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Changes for Retirement and Education Will Benefit Millions of Workers and Families

Washington, DC, July 29, 2006 - Investment Company Institute President Paul Schott Stevens issued the following statement today on the House of Representative's vote to approve pension reform legislation:

"The House of Representatives has taken a pivotal step toward improving retirement security and education savings for millions of American families. The reforms embodied in the House-passed legislation will strengthen our nation's traditional pension system. Just as importantly, the legislation will significantly improve the ability of Americans to save in defined contribution plans and Individual Retirement Accounts, which are increasingly central to the retirement security of our workforce.

"The reforms will make 401(k)s and IRAs more effective in meeting the needs of investors. They will increase workers' participation in 401(k)s and similar plans by empowering employers to offer automatic enrollment. The legislation offers savers the certainty of updated contribution levels for 401(k)s and IRAs, as well as catch-up contributions for older workers. Lower-income families will benefit as the Saver's Credit is made permanent. And the legislation will help assure workers' contributions are invested wisely, by allowing employers to offer better default investment options and by increasing the range of providers of investment advice to 401(k) and IRA savers.

"The House's decision to make the tax incentives for Section 529 college savings plans permanent is welcome news indeed for families with children. A highly educated workforce will fuel the future growth of our economy, and saving for education is a financial goal for 30 percent of the households that own mutual funds. Parents and grandparents seeking to meet the rising costs of college deserve the certainty of knowing that their savings will continue to enjoy the tax advantages that help them meet their goals.

"We strongly urge the Senate to approve this legislation."

Key Savings Provisions in the Legislation:

- Automatic enrollment: Research by ICI and the Employee Benefit Research Institute (EBRI) shows that 401(k) participation at businesses that offer such plans would increase from today's 66 percent of eligible employees to 92 percent under automatic enrollment. Among the lowest-income quartile of the workforce, automatic enrollment would more than double participation rates -- from 42 percent of eligible employees to 91 percent.
- Updated contribution limits: ICI calculates that a 40-year-old who started an Individual Retirement Account in 2002, taking advantage of the higher deductible contribution limits and catch-up contributions passed in 2001, can accumulate almost $304,000 by age 65. Had the higher limits been allowed to expire after 2010, the saver's account would grow only to about $172,000 -- a difference of more than $132,000.Similarly, a 40-year-old worker who started making 401(k) contributions at the maximum tax-deferred level in 2002 could have an account balance of more than $1.1 million by age 65. If those higher limits and catch-up contributions had been allowed to expire, the account would only be worth $888,000 -- a difference of $215,000.
- Default investment: Providing greater clarity to plan sponsors in their selection of default investments is vitally important. Research by ICI and EBRI indicates that using a default investment appropriate for a long-term retirement savings investing horizon significantly increases the amount that workers in all income levels can accumulate for retirement.
- Investment advice: The legislation's advice provision will make it easier for 401(k) and IRA savers to turn to professionals for advice on the investment choices that are best suited for them.

- Section 529 Plans: Assets held in Section 529 plans have grown from $200 million in 1998 to $68.7 billion in 2005, according to ICI and the College Savings Plans Network. Saving for education is a financial goal for 30 percent of the households that own mutual funds.