

Helping Working Americans Achieve A Financially Secure Retirement

How the 401(k) System Is Succeeding

Ayco Summer InnerCircle
Benefits and Compensation Conference

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Paul Schott Stevens
President and CEO



Overview

- Why ICI? Role of Mutual Funds in Retirement
- Profile of the U.S. Retirement System
- Measures of 401(k) Success
- Features That Contribute to 401(k) Success
- Reaction of U.S. Households to the Financial Crisis
- Actions of 401(k) Plan Participants in the Financial Crisis

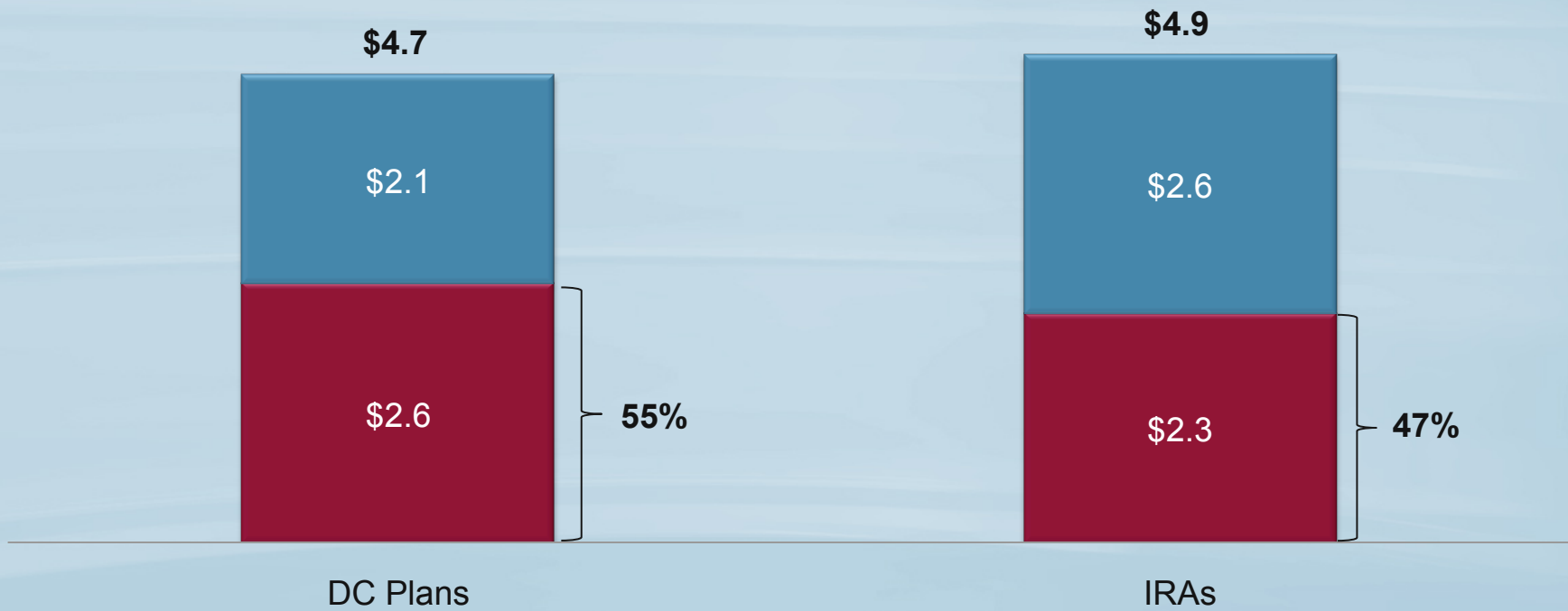
Why ICI? Role of Mutual Funds in Retirement

- Mutual funds comprise about half of the assets in defined contribution (DC) plans and individual retirement accounts (IRAs)
- Mutual funds are well-suited to retirement plans
- Fund sponsors help employers promote and develop the 401(k) system
- ICI has a large and active research program on retirement assets, plans, and participants

Mutual Fund Share of DC, IRA Assets

Trillions of dollars, 2011:Q1

■ Mutual funds ■ Other investments



Source: See Investment Company Institute, "The U.S. Retirement Market, First Quarter 2011" (June 2011)

Mutual Funds Are Well-Suited to Retirement Plans

- Strong regulatory system
 - Diversification, custody, prohibitions on affiliated transactions, strict governance
- Transparency, daily pricing
- Fiduciary culture
- Comprehensive shareholder services
- Cost-effective investing
- Suitable for use in plans of all sizes

Fund Sponsors Help Employers Promote and Develop the 401(k) System

- Professional asset management, providing diversification, innovation
 - Index funds, lifestyle funds, target date funds
- Recordkeeping, communications, and education
 - Daily balances available by phone or Internet
 - Educational materials
 - Website tools and online calculators
 - Income stream estimates on participant statements
- Research and advocacy

ICI Has a Large, Active Research Program

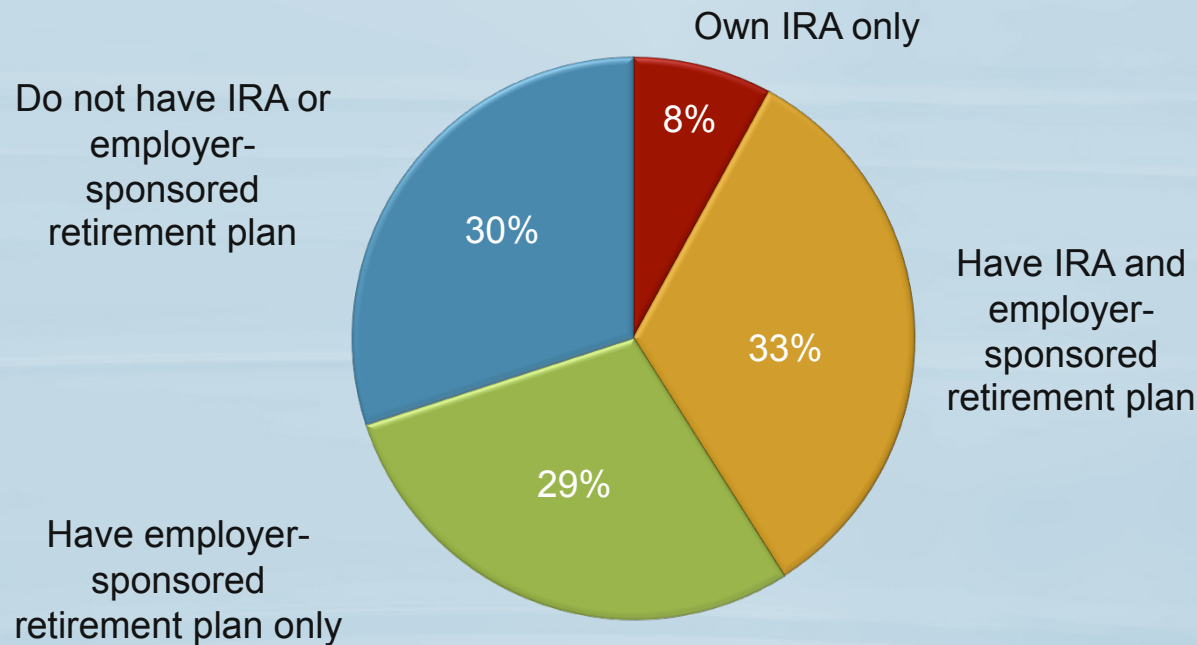
- Retirement assets
 - Member, financial institution, plan sponsor data
- 401(k) asset allocation, balances, loan activity
 - EBRI/ICI 401(k) database
 - ICI Survey of DC Plan Recordkeepers
- 401(k) services, fees, and expenses
 - ICI annual “The Economics of Providing 401(k) Plans”
 - Deloitte/ICI DC plan “all-in” fee study
- The IRA Investor Database™
- Household surveys

Profile of the U.S. Retirement System

- More than 82 million U.S. households have defined benefit (DB) plans, DC plans, or IRAs
- Assets earmarked for retirement have grown as a share of households' financial assets
- DC plans and IRAs make up a growing share of retirement assets
- Since ERISA, a higher percentage of retirees are receiving private-sector retirement plan benefits, and in real terms the benefits are higher

