

Enduring Confidence in the 401(k) System: Investor Attitudes and Actions

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Remarks by Paul Schott Stevens

President and CEO

Investment Company Institute

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Thank you all for joining us here today, and thank you to Tejinder Singh and the Newsmakers Committee of the National Press Club for organizing this event.

As Tejinder noted, I'm Paul Schott Stevens, president and CEO of the Investment Company Institute, which is the national trade association for mutual funds and other registered investment companies.

Mutual funds helped build the 401(k) system, and today almost half of the assets in defined contribution retirement plans and individual retirement accounts are invested in mutual funds. So ICI takes a deep interest in retirement security, and pursues an active research program on these issues.

I'm here today to talk about a new addition to that research, our survey of public attitudes toward 401(k) plans and retirement policy proposals. In summary, we have found that Americans express confidence in their 401(k) plans and support for the system's key features, in overwhelming numbers. Contrary to what you might have read, the 401(k) system has a long and productive future ahead in providing retirement security for millions and millions of Americans.

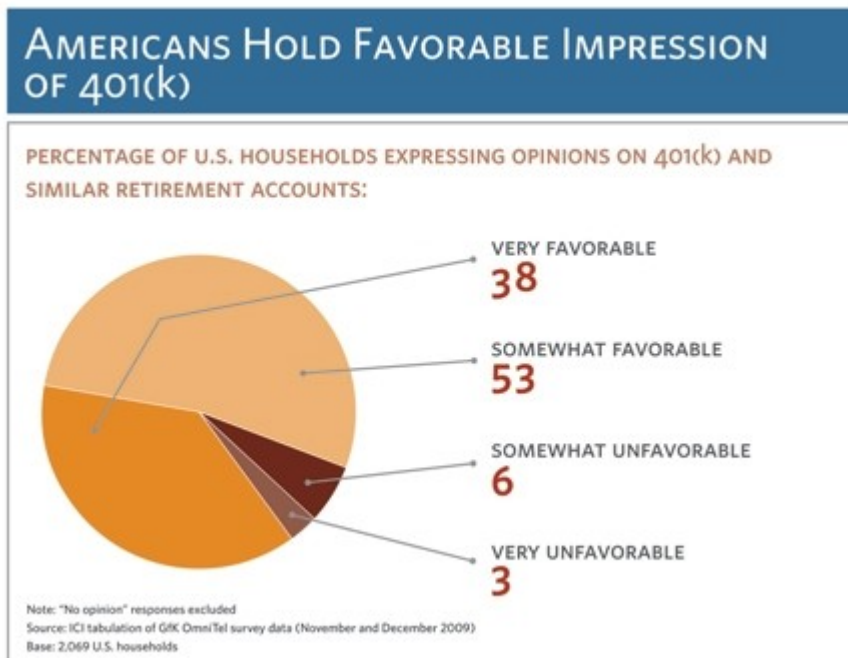
I'm joined today by two outstanding leaders in our industry, Jack Brennan and Mellody Hobson. Jack is Chairman Emeritus and Senior Advisor at the Vanguard Group, and he will discuss data on actual 401(k) accounts that Vanguard and ICI have gathered. These figures show that Americans don't just talk about their support for 401(k) plans – they have demonstrated their confidence with their actions in the face of one of the worst bear markets since the Great Depression.

Despite the 401(k) system's strong record and public support, we believe that employers, service providers, and policymakers can work together to improve Americans' retirement security system. Mellody Hobson, president of Ariel Investments, will discuss an agenda for improving Americans' opportunities to save and make the best use of their resources for a secure retirement.

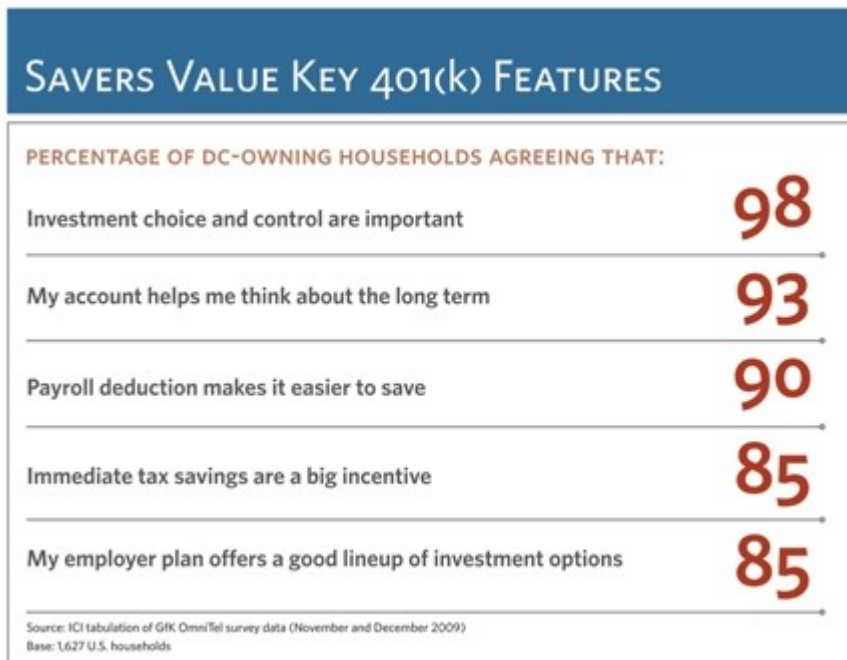
The market downturn that began in late 2007 took a heavy toll on retirement assets. Average account balances fell by almost one-quarter in 2008, and 401(k) savers felt the pain. That experience was unsettling, and it has caused some in the press and policy communities to question the value of 401(k) and other defined contribution plans.

