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I'm delighted to be with you today at the World Trade Center, and to be home again in New Orleans. It's a chance to speak before an organization I support and admire, in a city I love, on a topic that I care deeply about.

I grew up in Jefferson Parish, not far from the levee. As a child at night, I could hear the barge traffic at Point Landing on the Mississippi River. From an early age, I was conscious of my birthplace as a unique gateway both to the interior of a vast continent and to a wider world beyond the Southwest Pass and the mouth of the river.

It was a good perspective with which to grow up. It was also good preparation for my current job, as head of the national association of US mutual funds, because mutual funds today are major international financial intermediaries. As of September 2004, worldwide mutual fund assets totaled almost fourteen-and-a-half trillion dollars. Of this amount, US funds represented over half.

Globalization wasn't something we talked about when I was a boy, but spend enough time in New Orleans and you can't help but absorb the concept. People from all over the world come here to find out what the excitement is about, and many stay when they find out.

Traffic on the river between New Orleans and Baton Rouge makes this the largest port in the world, so it's not surprising that the World Trade Center here was the first of more than 300 such centers established around the globe. As business people in an economy tied to international commerce, you recognize the importance of looking at issues from a global perspective.

That leads me to my subject for today: answering the challenge of a secure retirement. This is very much a global challenge.

I want to focus on four points related to that challenge.

First, the impact of the dramatic demographic changes that are taking place in the United States and other major industrialized countries, and the difficulties our societies face in responding to them.

The public portion of retirement programs here and among our industrialized neighbors is predicated on the principle of “pay as you go.” In other words, the contributions of today’s workers pay the benefits of today’s retirees. The question that “pay as you go” leaves open is: Who will pay for the benefits of today’s workers when they retire?

That said, my second point this afternoon is that the United States is better positioned than many other nations to address our future retirement needs. One reason is that we have our retirement nest egg in a number of different baskets – not simply the public retirement system of Social Security, but also in company pension plans and private retirement savings.

My third point concerns an issue where there should be a strong consensus: it is important to confront the challenges of retirement security now – including the long-term health of the Social Security system – regardless of the solutions one may favor. Time can be an ally – if we take advantage of it.

Fourth and finally, I’ll close by proposing some steps to help baby-boomers and succeeding generations of Americans to enjoy a secure retirement – and, beyond that, a bigger place in the growing investor class that has emerged in recent years.

Let’s start by digging a little deeper into a fundamental reality faced by virtually every advanced industrialized nation – a changing demographic profile. Four little words say it all: Up, up, up and down. The number of retirees is going up. Life expectancy is going up. Public pension outlays invariably must also go up. But the ratio of active workers to retirees is going down.

This points to real problems for the future of a pay-as-you-go system. Here in the US, the trustees of the Social Security system project that Social Security payments going out will exceed payroll taxes coming in as early as 2018. That’s not all that far down the road. To put it in perspective, if you are a parent of a first grader, as I am, your child will be in college in 2018. Like me, you’d be planning for that now. It is just as prudent for America to be discussing and planning Social Security reforms now.

The sustainability of a pay-as-you-go system fundamentally depends on the number of active workers paying into it relative to the number of retirees drawing out of it. In 1940, five years after Social Security was launched, less than a quarter-million people received monthly benefits. Today, more than 47 million do. And that’s to say nothing about how long the average Social Security recipient is likely to keep getting those checks – given that we're retiring earlier and living longer. A 65-year-old today has a remaining life expectancy of more than 17 years, 5 more than in 1940. In 30 years, there will be 74 million older Americans – nearly twice as many as today.

How does this affect our ability to pay as we go? Go back to 1940 again: at that point, 16 workers were helping pay for every beneficiary. According to a Wharton School study, the number of workers per retiree is just 3.9 today, projected to drop to 2.2 in 2030.

Other countries face the same problem – but even earlier and to a greater degree.

Japan, for example, has only 2.8 workers per retiree today, to drop to 1.5 by 2030. In fact, Japan's population will start shrinking in a few years. As a consequence, Japan passed legislation in 2000 and 2004, cutting benefits in several ways and raising the retirement age. It has been estimated that the cut in benefits resulting from the 2000 reforms comes to about 20 percent. At the same time, Japan is raising payroll taxes and providing subsidies from general revenues to support its social security system.