70 Percent of U.S. Households Have Employer Plans, IRAs, or Both

Percentage of U.S. households, 2010

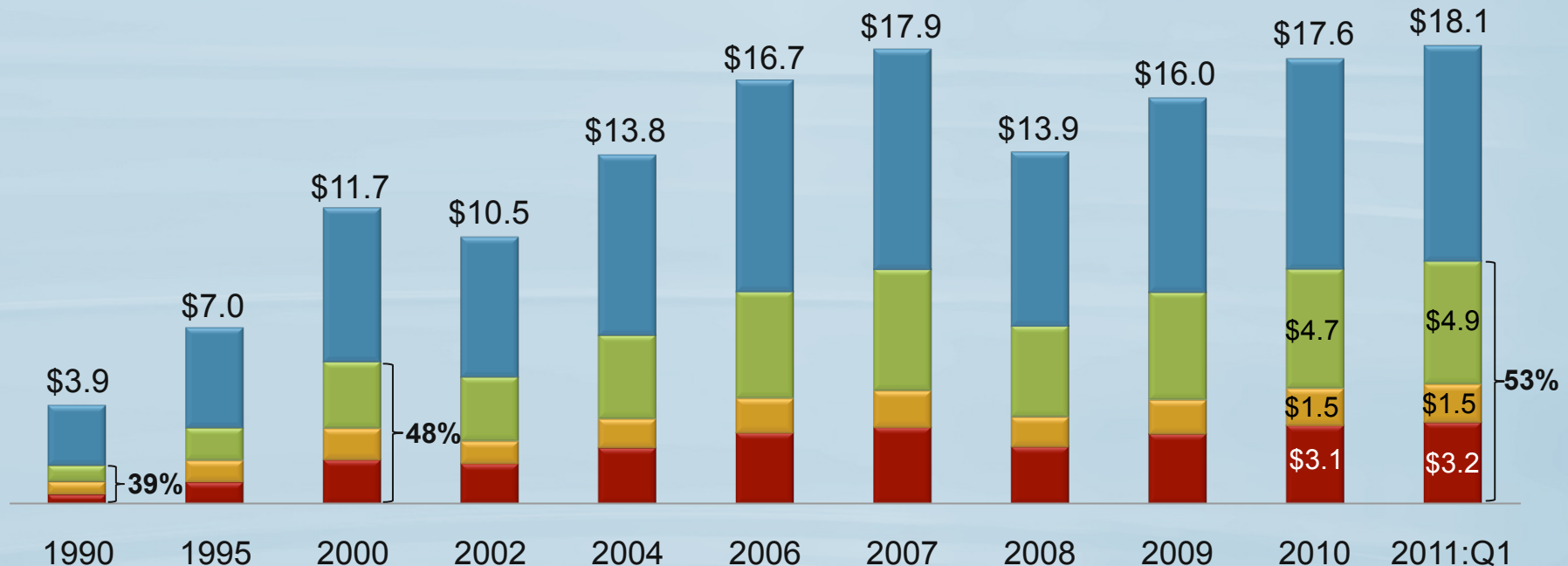


Sources: ICI Annual Mutual Shareholder Tracking Survey and U.S. Census Bureau; see Holden and Schrass, "The Role of IRAs in U.S. Households' Saving for Retirement, 2010," *ICI Fundamentals* (December 2010)

U.S. Retirement Assets Top \$18 Trillion in 2011:Q1

Trillions of dollars, end-of-period

■ 401(k) plans ■ Other DC plans ■ IRAs ■ Other plans



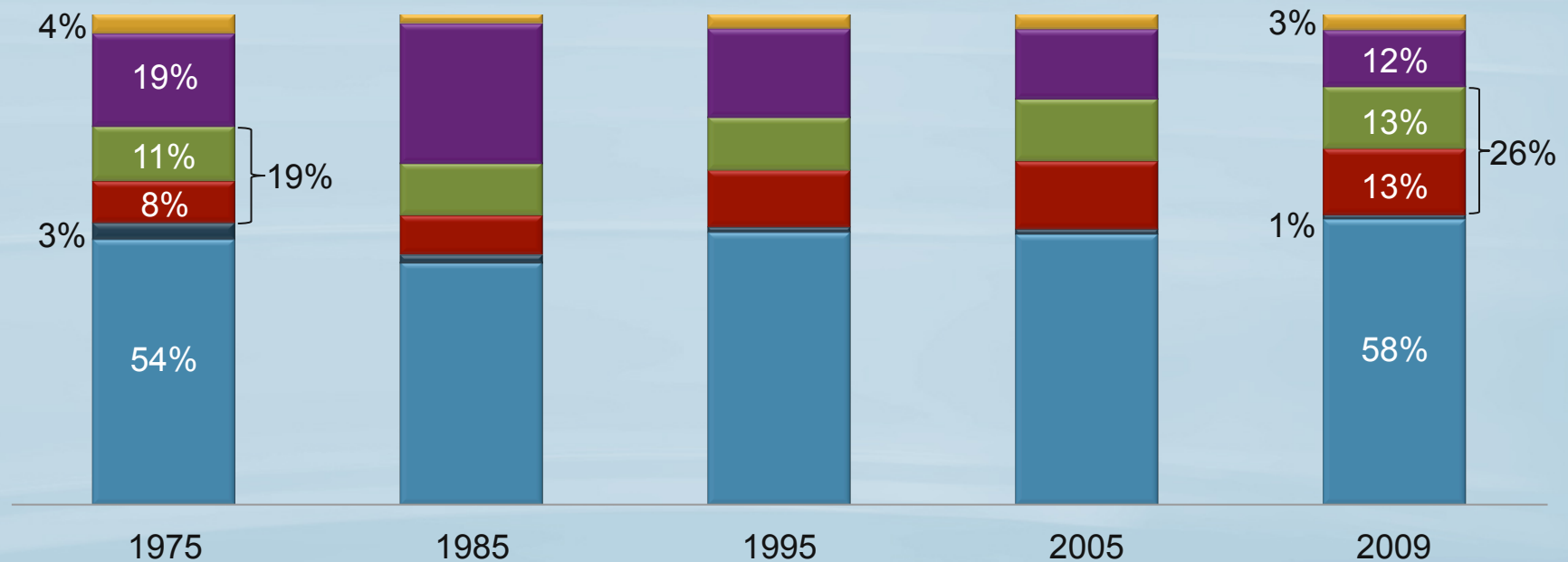
Note: For definitions of plan categories, see Table 1 in “The U.S. Retirement Market, First Quarter 2011.” Components may not add to the total because of rounding. Some data are estimated.

Source: See Investment Company Institute, “The U.S. Retirement Market, First Quarter 2011” (June 2011)

Pensions (DB and DC) Make Up a Growing Share of Retiree Income

Percentage of total retiree income, on a per capita basis, selected years

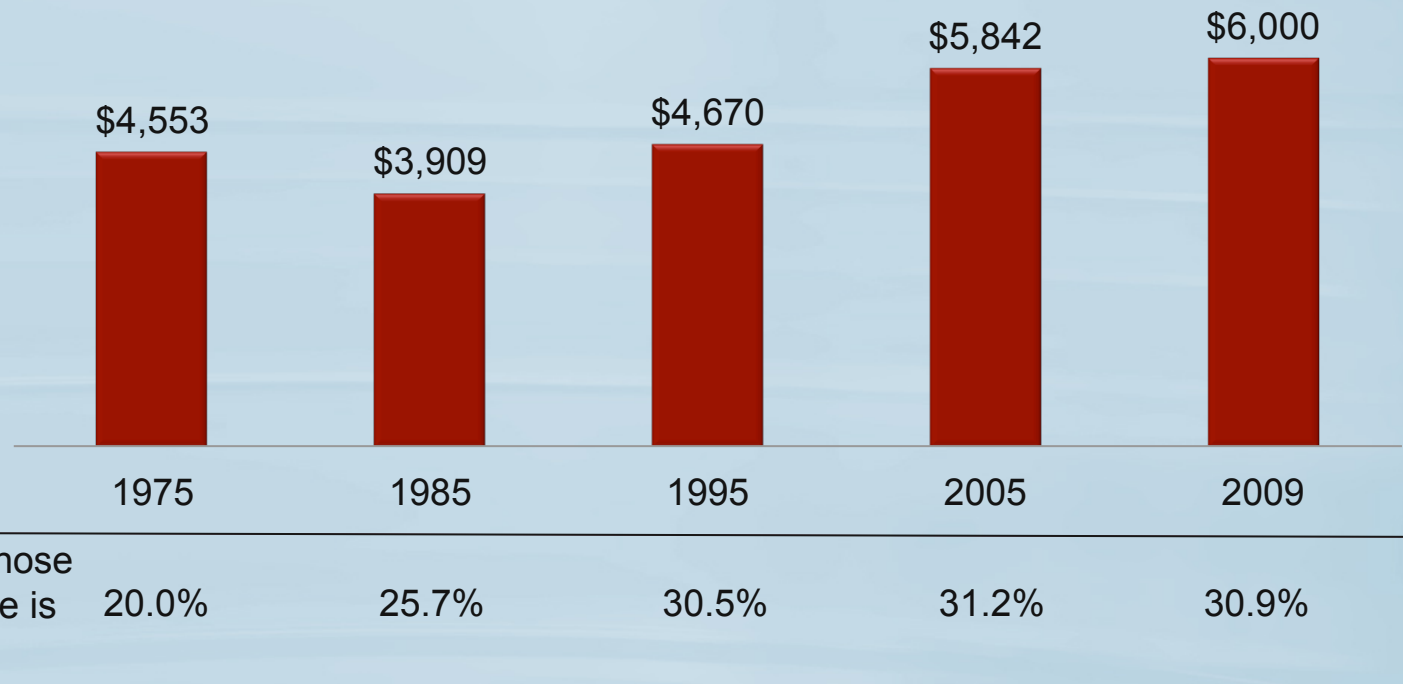
■ Social Security ■ Public assistance ■ Private pension
■ Gov't pension ■ Asset income ■ Other