The millions of Americans who use these plans, however, don't seem to share those doubts.

Between late November and late December, ICI surveyed 3,000 households about their attitudes toward 401(k) plans. The results are in the research paper ICI is publishing today. And they are summarized in the title of that paper: "Enduring Confidence in the 401(k) System."



First, as you'll see on this chart, 91 percent of the households that expressed an opinion said they had a favorable impression of 401(k) and similar retirement plans. When we asked them what shaped their opinion, the No. 1 factor was "the ability of retirement plan accounts to accumulate significant savings," followed by the performance of plan investments and respondents' personal experience.



That overall favorable opinion is rooted in support for many of the key elements of 401(k) plans. This chart shows the high value that owners of DC accounts place on these plan features:

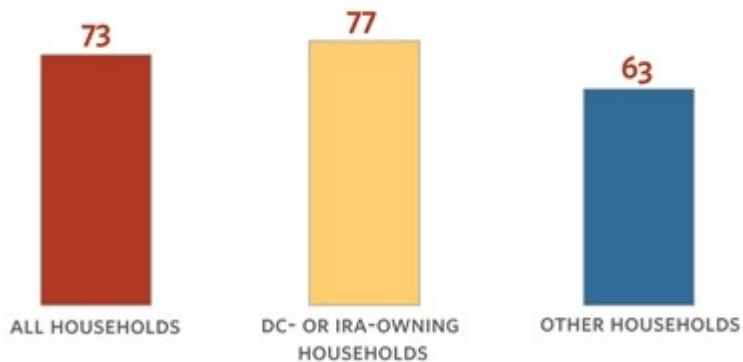
- Individual choice and control of their investments;
- Payroll deduction; and
- Tax-favored savings.

The survey also revealed that 85 percent of plan owners agreed that they were getting "a good lineup of investment options." And 93 percent said that their plan helps them think about the long term.

What matters, however, is whether these plans can deliver a secure retirement for American workers. As I noted before, the system can be improved.

AMERICANS ARE CONFIDENT 401(k)s CAN HELP MEET RETIREMENT GOALS

PERCENTAGE OF U.S. HOUSEHOLDS "VERY" OR "SOMEWHAT" CONFIDENT THAT 401(k) AND SIMILAR PLANS CAN HELP PEOPLE MEET RETIREMENT GOALS:



Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)
Base: 2,913 U.S. households

Even so, Americans believe these plans can deliver. As you see, 73 percent of all households are “somewhat confident” or “very confident” that 401(k)s and similar retirement plans can help Americans meet their retirement goals. And those who are most familiar with the plans are the most confident.

Let me make two quick points about our data. First, these are remarkable figures. On question after question, we see levels of support north of 70 percent – and this after months of negative coverage and criticism of the employer-based retirement system.

Second, this support is highly consistent. We didn’t just ask, “Do you like your 401(k)?” We came at these questions in a number of ways, we examined the responses by age, income, and account status – and the results are almost uniform. Our report includes that data, as well as the full text of all the questions in our survey, for your review.

AMERICANS DISAGREE WITH SUGGESTED 401(k) CHANGES

PERCENTAGE OF U.S. HOUSEHOLDS DISAGREEING THAT:

The government should:

Take away DC account tax advantages	88
Reduce DC contribution limits	84
Not allow individuals to make their own investment decisions	88
Replace all retirement accounts with a government bond	81

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)
Base: 3,000 U.S. households

Lastly – how does this support for 401(k)s translate in terms of various changes that have been suggested to “fix” the 401(k) system? We found that Americans don’t agree with those ideas. This chart shows the percentage of these 3,000 households who disagree with suggested changes to the tax treatment and investment control offered in current 401(k) plans. Again, you see very strong sentiment – for example, 88 percent disagree with the idea that the government should “not allow individuals to make their own investment decisions.”

One area where policymakers have taken an interest lately is in retirement payouts. The Labor and Treasury departments are looking at whether they should encourage or require retirees to convert some of their account balances to annuities, and some lawmakers have expressed support for an annuity mandate.

Annuities play an important role in retirement security – indeed, Americans’ No. 1 source of retirement income is the annuity known as Social Security.

AMERICANS WANT RETIREES TO CONTROL THEIR OWN ACCOUNTS

PERCENTAGE OF U.S. HOUSEHOLDS AGREEING THAT:

Retirees should make their own decisions about managing retirement assets and income

96

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)
Base: 3,000 U.S. households

But Americans soundly reject the idea that the government should mandate turning 401(k) assets into annuities. Almost unanimously, the households in our survey agreed that “retirees should be able to make their own decisions” about how to manage their assets.

AMERICANS REJECT ANNUITY MANDATES

PERCENTAGE OF U.S. HOUSEHOLDS DISAGREEING WITH THE STATEMENT:

The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay them income for life:

From an insurance company

72

From the government

71

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)
Base: 3,000 U.S. households

And more than 70 percent of all households disagree with the notion of requiring retirees to buy annuities with a portion of their assets, whether that annuity is offered by an insurance company or by the government. As we discuss in the paper, it's difficult to get a clear read on public attitudes about annuities. But we think this survey offers one of the truest assessments we've ever seen on this issue, and we find that the opposition to the mandate is overwhelming.

Those are the results of our survey on public attitudes. We all know, of course, that actions speak louder than words. So Jack Brennan is going to discuss how 401(k) participants actually behaved during the first three quarters of 2009 – and how their actions reflect the attitudes we've been discussing. Jack?

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