Testimony Concerning
Improving Disclosure
for Workers Investing for Retirement

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Chairman Rangel, Ranking Member McCrery, and Members of the Committee:

I am pleased to be here today to discuss the Securities and Exchange Commission's perspective on the challenge of helping workers invest for their retirements. With a rapidly-aging workforce, you have rightly identified this as an issue of current concern. Some Census numbers released earlier this year provide a sense of the magnitude of the issues presented by the aging of the American population. In 2006, there were more than 37 million Americans age 65 and older, accounting for 12% of the total population. There were five million people age 85 and older, nearly two million in their nineties, and over 73,000 Americans age 100 or older. Today, households led by people over 40 already own 91% of America's net worth, and Americans aged 55 - 64 have the highest income and the highest net worth of any age group, according to the Federal Reserve's Survey of Consumer Finances. As the baby boomers continue to age, it will be a very short while before the vast majority of the nation's savings are in the hands of America's elderly.

With longevity now the norm in our country, it will be increasingly important to protect retirement nest eggs. In the 21st century, Americans will live significantly longer than their parents – and longer than most of them planned for their retirement. A number of older Americans will face difficulties in making their retirement assets last an extra decade or more. While Americans 65 and older hold a record high of $15 trillion in assets, nearly a third of them say they do not have enough money even to meet their basic living expenses.

Last year the SEC launched a Seniors Initiative to address these issues from a number of angles – from investor education, to targeted examinations, to aggressive enforcement efforts. The hallmarks of this initiative have been partnerships with other agencies like the relationship we have built with the Department of Labor with respect to our ongoing examination of the adequacy of disclosures available to investors concerning mutual funds and other investment vehicles in a typical defined contribution retirement plan.

The historic shift from company-guaranteed pension plans to investor-directed vehicles such as 401(k) plans and other defined contribution retirement plans has made this examination particularly important. Americans already invest well over $3 trillion through these defined contribution retirement plans and over half of that is invested in mutual funds. The SEC is committed to making sure that today's retirees, and tomorrow's, have the information they'll need to manage successfully their savings through a retirement that, actuarially speaking, will be far longer than their parents'.

A significant part of the Commission's regulatory responsibilities with respect to mutual funds involves development and administration of mutual fund disclosure requirements. With over 96 million Americans investing in mutual funds for their retirements, their children's education needs, and their other basic financial goals, it is important that mutual fund disclosure is effective. Fund investors, including those who invest through defined contribution plans, should receive clear, concise, and meaningful disclosure about key fund information.

This is not just a matter of clearer writing, but also of clarifying our regulations concerning mutual fund fees and expenses. So the Commission is conducting a review of mutual fund fees and expenses, and the disclosure of these costs to investors. That review includes an examination of the $12 billion that investors now pay each year in Rule 12b-1 fees.

With the same objectives in mind, the SEC has intensified its focus on "soft dollars." Soft dollar arrangements involve a money manager's obtaining products or services, in addition to the execution of securities transactions, from or through a broker-dealer in exchange for the money manager's directing client brokerage transactions to the broker-dealer. In 2006, the Commission acted unanimously to publish interpretive guidance that clarifies that money managers may only use soft dollars to pay for eligible brokerage and research. In addition, the staff is now examining the adequacy of current disclosure for soft dollars.

Also, importantly, we are preparing for the Commission's consideration a mutual fund disclosure reform initiative. Today, I will outline this initiative and the ways in which it could prove to be helpful in the defined contribution plan marketplace.

Background on SEC's Mutual Fund Disclosure Reform Initiative

In recent years, numerous commentators have suggested that investment information that is central to an investment decision should be provided in a streamlined document with other more detailed information provided elsewhere. Furthermore, recent investor surveys indicate that investors prefer to receive information in concise user-friendly formats.

To gather perspectives from the public, in June 2006 the Commission held a Roundtable on interactive data and mutual fund disclosure reform issues. At the Roundtable, representatives from investor groups, the mutual fund industry, analysts, and others discussed how the Commission could change the mutual fund disclosure framework so that investors would be provided with better information.

Significant discussion at the Roundtable concerned the importance of providing mutual fund investors with access to key fund data in a shorter, more easily understandable format. The participants focused on the importance of providing mutual fund investors with shorter disclosure documents, containing key information, with more detailed disclosure documents available to investors and others who choose to review additional information. Roundtable participants identified the most important information that investors are likely to need to make an investment decision such as information about a mutual fund's fees and investment objectives and strategies, risks and performance.

We have also benefited from the work of a mutual fund task force organized by NASD. This task force concluded that investors would benefit from the creation of a "profile plus" document that would be available on the Internet and would include, among other things, basic information about a fund's investment strategies, risks, and total costs, with hyperlinks to additional information in the fund's prospectus.

Framework for Mutual Fund Disclosure Reform

The Commission is examining ways to reform the mutual fund disclosure framework. The goal of this examination is to find the best way to get investors a concise summary document containing key information about a fund described in plain English and in a standardized order. The key information contained in a concise mutual fund summary potentially could include a fund's fees and investment objectives and strategies, risks, and performance.

This reform initiative is intended to provide investors with information that is easier to use and more readily accessible while retaining the comprehensive quality of the information available today. This should help investors who are overwhelmed by the choices among funds, which are too often described in lengthy and legalistic prospectuses. A concise mutual fund summary could enable investors to access readily key information that is important to an informed investment decision, including information about fund fees.

If the Commission determines to propose a reformed mutual fund disclosure framework, I am hopeful that we will receive helpful public comment on the utility of the proposed approach.

Use in the Defined Contribution Plan Market

As the staff works to develop a reform initiative, we do so with a view toward making it useful for all fund investors, including those in defined contribution plans. Along these lines, my staff and I have been working with the Employee Benefits Security Administration (EBSA) of the Department of Labor. We are keeping EBSA apprised of our progress on the mutual fund disclosure reform initiative. We also have been discussing how a concise mutual fund summary could dovetail with EBSA's efforts in the defined contribution plan market. Given that just over half of defined contribution plan assets are invested in mutual funds, utilization of a concise mutual fund summary to provide clear disclosure about fund fees, investment objectives and strategies, risks, and performance could greatly benefit defined contribution plan investors. Our cooperative efforts should make it easier for Americans to understand the expenses they are being charged in connection with their investments, and the returns they are actually getting compared to an appropriate index. The work with EBSA has been helpful, cooperative, and mutually beneficial. My staff and I will continue to work with Assistant Secretary Campbell and the EBSA as we move forward on mutual fund disclosure reform.

Conclusion

In conclusion, the Commission supports the goal of providing clear, concise, meaningful disclosure to fund investors, including those investors that invest through defined contribution plans. As a greater percentage of Americans invest for retirement through mutual funds included in employer-sponsored defined contribution plans, it is essential that defined contribution plan investors be provided information that enables them to manage and evaluate their investments and understand the costs associated with them.

The Commission expects to consider proposal of the revised mutual fund disclosure reform framework in the near future, and the staff will continue to work with EBSA. Thank you for this opportunity to appear before the Committee, and I would be happy to answer any questions you may have.