Source: ICI tabulations of the March Current Population Survey; see Brady and Bogdan, "A Look at Private-Sector Retirement Plan Income After ERISA," *ICI Perspective* (November 2010)

Retirees Receive More Income from Private-Sector Pensions (DB and DC)

On a per capita basis, median, 2009 dollars, selected years



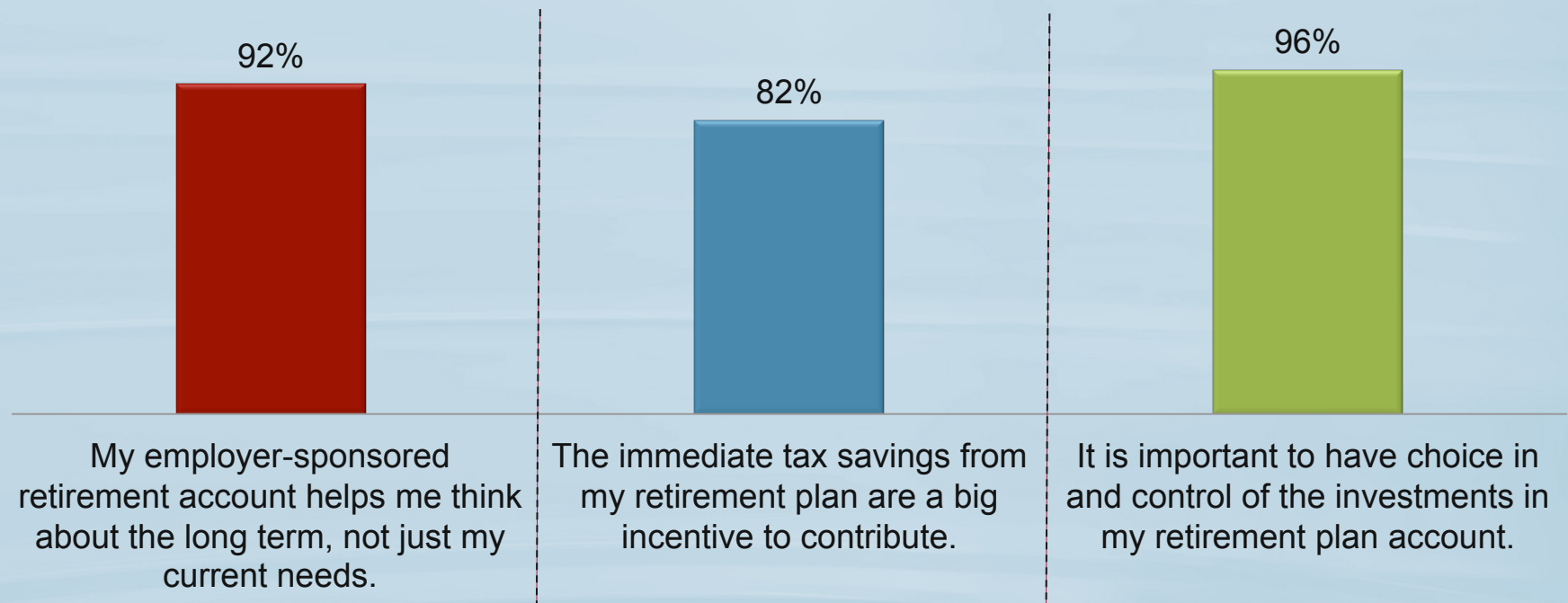
Source: ICI tabulations of the March Current Population Survey; see Brady and Bogdan, "A Look at Private-Sector Retirement Plan Income After ERISA," *ICI Perspective* (November 2010)

Measures of 401(k) Success

- Retirement assets are growing, and DC plans and IRAs account for an increasing share
- Participants have positive attitudes:
 - Appreciate features of plans
 - Express confidence in plans
- EBRI/ICI and academic research projections indicate 401(k) plans can generate significant retirement income and wealth

DC Savers Appreciate DC Account Features

Percentage of DC-owning households agreeing with each statement, fall 2010



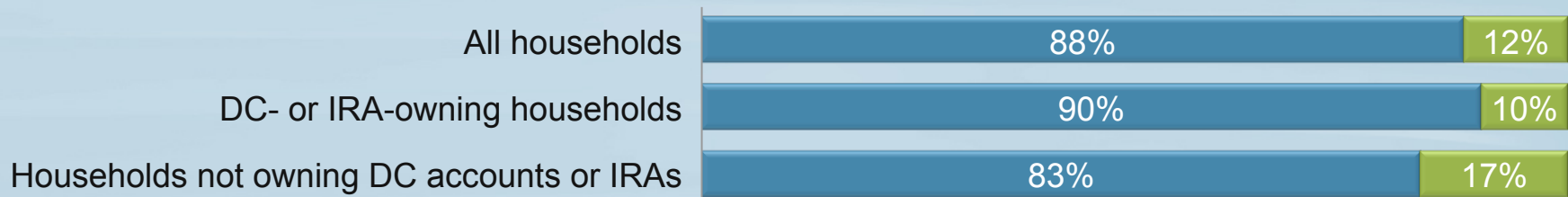
Note: Figure reports the percentage of DC-owning households who “strongly agreed” or “somewhat agreed” with the statement.
 Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, *Commitment to Retirement Security: Investor Attitudes and Actions* (January 2011)

Large Majorities of Americans Want to Keep DC Plan Tax Features

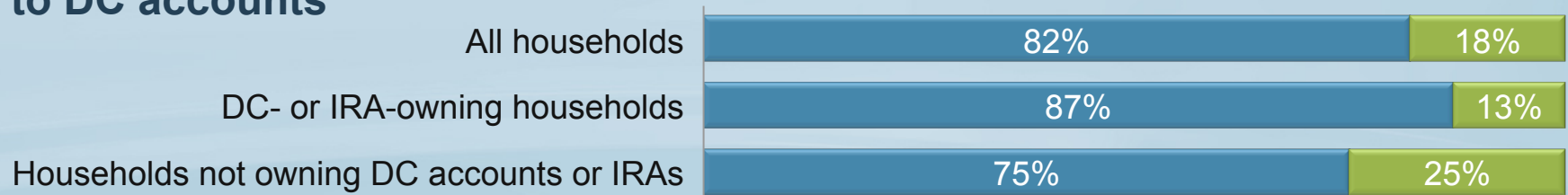
Percentage of U.S. households agreeing or disagreeing, fall 2010

■ Disagree ■ Agree

The government should take away the tax advantages of DC accounts



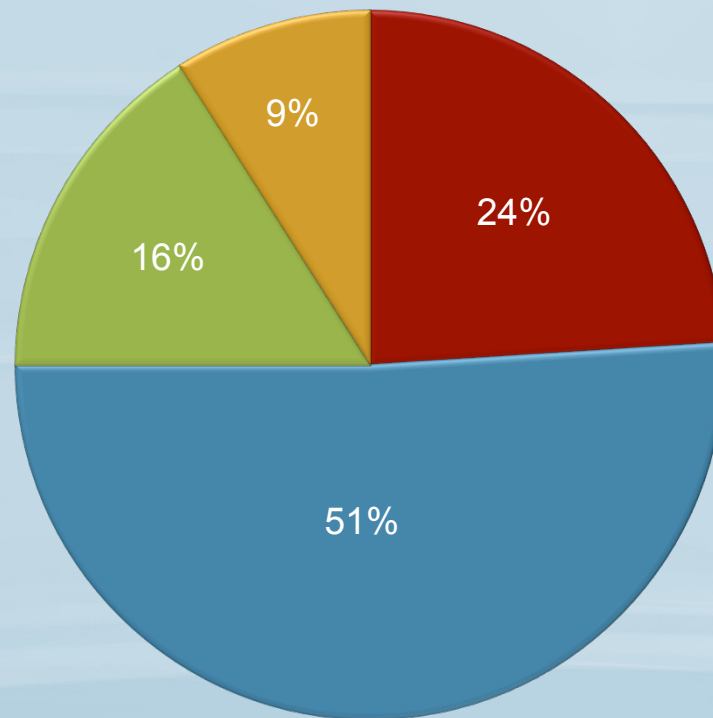
The government should reduce the amount that individuals can contribute to DC accounts



Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, *Commitment to Retirement Security: Investor Attitudes and Actions* (January 2011)

Three-Quarters of U.S. Households Express Confidence in DC Plans

Percentage of U.S. households, fall 2010



DC accounts can help individuals meet retirement goals

- Very confident
- Somewhat confident
- Not very confident
- Not at all confident

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, *Commitment to Retirement Security: Investor Attitudes and Actions* (January 2011)

EBRI/ICI Finds Full Careers with 401(k)s Generate Significant Retirement Income

- The EBRI/ICI 401(k) Accumulation Projection Model moves 401(k) participants through their careers, with decisions as they age that reflect actual participant behavior on contributions, asset allocations, job changes, rollovers, withdrawals, and loans
- Study focuses on 401(k) participants who will turn 65 between 2030 and 2039 (now aged 37 to 46)
- For more than 60 percent of this cohort, their 401(k) accumulations are projected to replace more than half their salaries

Source: EBRI/ICI 401(k) Accumulation Projection Model; see Holden and VanDerhei, "The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement," *ICI Perspective* and *EBRI Issue Brief* (July 2005)

Academic Research Finds Full Careers with DC Plans Generate Significant Nest Eggs

“Our projections suggest that the advent of personal account saving will increase wealth at retirement for future retirees across the lifetime earnings spectrum.”

