Remarks at the Mutual Funds and Investment Management Conference

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March 20, 2006
Phoenix, Arizona

It's a pleasure to help kick off this 41st annual Mutual Funds and Investment Management Conference, co-sponsored by the Investment Company Institute and the Federal Bar Association.

At last year's conference, we tried some new approaches. We scheduled more concurrent sessions to cover more ground, and repeated some sessions to enable you to choose those that interest you most. We got a lot of positive feedback, so we're following the same general format this year.

I think we have an excellent program, and I want to thank all those involved in organizing it. I'm pleased to note that their efforts have paid off. We have well over 1,600 attendees here today-- by far, the biggest turnout in recent memory.

Of course, another reason for the great turnout may be the Arizona venue. We are honored that one of our keynote speakers is Senator Jon Kyl of this great state. We look forward to his remarks.

We also look forward to hearing tomorrow from Ann Combs, Assistant Secretary of Labor for the Employee Benefits Security Administration.

We have a broad-ranging agenda for the conference.

That should not be surprising. It reflects much of the work the ICI has been doing over the past year on regulatory and operations issues.

We have continued to focus on the mutual fund regulatory reforms projected by the SEC.

For example, we've worked to assist members with the highly labor-intensive processes of implementing the compliance rule and the redemption fee rule.

We've continued to work with our members and many other interested parties to find an effective solution to the late-trading problem.

We've sought to ensure that proposed requirements for brokers to inform investors at the point of sale about costs and potential conflicts of interest result in effective disclosure and are consistent with the way in which brokers serve their clients.

We've spearheaded efforts to implement the remaining recommendations of the NASD's mutual fund breakpoint task force.

In other areas, we've continued to engage in the debate on market structure issues, including the adoption and implementation of Regulation NMS and the restructuring of the securities markets themselves.

As always, our work goes beyond the world of securities regulation. We have worked with the Department of Labor on fee disclosure to retirement plan sponsors, developed a model disclosure schedule on third-party fees, and made recommendations on prohibited transaction reform and default investments.

In the tax area, we are working with the IRS and FASB on a great variety of issues. Some of these are issues only lawyers and accountants could love – but all of them are important to our investors.

We are also pursuing an extensive legislative agenda.

We're strongly supporting provisions of tax legislation currently in conference. That includes extending capital gains and dividend tax rate reductions scheduled to expire at the end of 2008, and making permanent retirement and savings provisions scheduled to expire at the end of 2010 – including increased IRA and 401(k) savings limits, "catch up contributions", and Roth 401(k)s.

Finally, we're working to build ever broader bipartisan support for the GROWTH Act – a proposal that would keep more retirement savings invested longer and growing longer by deferring taxation of automatically reinvested capital gain distributions until fund shares are sold.

In addition to our regulatory and legislative work, we have been supporting the important work of the Independent Directors Council. I'd like to congratulate the IDC, and all those independent fund directors engaged in its work, on a highly productive year. Over the past year, the IDC has:

- published two papers on fair valuation, in conjunction with ICI and ICI Mutual Insurance Company;
- published a "first of its kind" longitudinal study of fund governance practices;

- issued a timely and incisive report on board oversight of multiple funds;
- hosted a very successful spring workshop and fall conference; and
- conducted regular meetings of director “chapters” across the country.

When we take a step back from day-to-day concerns such as these, we can see that policymakers have been focusing on two broad national imperatives that bear directly on mutual funds.

The first is that investing is more important than ever -- given the demographic pressures posed by the huge Baby Boom cohort, growing stress for the Social Security system, the reduced availability of defined benefit pension plans, and increasing health costs.

The second is that more Americans than ever are attentive to their financial goals. They want to invest, they want to invest smart, and they want to start early. Policymakers recognize the importance of this investor attitude – and its value.

In that context I want to talk to you about two important propositions.

One, how we can better inform investors -- specifically, through far more use of the Internet.

Two, how we can better equip Americans to save for a secure retirement.

