October 7, 2008

STATEMENT OF THE
AMERICAN BENEFITS COUNCIL
to the
HOUSE OF REPRESENTATIVES
COMMITTEE ON EDUCATION AND LABOR
for the hearing on
THE IMPACT OF THE FINANCIAL CRISIS
ON WORKERS' RETIREMENT SECURITY

We appreciate the opportunity to submit this statement on behalf of the American Benefits Council in conjunction with the hearing you are holding today on The Impact of the Financial Crisis on Workers' Retirement Security. The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans.

Chairman Miller and Ranking Member McKeon, these are indeed unsettling times for American workers and American employers. The current difficulties in our financial system are posing a wide range of challenges for individual American families and American businesses. One of the challenges faced by American workers is an understandable sense of anxiety regarding their retirement planning and retirement security. We appreciate your consideration of these issues in today's hearing and are pleased to share our perspective on the effect of these periods of market and financial uncertainty on our nation's employer-sponsored retirement system.

The Strengths of the Employer-Sponsored Retirement System
The Council and its members have worked collaboratively with this Committee and with the entire Congress to build an employer-sponsored retirement system that is strong and resilient and that helps to advance the retirement security of American families. This successful system is marked by a number of key characteristics. It facilitates employer sponsorship of plans, encourages employee participation in pension programs, promotes prudent investing, insists on transparency, operates at

reasonable cost and is subject to strict fiduciary obligations and sound regulatory oversight. This is a system that is built to serve the long-term retirement interests of workers and that is designed to weather changes in market, financial and economic conditions, even conditions as anxiety-provoking as the ones we are experiencing today. We, like you, believe we should always be asking whether this system can be improved to better serve the interests of plan participants, and today's economic challenges present another opportunity to ask such questions. But we believe our current employer-sponsored retirement system plays a critical role in advancing workers' retirement security, even when markets, 401(k) account balances and pension funding levels are down.

The Long-Term Focus of Defined Benefit Plans
Employer-sponsored retirement plans, whether defined benefit or defined contribution, provide an invaluable supplement to workers' Social Security benefits and personal retirement savings. Defined benefit plans provide broad coverage, employer financing, professional asset management, spousal protections and lifetime income backed by guarantees from the Pension Benefit Guaranty Corporation. In managing defined benefit plan assets, fiduciaries must act prudently and solely in participants' interests and must diversify plan investments so as to minimize large losses. Defined benefit plan sponsors invest for the long-term so as to secure the promises employers make to provide benefits many decades into the future. Unlike some others, defined benefit asset managers do not have a short-term investment focus. Pursuant to these legal obligations and investment principles, defined benefit plan sponsors invest in a broad array of asset classes and have avoided the heavy focus on mortgage-related investments that has contributed to the collapse of certain financial institutions and the weakening of others. As is true of all investors when markets fall, funding levels in defined benefit plans are down somewhat and this will impose financial obligations on employers, some of which may be struggling in the current economic environment. As the Chairman and Ranking Member are aware, we believe there are certain steps Congress could take to address these challenges, such as prompt enactment of two provisions relating to the funding requirements of the Pension Protection Act of 2006 (PPA). One of these provisions would clarify the permissibility of asset smoothing under PPA and the other would institute a more effective transition regime to the PPA funding rules. Both changes would help avoid undue financial burdens on employers. The Council has recommended these two steps for some time as we believe they will assist in providing needed predictability and stability to the defined benefit system. Given the current economic situation, they have become even more important.

We also hope to continue our conversations with policymakers regarding the accounting standards applicable to defined benefit plans. The Financial Accounting Standards Board has recently adopted new standards in this area and even more dramatic changes are on the horizon. These new approaches pose significant challenges for employer sponsors and contribute to the concern among some that defined benefit plans are simply too unpredictable from a financial perspective.