—James Poterba, MIT; Steven Venti, Dartmouth College;
and David Wise, Harvard University

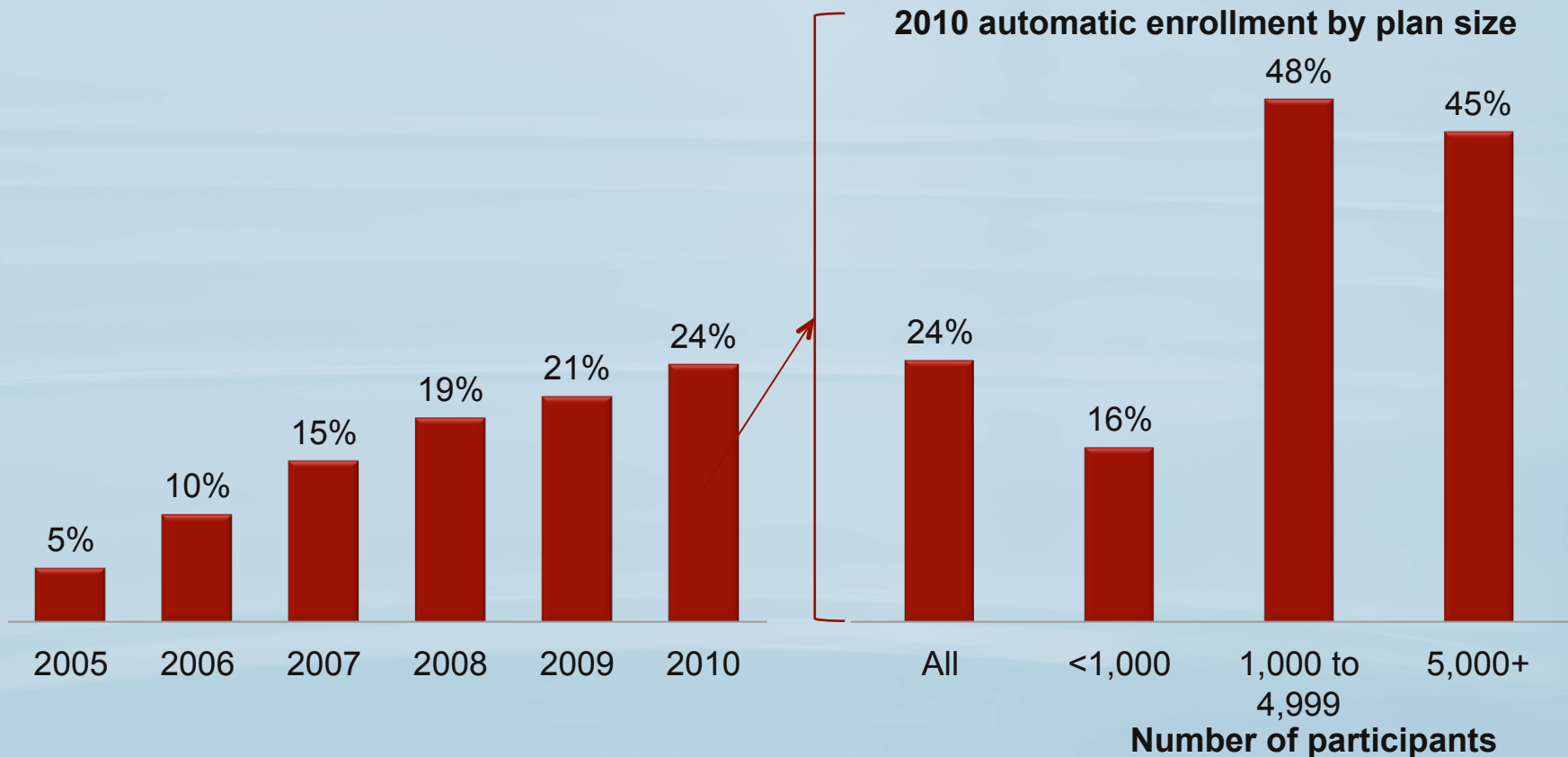
Source: See Poterba, Venti, and Wise, “The Changing Landscape of Pensions in the United States,” *NBER Working Paper* (September 2007)

Features That Contribute to 401(k) Success

- Plan sponsors and service providers highlight the importance of retirement saving (education and tools)
- Employers play a fiduciary role
- Plans offer discipline—saving paycheck-by-paycheck (payroll deduction; dollar-cost averaging)
- DC plan design is well-suited to a mobile workforce (portability)
- Plans offer investment opportunities and flexibility
- Sponsors, providers innovate in plan design