Using the Internet to Better Inform Investors
First, let me discuss the Internet, and its enormous potential to provide a breakthrough in communicating effectively with fund shareholders. The first panel session this morning will focus on this topic. It’s a big one, and I’m sure I’ll leave plenty of ground to cover.

Think about the changes the Internet has brought to bear in our society in a remarkably short period of time. Suddenly, we have a world of information at our disposal, in real time, anytime, and virtually anywhere.

And people aren’t just going online to watch NCAA basketball or to check their bid for that classic Pet Rock selling on eBay.

More and more Americans are using the Internet as a prime source of financial information. So many investors are keeping track of share prices via the Internet that The New York Times has decided that next-day stock tables are old news. Last week, the Times announced it will no longer be running the full tables. Instead, it’s going to bolster its website with more in-depth data.

As the Times business editor explained: “This recognizes the fact that the vast majority of readers now go online to get financial information because we can serve them better that way.”

Certainly, the government understands the Internet’s value as a vehicle for distributing important financial information. If you work for the federal government -- or like me, used to work for the federal government -- you may know that the Federal Thrift Savings Plan, the defined contribution plan for federal employees, wants to deliver all quarterly account statements through its website. TSP participants who want to receive their quarterly statement in the mail must now affirmatively request the paper option; otherwise it will be delivered solely online.

The growing reach of the Internet cuts across all demographic lines.

That’s especially true among mutual fund investors.

A comprehensive ICI survey last year demonstrates that mutual fund shareholders are very much "logged-on."

We found that nearly 90 percent of mutual fund investors have access to the Internet. About two-thirds of those with Internet access go online at least once a day.

Three-quarters of fund investors who go online use the Internet to access their financial and investment accounts. Nearly 60 percent of fund investors who go online use the Internet to obtain investment information.

And our study shows that Internet use also has grown dramatically among all segments of investors -- including seniors, those with a high school education or less, and those with household incomes of $50,000 or less.

So it’s abundantly clear that the Internet has tremendous potential as a tool of investor information and education. The question is: How can we take the fullest advantage of it to improve the accessibility, utility, and quality of the information we provide?

I believe a key benefit of the Internet is that it provides a means for dealing with the conflicting pressures that have continually afflicted fund disclosure. There is a constant push-pull between the need to make fund prospectuses understandable to the average investor -- and the demands of detailed disclosure requirements that make most investors less likely to consult disclosure documents.

The dilemma we face is that the more disclosure that regulators mandate, the more difficult it is to make information easy to understand. On the other hand, the more we might try to make the information understandable, the more difficult it would be to include all of the detail that some market participants require.

As we think about the current disclosure system, one thing is clear: One size fits none.

The Internet offers a solution. It’s called choice. Investors can get the information they need, in a form they are likely to use. And we can still provide more detailed information to those investors -- or other marketplace participants -- who want it.

That’s one of the significant advantages the Internet offers over paper -- we can allow different users to access and analyze the levels and types of data most useful to them.

And we can do this without any net loss in the amount of information available. So we avoid the question of either/or, of less versus more. Thanks to the Internet, we can provide both less and more. We can inform millions of average investors more effectively, and put them in control.

But how do we get from here to there?

For a start, we can begin to move forward on providing investors with interactive data. SEC Chairman Christopher Cox has emphasized that this can help put investors “in the driver’s seat.” The Commission’s initiative to advance eXtensible Business Reporting Language, or XBRL, is designed to accomplish this objective -- facilitating automated search, retrieval, and analysis of tagged data over the Internet.

To date, the SEC’s XBRL initiative has focused principally on financial data. But when it comes to mutual fund disclosure, financial statements are not the source of information that is most useful to investors. To allow mutual fund investors to reap the benefits of XBRL, we need a custom-designed taxonomy that goes beyond financial data.

I’m pleased to announce today that the Institute is launching an initiative to develop that broader XBRL taxonomy for mutual fund disclosure. Building on the Commission’s efforts, we hope to lay the groundwork for providing interactive mutual fund data that will serve the needs of investors and other interested parties, including the Commission itself. This is a substantial undertaking and we look forward to working with the SEC and a variety of interested groups to make it a reality.