The demographic challenge is also clear in Europe. Today, Europe has only three workers per retiree, projected to drop to 1.7 by 2030.

The overall population of Germany, for example, is projected to shrink by almost 4 percent over the next 25 years. The working-age population is projected to shrink by more than 10 percent. In 2030, over one-quarter of the German population will be elderly.

The response to reform initiatives in Europe illustrates the anxiety these issues engender for the working population and the elderly, and the potential these issues harbor for social discord. Over the past two years, proposed reforms in Germany, France and Italy sparked loud public protests, with thousands of people marching in Berlin, Paris and Milan over a variety of issues. Transportation, education and other key sectors were hit by one-day protest strikes.

In Germany, the protests drew tens of thousands of current pensioners. That's because proposals included small cuts even to the pensions of current recipients - a group that US policymakers would shield and properly so.

That leads to my second point: If demography is destiny, the United States remains better-positioned to address this challenge than other major industrialized countries.

That's partly because the demographic trends are not as acute here. Our average age is not yet as high, so we have more time. Add to that the fact that our immigration rate is higher than other countries, helping to bolster the number of workers contributing to the system and supporting current retirees.

Of course, we have one other important advantage in dealing with this issue: the diverse mix of retirement income sources that many Americans draw upon. Our public Social Security system is crucial; but for millions of current and future American retirees, it does not stand alone. Social Security is just one leg of a three-legged stool, including private sector retirement plans sponsored by employers, and individual savings arrangements.

Millions of Americans are taking advantage of opportunities to enhance their retirement income. At the end of 2003, assets in defined contribution plans totaled nearly $3 trillion. In addition, assets in Individual Retirement Accounts (IRAs) topped $3 trillion – three times as much as a decade earlier. A survey the Institute conducted last year found that about 40 percent of American households own IRAs.

The mutual fund industry is proud to be an important part of this private retirement system.

Right now, there are 92 million mutual fund investors in the United States. They make up almost half of all households in this country.

In important ways, average mutual fund investors look like average Americans. Typically they are in their late 40s, married, and nearly two-fifths have kids. What are their top reasons for investing in mutual funds? To save for their retirement and support their kids' college education.

People want to supplement the benefits they can expect through the public Social Security system. Mutual funds have proven to be a popular and effective private way of doing that.

These are advantages the United States has relative to other major industrialized countries. But let me move quickly to my third point: We certainly cannot be complacent.

I'll say this as simply as I can: Whatever shape the solution ultimately takes, the time for this debate is now. America cannot afford the price of procrastination.

As I pointed out a few moments ago, time can be our ally. In fact, debating this issue now is crucial if we are to allow ourselves the time we need to put Social Security on the road to solvency before outlays exceed payroll tax revenues.

Time is important for two reasons.

First, people are entitled to a reasonable window of opportunity to prepare for any major change in the way they must plan for their financial future. That is a simple matter of fairness and equity.

Second, time gives individuals the opportunity to accumulate retirement assets by other means – by participating in employer-sponsored pensions, and saving money year to year in IRAs.

Now, if you're listening to the public debate, you've probably already heard some folks claim that putting any portion of your retirement investment into the stock market is like putting all your chips on red or black and spinning the roulette wheel.

Red-hot rhetoric – but the facts say otherwise.

As Professor Jeremy Siegel of the Wharton School points out, history demonstrates emphatically that "common stocks provide the best way to accumulate wealth." Equity investments have been characterized by remarkably stable long-term growth in purchasing power. Indeed, the real return on equities has averaged 7 percent per year over the past two centuries.

If you invest efficiently and at reasonable cost, if you diversify, if you look to the long term – the hallmark values of mutual funds – you have every expectation of good returns. In this regard, I think of my oldest child. He's just started college, which means that he probably has a 40-year working life ahead of him.

Over the course of four decades, he and his generation have an excellent opportunity to invest for the long term – if they start early, and make time their ally.