Growth of Automatic Enrollment Reflects 401(k) Innovation

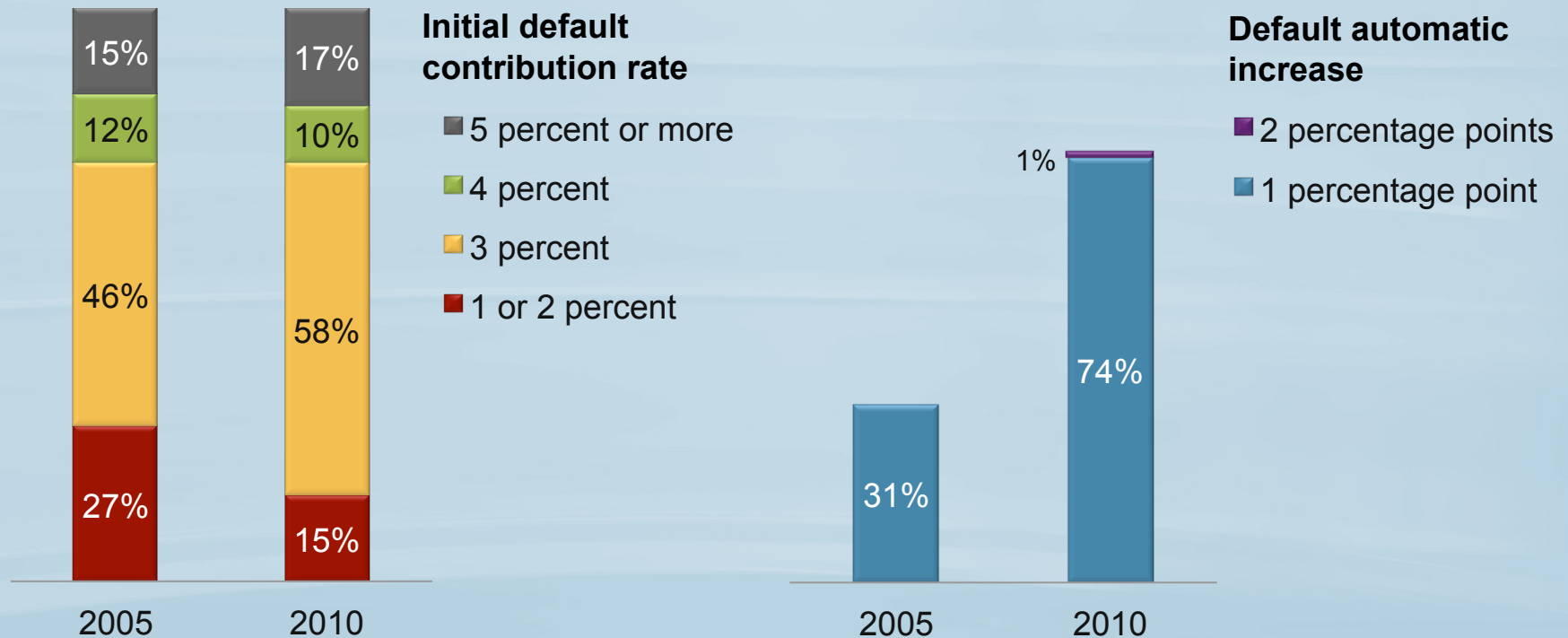
Percentage of plans



Source: The Vanguard Group; see *How America Saves 2011*

Innovation in Automatic Enrollment Design Increases Contributions

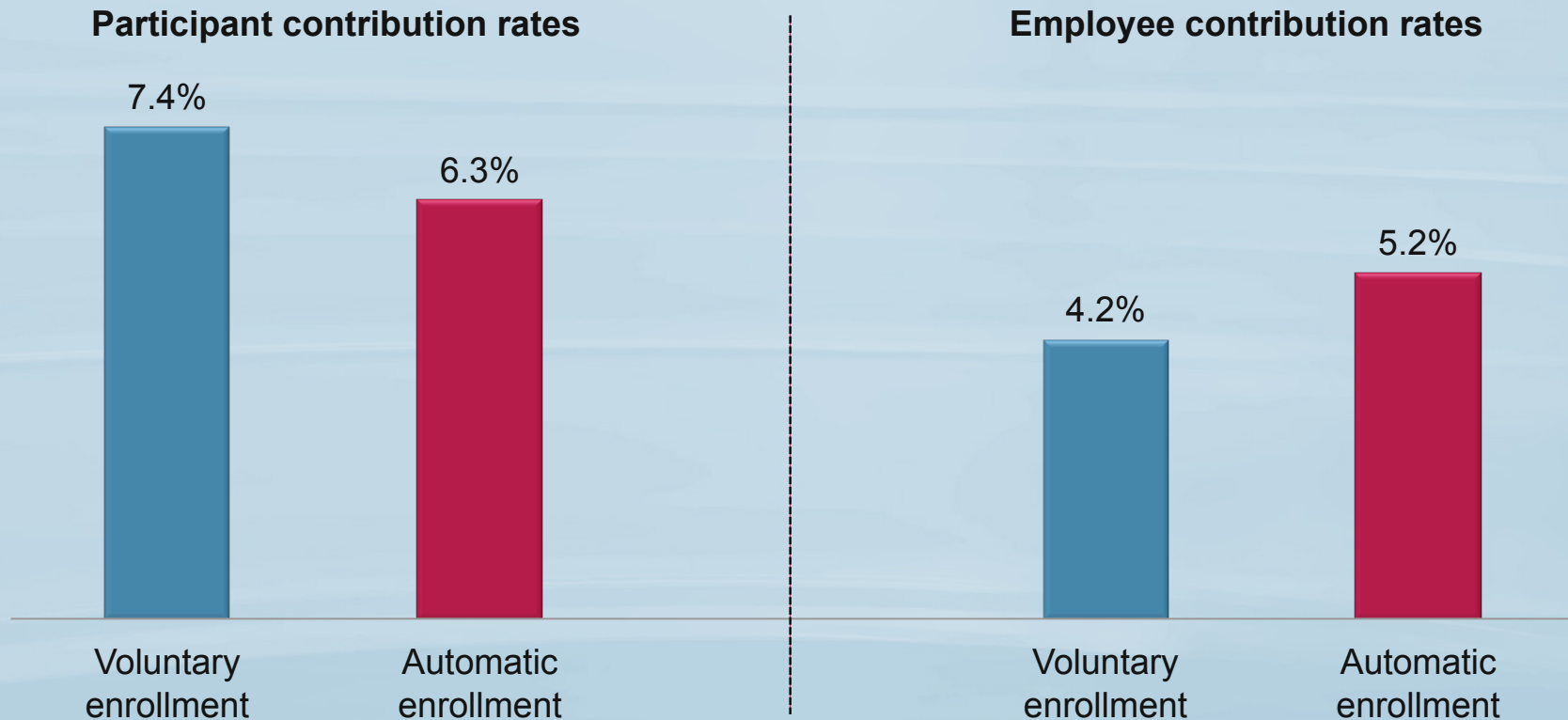
Contribution design among plans with automatic enrollment; percentage of plans



Source: The Vanguard Group; see *How America Saves 2011*

Automatic Enrollment Turns Nonparticipants into Savers

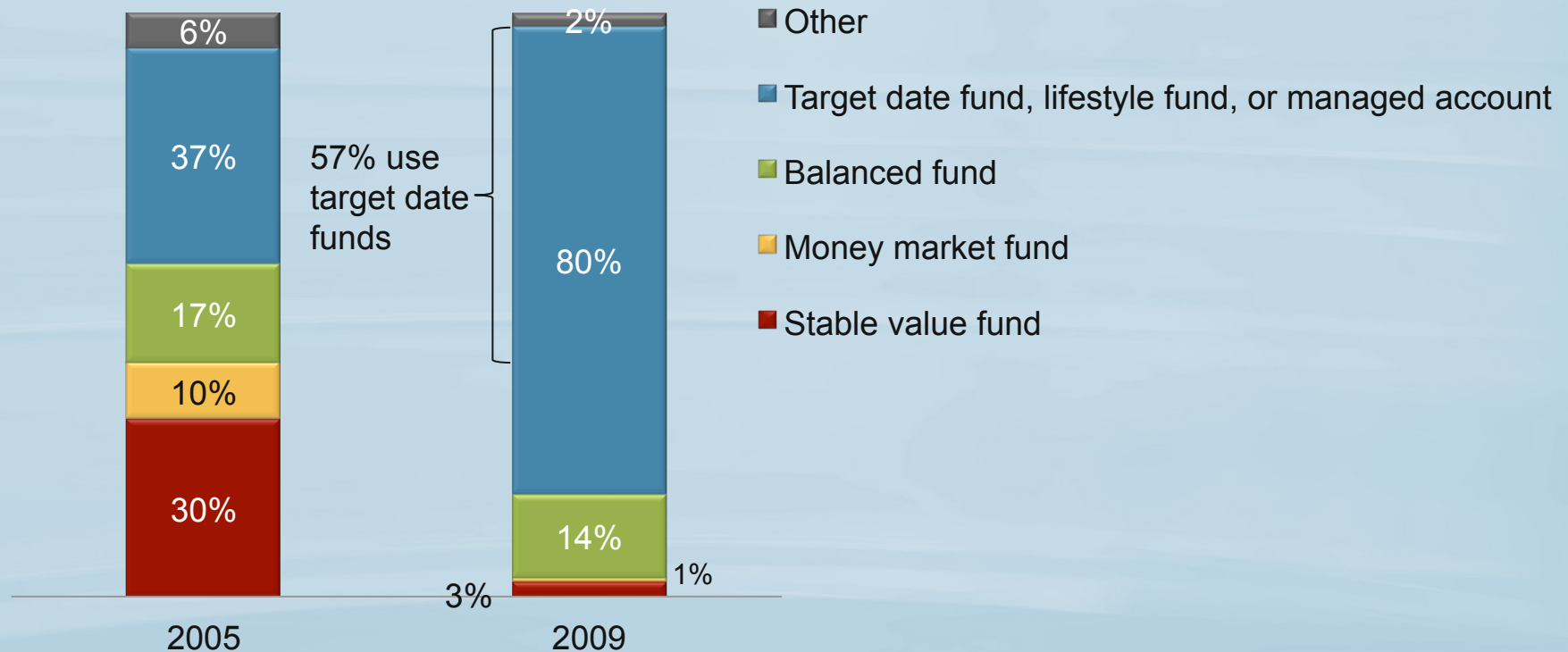
Average contribution rates by plan design, percent of income, 2010



Source: The Vanguard Group; see *How America Saves 2011*

Default Investment Options Increase Focus on Growth and Diversification

Default investment options among plans with automatic enrollment; percentage of plans