In the meantime, we are encouraging ICI members to participate in the SEC’s voluntary XBRL filing program.

XBRL represents an important step. But it must be part of a broader road map that will take us from paper-based disclosure to new and improved approaches.

There’s a growing consensus that it's time to make the fullest use of the technology available so that investors have the information they need, all the information they want, in the format that makes it as valuable as possible for them. The Institute looks forward to working with the Commission and all stakeholders to achieve this goal.

Equipping Americans to Save
Effectively informing investors is an important part of a much larger picture – encouraging Americans to save for a secure retirement.

It is important to keep in mind that a secure retirement is the overwhelming savings goal of mutual fund shareholders. In fact, 72 percent of fund shareholders indicate saving for retirement is their primary financial goal.

It’s easy to understand why. People are living longer in retirement. And many are getting less and less in the way of health coverage from their former employers. Meanwhile, health care costs are rising.

Retirees will rely on a number of sources for their retirement income: Social Security, employers’ retirement plans and individual savings.

Each of these faces challenges.

Social Security faces the long-term challenge of 79 million Baby Boomers who reach 65 between 2011 and 2029.

Only about 60 percent of American workers are offered a chance at retirement plan coverage on the job. Some have retirement plan coverage but only in certain jobs, covering pieces of their careers. Many have plans available to them and do not participate. Many wish they had plans available, but do not.

Among retirement plans, there has been a shift from “defined benefit” pension plans to “defined contribution” plans. Today, defined benefit plans are offered to 22 percent of workers, compared to 53 percent who are offered defined contribution plans.

The growth of defined contribution plans -- which include 401(k), 403(b) and 457 plans -- has been phenomenal. They have enabled more than 60 million Americans to save more than $3 trillion.

Roughly half of that is invested in mutual funds. Our industry has played an important role in growing savings -- taking advantage of scale to offer investors diversification, low costs, abundant information, liquidity, tax and accounting services, and professional asset management.

We also have a proud history of popularizing retirement savings tools. One of the most dramatic examples is the 401(k).

Like many important levers of progress, the modern 401(k) was somewhat of an accident. Originally, Congress intended something much smaller in scope. In 1978, when Congress added section 401(k) to the tax code, it was actually to resolve a longstanding dispute about whether executives could defer taxes on their profit-sharing bonuses.

But there’s no holding back the power of a good idea. A number of ingenious individuals at companies, at mutual fund and other financial services firms, and at the IRS took a close look at the provision. They saw the opportunity for a breakthrough in retirement security. They realized it could be a mechanism to allow ordinary workers to save for retirement on a tax-deferred basis. Sometimes, but certainly not always, the unintended consequences are the best.

On November 10, 1981 -- what some would call the birthday of the 401(k) -- the IRS proposed regulations blessing the deferral of not just profit-sharing bonuses but also wages. Do you know what mutual fund assets were at the end of that year? $241 billion. Industry assets today are 37 times that amount, a compound annual growth rate of more than 16 percent.

Those IRS regulations were the start of something big. They opened the door to a new way to save and invest for retirement for everyday Americans.

But it took a lot of initiative and work to encourage employees to walk through that door. Over the 25 years since it was born, the modern 401(k) is the story of a successful partnership between mutual fund companies and others in the financial services industry, employers, and the government.

Financial firms, particularly the mutual fund industry, helped employers become plan sponsors and educate their employees about 401(k) plans. We developed the necessary recordkeeping systems and helped employers comply with the complex nondiscrimination testing required by IRS rules. Financial firms even wrote “off-the-shelf” plan documents that could be tailored to individual business needs.

But most of all, the fund industry helped companies understand that offering a 401(k) gave employees access to professional asset management.

The past quarter-century has seen rapid growth in defined contribution plans, especially 401(k) plans.

Today, there are 47 million 401(k) plan participants, more than four times as many as there were two decades ago. Their plans hold assets worth more than $2 trillion, 15 times the $144 billion two decades ago.

