

Chairman's Address, 59th General Membership Meeting

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Thank you, Jim [McNamara, GMM chairman, and president and CEO, Goldman Sachs Mutual Funds], for your remarks and for your great service in chairing this year's General Membership Meeting. You have brought great insights and tremendous energy to planning an engaging program, and we have an exciting time ahead.

Jim has outlined many of the crucial challenges that face funds, their managers, and their directors as they continue to serve investors in America and around the world. Over the next two days, we'll talk about:

- delivering innovative investment strategies and advice;
- facing regulatory and business challenges around the world;
- meeting evolving workforce needs, including further realizing the benefits of diversity and inclusion; and
- navigating through a demanding geopolitical environment.

Today, I'd like to focus on another challenge—one that's central to our mission of helping Americans realize their financial dreams. That's the task of making America's retirement system even stronger.

This is a crucial challenge for our industry. Funds are directly identified with retirement saving in America—and no wonder, given that our funds manage half of all assets in individual retirement accounts [IRAs] and defined contribution plans.

Funds have pioneered countless innovations to serve retirement savers.

Fund sponsors provide education and information that encourage workers to save and invest effectively.

And our fund companies—individually and through ICI—consistently support tax incentives and plan features that are vital for millions who are working toward retirement security.

Now, we were not alone in building this system—and we won't be alone in making improvements. But our industry can take the lead in driving smart policies designed to make this system even stronger.

What will that take?

- First, we must promote the strengths of the current system—and resolve to build upon them.
- That includes maintaining the central role of tax deferral for retirement savings—the crucial incentive that encourages employers

to create plans and workers to participate and save.

- We can help workers plan, save, and invest more effectively by giving them greater flexibility and tools to manage their assets—while working and in retirement.
- Finally, we can help millions more Americans save for retirement by clearing the way for more employers to offer retirement plans at work and by making individual retirement accounts more accessible.

Let's take those challenges one by one—starting with the need to promote and build upon the strengths of the current system.

Promoting the US Retirement System

You might think that the strengths of our system would speak for themselves. Unfortunately, many critics—in academic and policy circles, and certainly in the press—still seem more interested in tearing down our system than in building upon it, employing selective data and scary rhetoric.

When critics claim that Americans are facing “pension poverty,” or a multi-trillion-dollar “retirement gap,” you can bet that they're looking to dismantle—not to improve.

Let's be clear—our system can do better. There are workers who have the means and desire to save, but don't have access to workplace plans and haven't opened an IRA.

There are participants whose contributions or investments aren't on track to yield sufficient retirement income. And we're living longer, which means more years of retirement to fund.

The most painstaking and thorough studies on preparedness find that between one-sixth and one-third of US households aren't fully on the path to a secure retirement.

That is still too many. We must help these workers—and we can.

But it's one thing to say that the system can be better—and quite another to say that it's failed. And these critics' ideas—such as limiting tax incentives, or creating untested schemes that would take control over retirement planning away from individual Americans and their employers—would not move the system forward.

We have to resist those harmful proposals and the misleading data behind them. ICI, to its credit, has led the way, with careful research and factual advocacy.

Put together ICI's research, government data, and the work of many prominent economists, and here's what you find: our retirement system is stronger today than ever before. At the end of 2016, Americans had a record amount—\$25.3 trillion—in resources earmarked for retirement. And that doesn't include promised benefits from Social Security, or home equity, or other savings.

How does that compare with history? Well, today's household has, on average, seven times as much in retirement assets—after inflation—as its counterpart in 1975. Think about that—seven times as much.

Those benefits are widely distributed. More than 80 percent of working households that are nearing retirement have retirement assets or accrued pension benefits. That's the same share of workers with retirement resources as in 1983—despite the sea change in pensions from defined benefit to defined contribution plans.

In fact, compared to 1975, the share of retirees who get private-sector pension income has nearly doubled—and the median income they receive from those plans is up by more than 50 percent, after inflation.

Let's take a break from the data and ask: why is our retirement system working so well for so many?

Clearly, employers play a vital role. Just by offering a plan, a firm gives its workers payroll deduction saving and a host of regulatory protections. Many employers encourage participation, through education and information. Employers have pioneered important innovations such as automatic enrollment. And matches and other employer contributions provide a powerful incentive to save—in fact, employers' contributions account for one-third of new flows into 401(k) plans.

Our own industry has partnered in the system's development. My firm, Columbia Threadneedle Investments, provides educational materials for advisers and investors, and we take our role as thought leaders seriously. All of our firms do.

Our industry has led with innovations in recordkeeping and investing. Just one example—target date funds, which have simplified retirement investing for a growing share of savers by offering a diversified mix of assets that is automatically rebalanced and adjusted over time.

And let's not overlook how the fund industry has reduced the cost of retirement investing. Over the past two decades, the average cost that a 401(k) saver incurs for investing in an equity mutual fund has fallen by more than one-third—saving billions of dollars for 401(k) participants.

Workers are doing their part, too. Among those who are offered a workplace plan, nearly four out of five participate. And 401(k) participants typically invest wisely.

- When you look at them by age group, on the whole, their asset allocations look a lot like the portfolios that investment professionals would recommend.
- When you look at their behavior in turbulent markets, you see that they don't panic or flee. Even in the depths of the financial crisis, fewer than 4 percent of participants stopped contributing to their 401(k)s.

Employers, financial firms, and workers—we've all come together to build a strong system that is making retirement secure for millions.

Preserving the Key Role of Tax Deferral

Of course, sound policy has contributed as well.