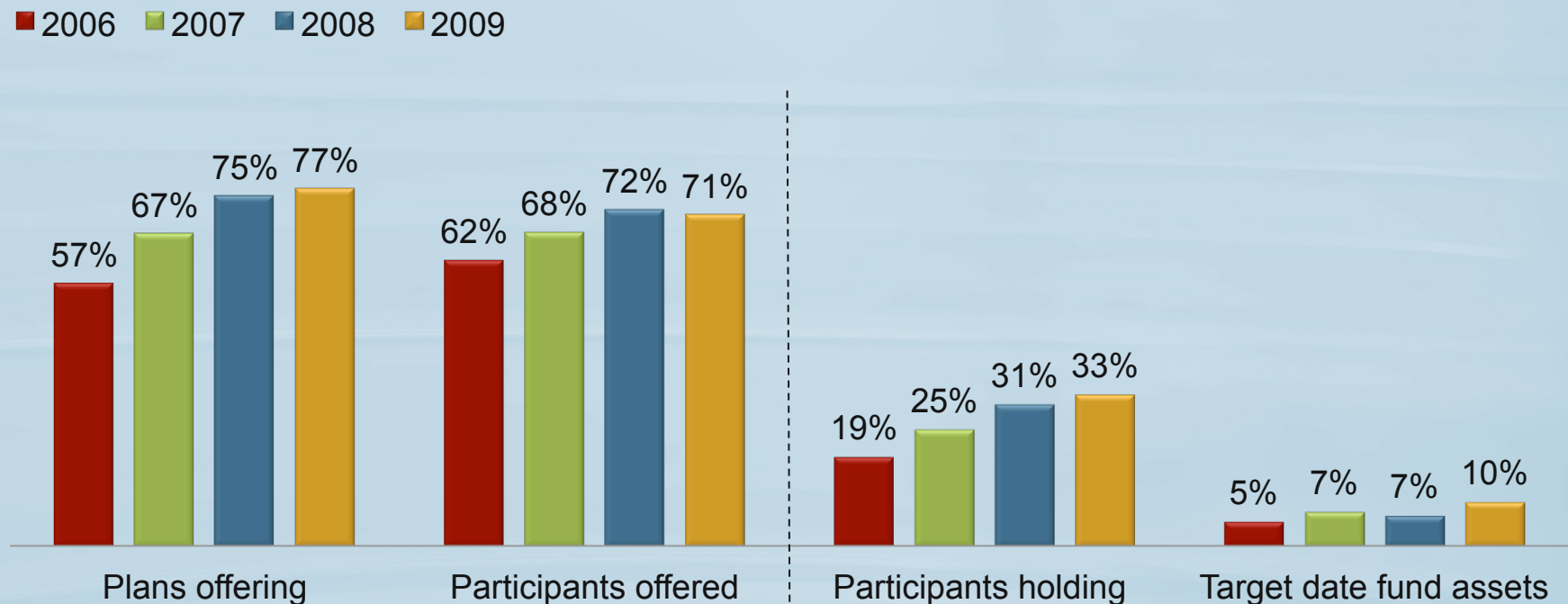


Note: "Fund" includes mutual funds, collective investment trusts, and other pooled investments.

Source: Profit Sharing/401k Council of America; see annual PSCA member surveys

Target Date Funds Claim a Growing Share of 401(k) Market

Percentage of total, 2006–2009



Note: “Funds” include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investments product primarily invested in the security indicated.

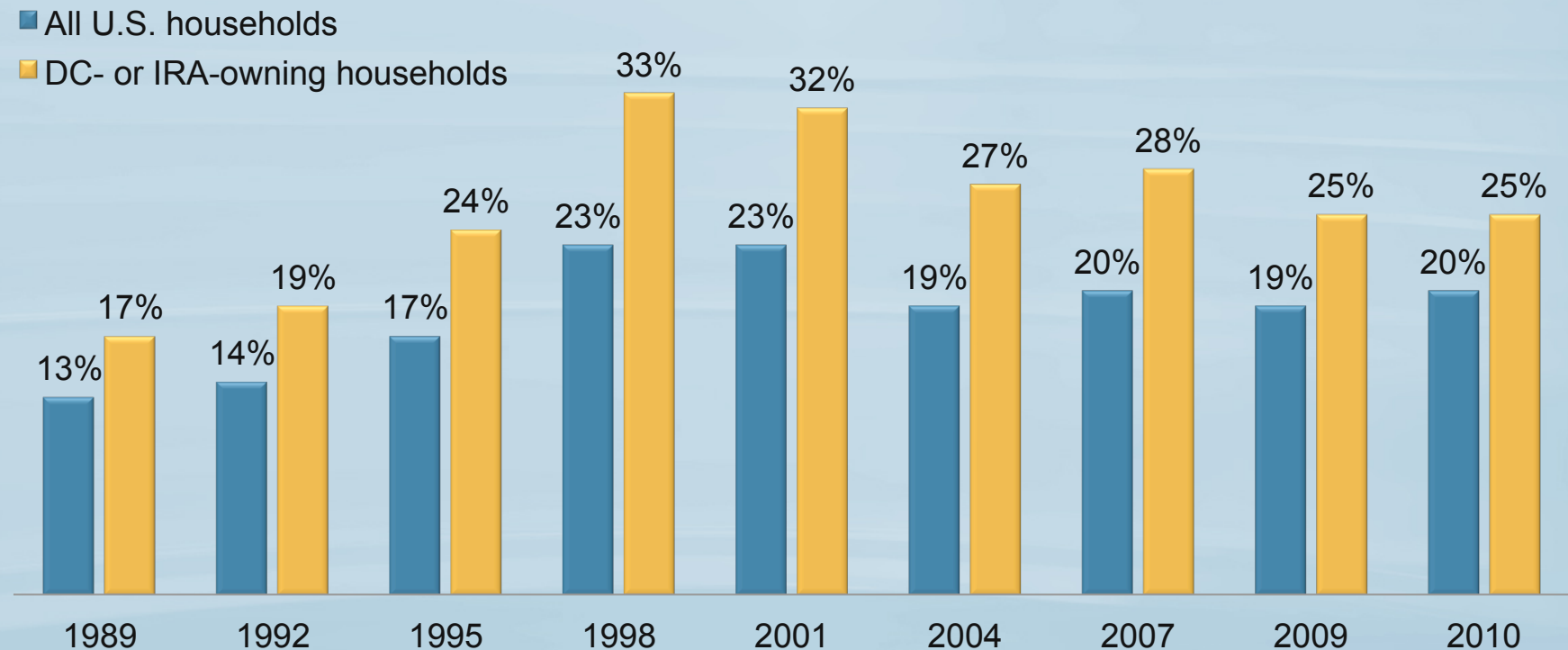
Source: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Alonso, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009,” *ICI Perspective* (November 2010)

Reaction of U.S. Households to the Financial Crisis

- U.S. households express less willingness to take financial risk and risk tolerance has declined across many age groups
- Households in their thirties are less likely to hold equities today compared with a decade ago
- A majority of households became more financially conservative in the wake of the financial crisis

U.S. Households Express Less Willingness to Take Financial Risk

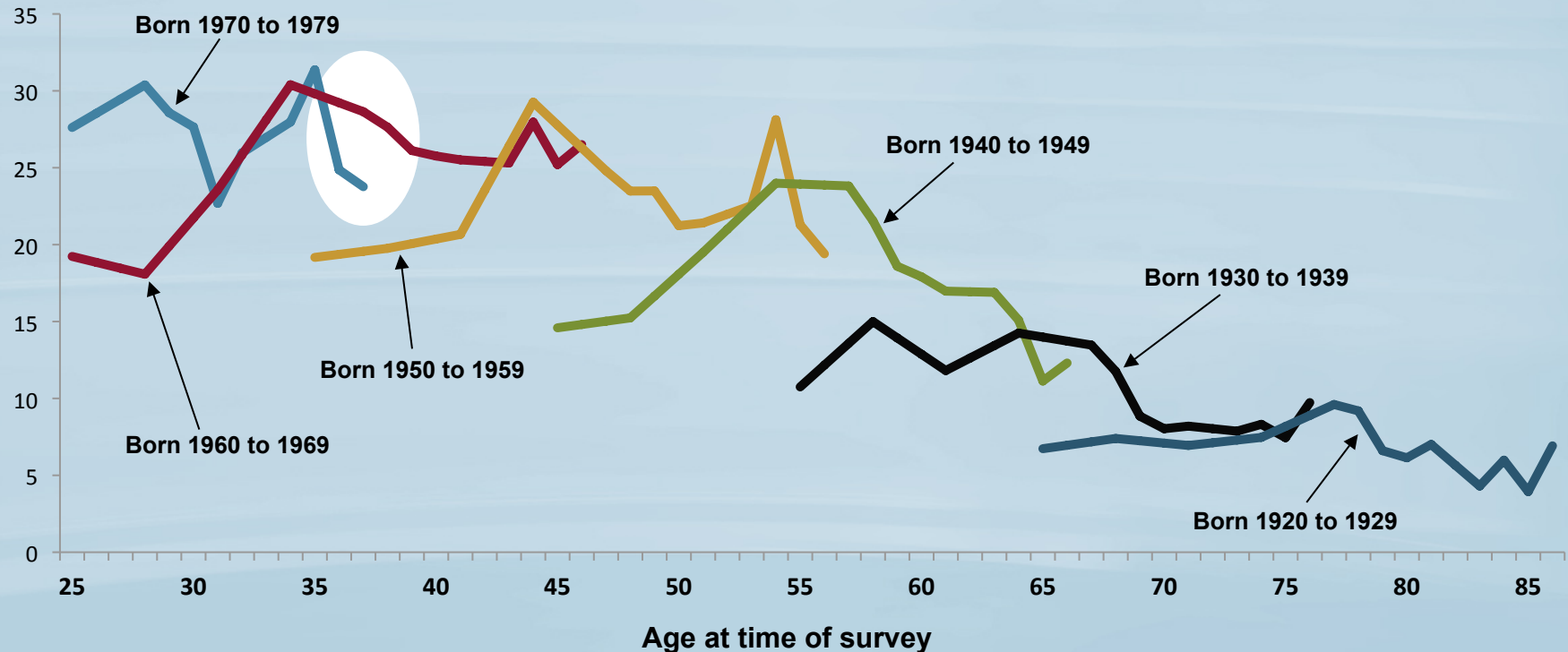
Percentage of households willing to take above-average or substantial financial risk for commensurate levels of financial gains