Looking back, 25 years ago, how many would have predicted this level of success?

Looking forward, we need to ask: How well will the 401(k) model meet participants’ future retirement needs? What might 401(k) plans produce after a full career?

ICI has conducted research on this question, in collaboration with the Employee Benefit Research Institute. Our joint analysis, which takes into account actual worker behavior, makes it clear: under a wide range of projected scenarios workers can save enough through 401(k) plans over a full career to replace, in retirement, a significant portion of their pre-retirement income. Consider participants turning 65 between 2030 and 2039: for more than 60 percent, 401(k) accumulations are projected to replace more than half their salary.

Of course, defined contribution plans are not the whole picture. Social Security must be preserved. IRAs need to be improved as a savings vehicle, especially for individuals not covered at work. Our research indicates that simplification of eligibility rules could enhance participation.

And of course, we also need to encourage people to save outside of retirement plans and IRAs, through measures like the GROWTH Act.

Looking Forward

But I want to focus now on what can be done to strengthen the ability of Americans to build retirement security through 401(k) plans.

What changes are needed so that even more workers can be put on the path of a secure retirement? With Congress even now considering comprehensive pension reform legislation, our representatives have before them a series of fateful choices.

First, they should choose to broaden the saving population.

Many workers eligible for 401(k) plans do not take advantage of the opportunity. One of the best ways to get them onto the savings track would be automatic enrollment: unless the employee opts out, the employer would automatically enroll him or her at a designated contribution rate. The plan might also provide for a periodic increase in the contribution rate.

Research shows that automatic enrollment increases participation rates dramatically, particularly among lower-income workers. The EBRI/ICI model finds that automatic enrollment increases participation among all eligible workers from 66 percent to 92 percent. Among lower income workers, it more than doubles participation – from 42 percent to 91 percent.

Second, Congress should choose to facilitate good investment decisions.

Once employers automatically enroll their employees in the 401(k) plan, there must be a place to put the money. Employers need help in designating default investment options consistent with the savings horizon of their employees. In the current legal environment, many employers are only willing to use very conservative options as their plan's default.

We applaud the ongoing efforts of Congress and the Department of Labor to encourage the use of appropriate default investments.

Employees also need help making good investment decisions. Some employees want investment products to allow individuals to "set it and forget it." Our industry needs to continue to meet that challenge with innovative solutions.

In addition, many workers want and need access to professional advice, and are seeking access to it. Congress needs to modernize the rules regarding who may offer investment advice to workers in a 401(k) plan. With appropriate safeguards, we must widen the circle of financial intermediaries who can provide advice to plan participants.

Third, Congress should reject the notion of lowering savings incentives.

Most workers and savers would be surprised to know that rules on IRAs and defined contributions aren't permanent. The purpose of these provisions was to encourage workers to save more. Isn't that more important than ever?

In 2001, Congress increased contribution limits in both defined contribution plans and IRAs, and made a number of other important changes to the rules governing retirement savings vehicles. Making these changes permanent is crucial to people's ability to save for retirement. For example, if the 2001 legislation sunsets, the IRA limit falls back to $2,000. That would hurt workers across all income groups. And older workers will lose the opportunity to make catch-up contributions, the chance to make up for years when they found it hard to afford to invest in their future. The pension legisl ation under consideration now provides Congress with a unique opportunity to make these provisions permanent.

Conclusion
Retirement security is one of the most important issues on the national agenda.

Mutual funds are a powerful tool to address individual financial needs, including saving for retirement. Over the past 25 years, mutual fund investing has helped millions of working Americans save for the future. Through a continuing partnership with policymakers, our industry can help inform American investors even better and equip them to save even more effectively for a secure retirement.

Thank you for your attention and do enjoy the conference and beautiful Arizona! It's the home of some of the greatest treasures in America: the Grand Canyon, magnificent mountain ranges, extraordinary desert scenery – and, of course, spring training.

Arizona is also the home of some great leaders in Congress, including our guest today.