One of the central features of our voluntary, private-sector retirement system is tax deferral—the ability for savers to postpone taxes until they withdraw their savings in retirement. Tax deferral encourages employers to create plans, and workers to participate in them. Preserving tax deferral is critical if we're going to maintain and build upon the strengths of our retirement system.

Let's face it—saving isn't easy. It requires a deliberate decision not to spend money today, to provide for a distant and unknowable future. Especially in today's culture, the pressure to consume now can be overwhelming. In terms of the ancient fable—being a grasshopper is a lot more fun than being an ant.

Tax deferral is effective—it levels those odds and encourages all of us to be savers. Eighty percent of households with defined contribution plans report that the tax treatment of their retirement plan provides a big incentive to participate and save.

Tax deferral is popular. ICI's annual survey shows that nine out of 10 households oppose reducing employee contribution limits or taking away the tax advantages of 401(k)s and other defined contribution plans.

Tax deferral is not a simple onetime tax break, like the mortgage interest deduction. Yes, you can get an up-front deduction on the money you save this year in your 401(k). But that money will be taxed later, when you withdraw it in retirement. A deferral is not a deduction—and we need to keep reminding Congress of that fact.

Tax deferral is fair. Here again, ICI's research helps set the record straight. It points out that tax deferral complements Social Security—and that these two pieces work together to help workers at all income levels.

In fact, ICI's research shows that government support for retirement, through the combination of Social Security and tax deferral, is progressive—that the benefits for lower earners are greater, as a share of income, than the benefits for higher earners.

That's not “upside down”—that's the way our government's retirement policy should work.

And to maintain the strengths of our system, Congress and the White House need to make sure that Social Security is put back on a sound financial footing, as a universal, employment-based, progressive, and government-run foundation for our retirement system.

So, I've laid out the strengths of our current retirement system. But it still can be improved. And our industry needs to lead the way, because it's our mission to help Americans achieve their financial goals.

Helping Current and Future Participants

We can make investing work better for all fund shareholders by cutting costs and providing investors the information they need, in a form they want, with greater ease of use. One way to do that is to make online delivery the default for fund disclosure.

To illustrate, let's take my mother. She is 79 years old—and she prefers getting her financial statements on her computer. She doesn't want paper! Those “consumer advocates” who think they're protecting her by opposing online disclosure—they don't serve investor interests. We can deliver better disclosure, with greater clarity and customization, with today's technology—and still provide paper to those who really want it.

And—we can save money for investors. At Columbia Threadneedle, we estimate our fund investors could save \$5 million a year if we replaced paper reports with online disclosure. Industrywide, ICI figures the change could save billions of dollars over 10 years. Let's

put that money back into shareholders' hands.

We can also help investors get sound financial advice that puts their interests first.

It's time for the Department of Labor [DOL] and the SEC [Securities and Exchange Commission] to come together to propose a sound, workable standard of care that applies to all financial advisers, whether they're working with a family's retirement accounts or its college savings or its retail investments.

For seven years, the DOL has tried to go it alone. That approach ended in a complicated, expensive rule that is likely to deprive millions of savers—especially those with small IRA balances—of the choice and access to advice they need. The new administration has called a time-out, and asked the department to reconsider all of this rule's impacts. ICI strongly supports that effort.

The fund industry wants a fiduciary standard that puts the best interests of investors first. The incoming chairman of the SEC and secretary of Labor must come together to work toward that goal. Here, too, ICI is glad to help with analysis and insight.

Bringing Retirement Plans to More Americans

Finally, we can improve our retirement system by expanding employer-sponsored retirement plan coverage and promoting IRAs.

There are American workers who have the means and desire to participate in an employer retirement plan—but don't have the opportunity. We need more employers offering plans and promoting retirement saving to build upon the successes of the system.

Some policymakers want to take employers out of the picture. They would let state or city governments set up retirement plans and automatically enroll private-sector workers.

What could be wrong with that?

Well, when ICI examined the projections for the California and Oregon plans, it found unmeasured costs, high expenses for participants, low-return investments, and huge risks for taxpayers—not to mention a lack of basic investor protections. California, for example, is considering restricting workers' ability to take their money out of the state plan.

Welcome...to the Hotel California!

ICI has led the fight for investor protections—to ensure that states and cities can't get a blank check to escape ERISA's requirements. The financial industry fought on behalf of workers for clearer disclosures and strong federal rules on how their money is handled.

Even with the best of intentions, creating 50 different state plans can't be the best way to improve retirement coverage. Solutions at the federal level make much more sense. So let's go back to basics—let's build on the strengths of what we have.

To make it easier for small companies to offer plans, Congress should allow them to band together in Open MEPs—multiple employer plans. Service providers could organize groups of companies to share the fixed costs and liabilities of plan sponsorship.

Congress also should expand tax credits to encourage small companies to start plans and provide employer matches.

Success in Retirement

Let's step back from these policy details and ask—what defines success in retirement?

Your answer is probably different from mine. But we all have some common desires.

A visionary thinker, Dawid Konotey-Ahulu, cofounder of the UK pension consultant Redington, focuses on the idea that we all want to be “happy, healthy, and at home.” A comfortable retirement in an era of increased longevity is essential to be happy, healthy, and at home.

Today, our retirement system is delivering success to millions of Americans. Employer plans, homeownership, and personal savings build upon Social Security's progressive benefits to help workers achieve retirement security.

Our retirement system is dynamic...innovative...evolutionary. We need to preserve that spirit and expand upon it.

We can do more for the millions of workers we serve, and for millions of additional workers, but only if we build on the strong foundation that government, employers, workers, and—crucially—our financial institutions have laid.

That's the challenge before us—a challenge we gladly accept.

Thank you.

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