Sources: ICI tabulation of Federal Reserve Board Survey of Consumer Finances and ICI Annual Mutual Fund Shareholder Tracking Survey; see Investment Company Institute, *2011 Investment Company Fact Book* (May 2011)

Risk Tolerance Has Declined Across Many Age Groups

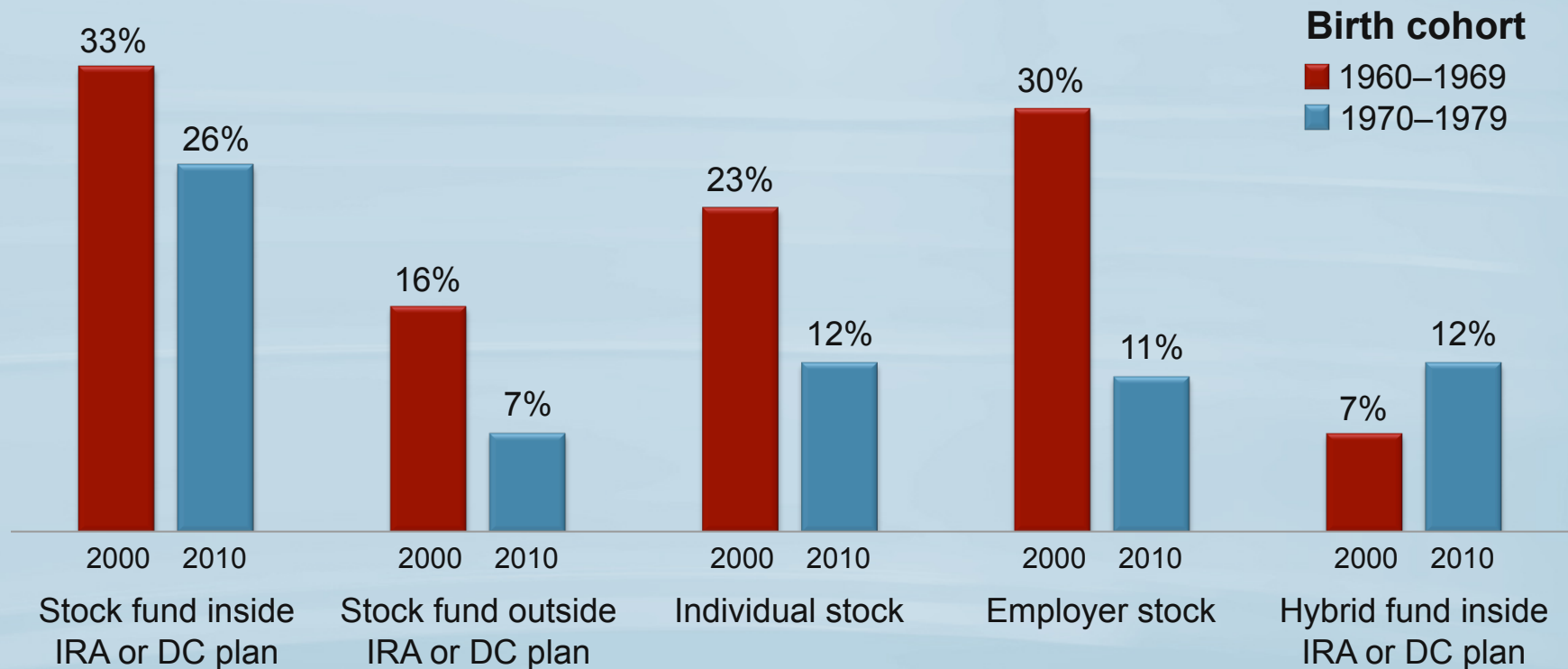
Percentage of all U.S. households willing to take above-average or substantial financial risk, 10-year birth cohorts, 1989–2010



Sources: ICI tabulations of Federal Reserve Board Survey of Consumer Finances and ICI Annual Mutual Fund Shareholder Tracking Surveys

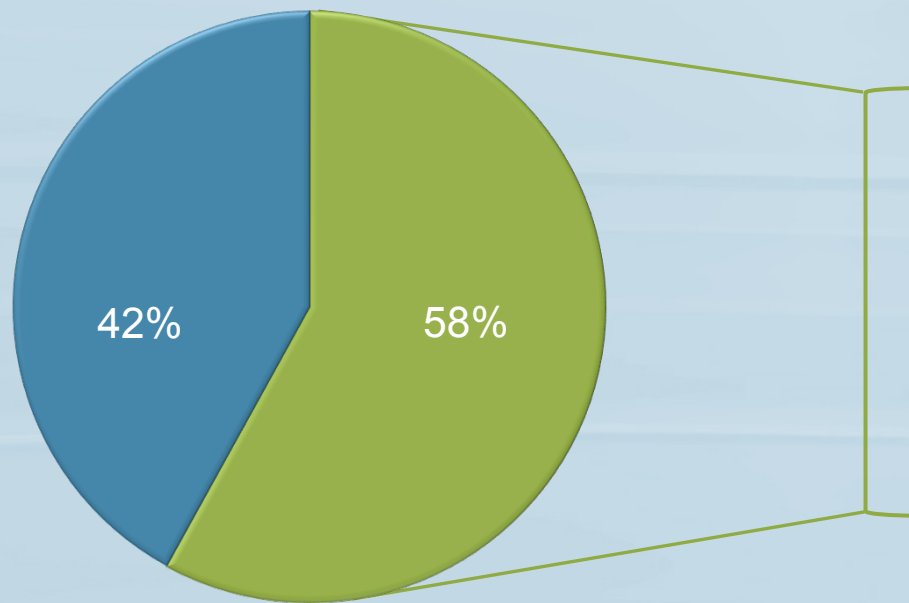
30-Somethings Today Are Less Likely to Hold Equities Than 30-Somethings in 2000

Percentage of households, 2000 and 2010



Source: ICI Annual Mutual Fund Shareholder Tracking Survey

Households Became More Financially Conservative



Over the past three years, 58 percent made one or more of these moves:

- Increased regular saving;
- Shifted investments away from stocks (to be more conservative); or
- Delayed retirement or increased retirement age.

Sample of 2,039 households with IRAs, DC accounts, or other financial assets

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, *Commitment to Retirement Security: Investor Attitudes and Actions* (January 2011)

Actions of 401(k) Plan Participants in the Financial Crisis

- Account balances tended to rise and fall with the stock market, but participants were well-served by dollar-cost averaging into equities
- Participants generally stayed the course
- Like other households, retirement savers express less willingness to take financial risk, but 401(k) features help savers maintain a balanced approach

Contributions, Returns Helped Consistent 401(k) Participants Bounce Back in 2009

Average account balance among 401(k) participants who held accounts from year-end 2003 through year-end 2009*

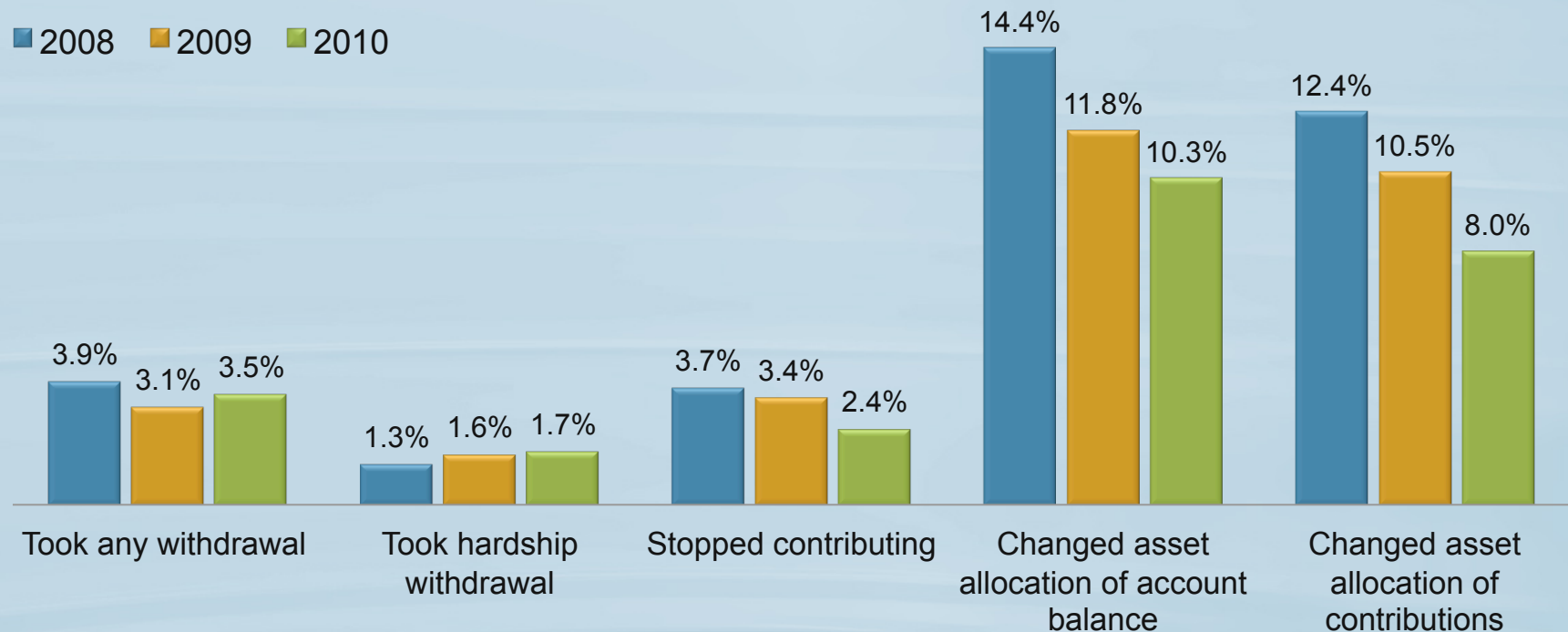


*Account balances are participant account balances held in 401(k) plans at the participants' current employers and are net of plan loans. Retirement savings held in plans at previous employers or rolled over into IRAs are not included.