The Recent Enhancements to Defined Contribution Plans
Defined contribution plans likewise offer important benefits to workers, among them choice and control over investments, portability and access to funds in times of financial distress. As defined contribution plans have become more dominant in the workplace, Congress has taken a number of important steps to make these plans even more successful and to assist plan participants in carrying out their responsibilities under these plans. The Pension Protection Act, in particular, strengthened the defined contribution plan system in ways that fundamentally assist participants -- especially in financial circumstances such as those we face today. PPA encouraged automatic enrollment so that more employees would participate in plans, it facilitated default investments, which are a critical component of automatic enrollment arrangements, it provided new diversification rights so that employees would avoid the concentrations in company stock that proved so heartbreaking for the workers at Enron and it expanded opportunities for investment advice so that employees could have professional counsel, which is particularly important in times such as these (most especially for workers nearing retirement). While implementation of these PPA provisions is continuing, participants are in better shape to weather the current market downturn because they have been put in place.

This Committee has been at the forefront of the recent efforts to ensure that our defined contribution system is marked by transparency regarding fees. We share the Committee's strong commitment to ensuring that plan participants have clear information about the fees they are charged and that plan fiduciaries have clear information about the compensation earned by plan service providers. Such transparency regarding fees facilitates sound decision-making by both participants and sponsors and helps ensures that fees are reasonable in light of the services, features and quality provided. As members of the Committee have noted. when fees are kept at reasonable levels, participants have more in their accounts at retirement. This is an outcome we can all support. We look forward to working with this Committee and with the regulators at the Department of Labor to ensure that changes to fee disclosure practices are implemented smoothly, in a coordinated fashion and with sufficient transition periods. We want to be certain that the advantages of enhanced transparency are achieved without in any way deterring plan participation or plan sponsorship.

The Added Value of Employer Sponsorship
Regardless of the type of plan (or plans) an employer offers to its workforce, there is a dimension of employer plan sponsorship that deserves particular mention as it brings tremendous value to plan participants in financial circumstances like those we are experiencing. That is the simple fact of employer plan sponsorship and the fiduciary oversight that accompanies this employer role. Retirement plan participants have a fiduciary whose legal obligation it is to act solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits. The benefits of this employer sponsorship and fiduciary oversight are manifold – pre-selection of quality

investments, ongoing investment oversight, use of employer bargaining power regarding fee and service levels and investment education, to name but a few. In response to current market events, many plan sponsors have communicated with plan participants and made information available about key investment principles and the importance of continuing to calmly review one's financial situation. Plan sponsors are also devoting particular attention at this time to their ongoing monitoring of plan investments. Thus, despite today's market challenges, those who participate in employer-sponsored retirement plans are fortunate relative to those who do not. We hope to continue to work with the Committee to expand the number of employers that sponsor retirement plans and further increase the number of workers who participate. Certainly we should take no steps that would frustrate either of these important goals.

The Importance of Financial Literacy

Chairman Miller and Ranking Member McKeon, another issue that is worth discussing in the context of today's hearing is one that the Council highlighted in our 2004 report, *Safe and Sound: A Ten-Year Plan for Promoting Personal Financial Security*. That is the issue of financial literacy. While knowledge and understanding of financial principles cannot completely conquer the anxiety that many Americans are feeling today, it certainly can reduce such anxiety and can help prompt sound decision-making in challenging times such as these. In *Safe and Sound*, we articulated a goal that "by 2014, virtually all households will have access to some form of investment education and advice and 75 percent of households will have calculated the amount of retirement savings needed to maintain their standard of living throughout retirement, as well as the savings rate needed to achieve this target." To assist in reaching this goal and to facilitate the equally important goal of improving financial literacy generally, our report recommended (1) expansion of financial education efforts by employers, the government and other stakeholders, (2) the establishment of financial literacy requirements at the high school and college level, and (3) the inclusion in the annual Social Security statement of a tool to calculate retirement savings goals. Adoption of these steps will ensure both that Americans are financially prepared for challenging economic times and equipped with the skills and knowledge to make sound decisions in times of market turbulence.

The Council sincerely appreciates your consideration of our views. We look forward to collaborating with the Committee to analyze the effects of the current financial environment on workers' retirement security and to determine whether there are any policy steps that can be taken to promote this security and further strengthen the nation's voluntary employer-sponsored retirement system.