

Stevens Urges Policy Makers to Build on 401(k)'s Success, May 2008

ICI President Urges Policy Makers to Build on 401(k) Success

Government and the Private Sector Must Work Together, Stevens Says

Washington, DC, May 7, 2008 - The nation's 401(k) system has become the "dominant private-sector device for retirement savings," and its success will continue if regulators, employers, and the financial services industry work together to encourage more plans and greater worker participation, Paul Schott Stevens, President and CEO of the Investment Company Institute, said today.

Addressing the Institute's 50th Annual General Membership Meeting, Stevens said that "we'll see phenomenal growth in 401(k) participation in the coming years," but only "if all interested parties in government and the private sector maintain a single-minded determination to make it easier for employers and workers to get into the game" with a well-planned investment strategy.

In today's challenging market conditions, [Stevens urged](#) retirement plan participants with mutual fund investments to stay the course. He noted that in past market turmoil--such as the 1987 stock market crash and the bear market at the turn of the 21st century--the 401(k) system has yielded significant returns for the average investor.

For example, the average account balance of workers who remained in the same 401(k) plan between 1999 and 2006--a period which included one of the worst bear markets since the Great Depression--rose almost 80 percent, from \$67,800 to \$121,000 including contributions, Stevens said. On a system-wide basis, 401(k) plan assets increased 55 percent during the same period, he added. About half of the \$3 trillion now held in 401(k) plans are invested in mutual funds.

Participation in 401(k) plans, Stevens noted, "turns savers into investors." The commitment of thousands of employers and the collaborative efforts of mutual fund companies and myriad other financial service providers have given American companies and workers a flexible retirement system, he said. Today, about 50 million employees participate in this system, which offers tax advantages, choice, portability, and the ability for employees to manage their investments, Stevens noted. For mutual fund investments, a 401(k) participant pays total expenses of only about 71 cents a year on every \$100 invested.

Nonetheless, Stevens said, it is crucial for government and the private sector to continually refine and improve the employment-based system, particularly in light of the economic challenges to Social Security and the decline of traditional defined benefit plans. "Our principal goal must be the enrollment of more workers," he said, pointing to the "sense of accomplishment and personal dignity" that ownership of an investment account can provide.

The Pension Protection Act of 2006 makes it easier for employers that offer 401(k) plans to enroll their employees automatically. This should encourage participation by the 30 percent of workers who have access to 401(k) plans but don't take advantage of it, Stevens said. However, this provision has no effect unless the employer actually offers a 401(k) plan.

Given the profusion of regulatory requirements and legal liabilities for employers who sponsor a 401(k) plan, Stevens said, government policy-makers should make every effort to remove obstacles to offering a plan. "Unfortunately, this point seems lost on those in Congress who favor new and cumbersome mandates that are likely to retard broader coverage of these important retirement plans," he commented.

In addition to keeping plan sponsorship relatively free of red tape, it is vital that government, employers, and the financial services industry work together to encourage employers to sponsor plans, Stevens said. A first step is to give employers "clear concise information" about "what services they're buying, who's providing them, how much they cost, who will pay for them, and what economic relationships the various service providers have," he elaborated. "Most well-informed employers have that information now, and the Labor Department has proposed some good standards for ensuring that all employers are well-informed."

The Labor Department is also working in coordination with the SEC on improving 401(k) disclosure to plan participants, Stevens noted. "We look forward to seeing what they propose."

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ICI is the national trade association for registered investment companies, which include mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts. ICI's 10,334 member funds manage \$12.31 trillion in assets. More than 1,000 industry representatives from around the nation have gathered for ICI's 50th Annual General Membership Meeting.

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