Source: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Alonso, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," *ICI Perspective* (November 2010)

DC Plan Participants Stayed the Course

Summary of recordkeeper data; percentage of participants



Note: The samples include more than 22 million DC plan participants for 2008; nearly 24 million DC plan participants for 2009; and more than 23 million DC plan participants for 2010.

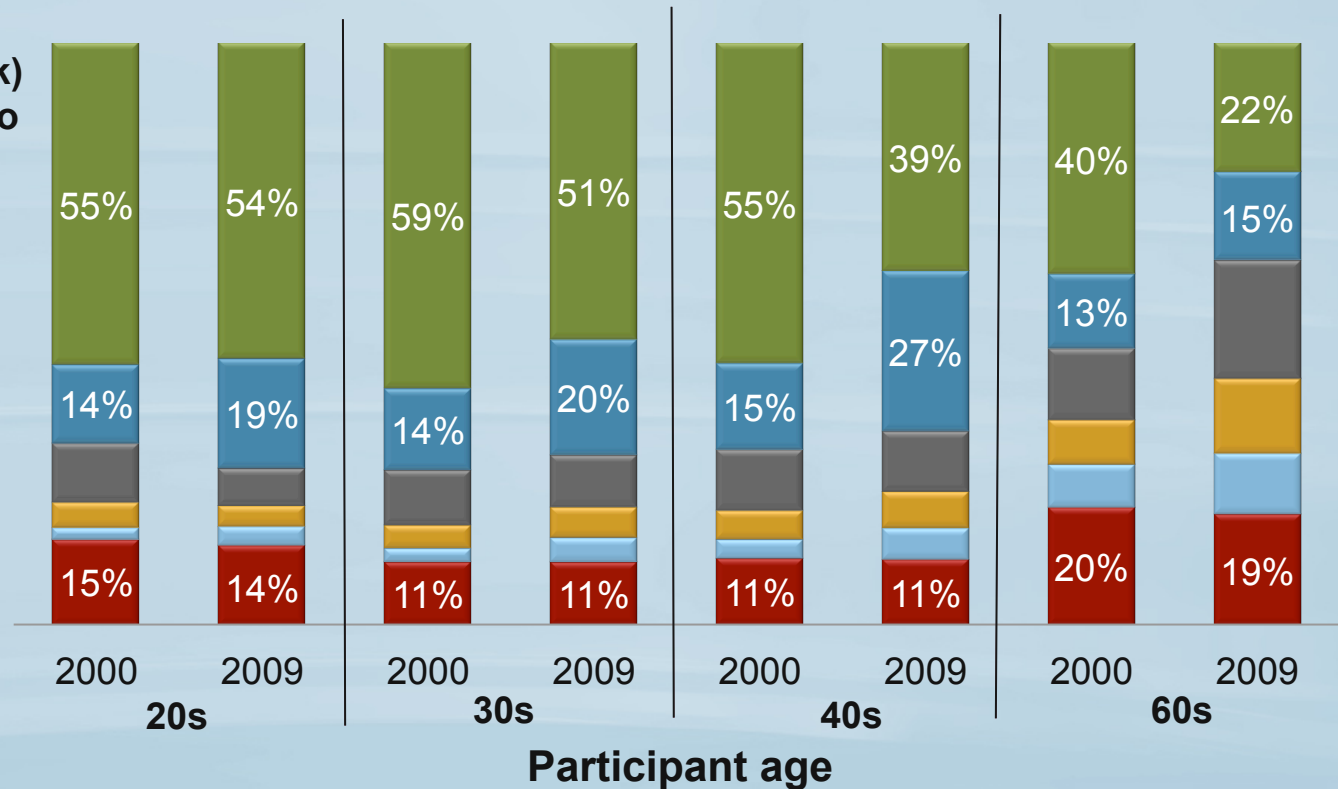
Source: ICI Survey of DC Plan Recordkeepers (January–December 2008; January–December 2009; and January–December 2010); see Holden, *Defined Contribution Plan Participants' Activities, 2010* (May 2011)

401(k) Participants Have Tempered Their Account Allocation to Stocks

Percentage of 401(k) plan participants by age, 2000 and 2009

Percentage of 401(k) account allocated to equities*

- >80%–100%
- >60%–80%
- >40%–60%
- >20%–40%
- 1%–20%
- Zero

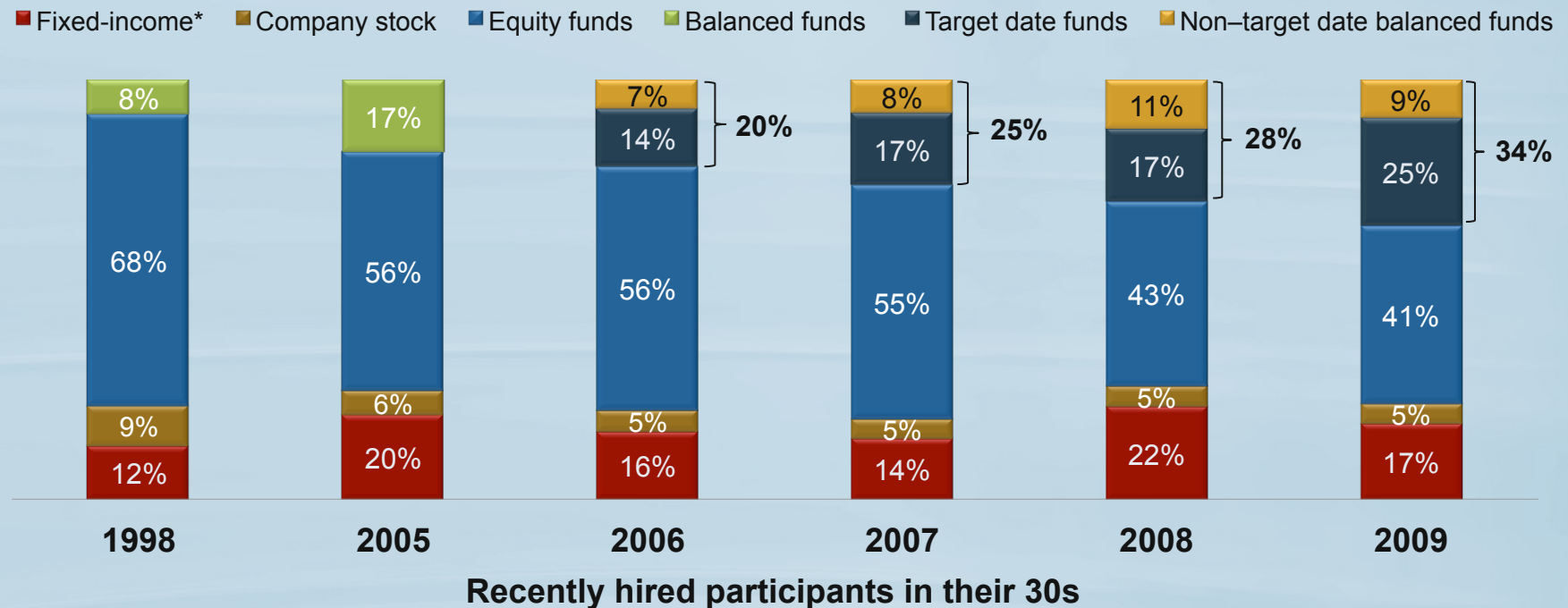


*Includes stocks held in funds.

Source: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Alonso, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," *ICI Perspective* (November 2010)

Recently Hired Participants in Their Thirties Hold More Target Date and Balanced Assets

401(k) plan average asset allocation among 401(k) participants with two or fewer years of tenure, percent of total



*Fixed-income investments include bond funds, guaranteed investment contracts (GICs) and other stable value funds, and money funds. Note: "Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investments product primarily invested in the security indicated. Percentages are dollar-weighted averages. Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Alonso, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," *ICI Perspective* (November 2010)

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Questions and Answers

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