I'd just like to add one comment to this point: Personally, I'm deeply troubled by the suggestion that investing for your future is some sort of reckless gamble. Not only is such rhetoric misleading – not only does it discourage people from making appropriate investments in their retirement security, and gaining more financial control over their future – but it betrays a deeper unjustifiable pessimism.

Debate over any proposal is always welcome. But comparing our public equities markets to a casino is tantamount to saying that our nation's economic future is a big gamble. Let's not forget that the long-term growth of a balanced portfolio is based on the long-term growth of the American economy. There are many compelling reasons to have confidence in our nation's future – and no reason to compare that to lining up at a casino table.

That leads me to my fourth point – which I'll put in the form of a question:

What steps can we take to help ensure a secure retirement for the next generation of Americans and beyond?

One step is obvious: we must remedy the structural imbalance in Social Security – not just now or for the next decade or two, but, as President Bush is urging, with the goal of permanent solvency and sustainability.

If Congress and the Administration choose to make changes, it certainly wouldn't be the first time in the program's history. Indeed, change is one of the constants of Social Security's first 70 years.

Coverage has been expanded, with additional dependent and survivor benefits added in 1939, and a disability insurance program in 1956. Cost-of-Living Adjustments came along in 1950, and were made automatic 25 years later. In 1961 the Act was amended to allow all workers to receive reduced benefits for early retirement at age 62.

Just over two decades ago, a bipartisan commission chaired by Alan Greenspan reviewed the Social Security system. The Commission's recommendations back then – including increasing the retirement age to 67 over several years – extended the solvency of the program by decades.

Given the demographic challenges Social Security faces – and the advantages of addressing them early rather than late – now is the time to consider measures that will sustain the system. To this end, it is worth considering all of the alternatives available to reform the system. And if personal accounts do become part of the public Social Security system, as President Bush suggests, we must recognize their unique public nature. We must provide investment protections that are thorough and effective – along with administrative systems that are workable. And we must ensure that education and financial literacy programs associated with these accounts are effective, accessible and sustained.

Finally, in addition to ensuring the viability of the Social Security system, we must bolster the efforts of all Americans to supplement their expected benefits – and millions more Americans must be encouraged and helped to save.

Social Security was intended to provide a foundation of economic security. As President Roosevelt himself stated when he signed the Social Security Act into law, "we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age." FDR also pointed out that Social Security "represents a cornerstone in a structure which is being built but is by no means complete."

Today, 70 years later, individuals have many more opportunities to build on that cornerstone as they plan for retirement. In recent history, the United States has taken an extraordinary leap forward in creating an "Ownership Society" – one in which equity ownership is not restricted to a small elite, but open to a large and growing investor class. More and more Americans have financial assets they can pass along to their children. Mutual funds are a big part of that proud story.

Now we are opening another chapter in that story – building on that legacy.

We can work together to make sure more Americans have the added security provided by private employer retirement plans and individual savings.

About half of all workers in the US work for employers that sponsor retirement plans. We can improve on that percentage.

Of all workers whose employers offer retirement plans, 20 percent - one in five - are not participating. We can improve on that.

More workers will participate if we simplify plan designs and provide advice to help workers with the investment decisions they are now asked to make on their own.

More workers will participate if we enable employers to include them in 401(k) plans unless they affirmatively choose to opt out.

More pension plans will be established – and fewer will be terminated – if we streamline plan administration and operation.

And dollars set aside for retirement will remain “set aside” longer and will add up to more if we eliminate tax provisions that discourage long-term savings.

Clearly, there is much we can do – all of it aimed at giving American families the appropriate tools, education and information to build meaningful retirement security in all its forms.

Ladies and gentlemen, this country faces a great challenge – and a great opportunity. Americans want to be assured of sustainability for Social Security. With time as our ally, we can put Social Security on the path to permanent solvency.

Beyond that, we need to recognize that Social Security is one part of an overall mix to ensure a good quality of life in retirement. We’ve come a long way over the past few decades. Retirement is now something people are able not to fear, but to look forward to. That’s an incredible achievement – a great step forward for any society. Our challenge now is to build on that, by strengthening all aspects of retirement security.

Thank you.
