forward, toward our shared vision of financial security for all. Thank you.
