REMARKS OF

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U.S. SECURITIES AND EXCHANGE COMMISSION

WILL YOU STILL LOVE ME, WILL YOU STILL NEED ME, (AND WILL YOU STILL FEED ME), WHEN I'M 64

BEFORE THE

T. ROWE PRICE ASSOCIATES PLAN SPONSOR CONFERENCE

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* The views expressed herein are those of Commissioner Beese and do not necessarily represent those of the Commission, other Commissioners, or the staff.

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In Washington and across the country, all eyes are trained on the proposals to revamp our health care system. For us today considering defined-contribution pension plans, the health care debate may seem another day's battle, involving another set of issues to be dealt with at another time and place. But for me, this debate begs a question that may hit all of you a bit closer to home: After health care, are pensions the next employee "benefit" that our elected representatives will feel compelled to transform into an employee "right?"

The answer to that question could be quite expensive. But consider this -- while much of the health care debate involves political in-fighting to see who ultimately will pick up the tab, it is a virtual certainty that if pensions are moved from the category of "benefit" to "right," the debate over who foots that bill will not be nearly so long or nearly so controversial.

PENSIONS: THE NEXT BASIC RIGHT?

As I sit on the sidelines watching the health care debate, I am struck by just how quickly the idea of affordable health coverage for all Americans has been transformed from a laudable goal into an individual's basic right. Twenty years ago it seems unimaginable that Congress would have to act to insure that employees -- whether active or retired -- received adequate health coverage. But twenty years ago it also seemed unimaginable that sky rocketing health care costs and the competitiveness of the global economy would force many U.S. companies to cut costs by limiting the benefits they provide to their employees and retirees.

Because of the public outcry, the President and Congress are moving forward to convert health care benefits into health care rights. The only question that seems to remain is when the final bill is presented, whether the collective groan you hear will be louder from executives in our nation's board rooms or from doctors in our nation's operating rooms.

Considering whether a fully-funded pension will be added to the list of employees' basic rights involves more than just considering worst-case scenarios. The trends involved with pension benefits almost parallel those underlying health care. Many are already painting the switch to defined-contribution plans as simply another corporate cost cutting method akin to limiting health coverage available to current and former employees.

Moreover, whereas many Americans now are finding it difficult to afford good medical care, based on the current participation rates and investment strategies prevalent with many defined-contribution plans, it will not be long before many workers will find themselves unable to afford to retire. In fact, the most recent issue of Money magazine suggests that one way to boost retirement income through a 401(k) is simply to work longer.

Indeed, even as front page articles note that the President's health care proposals may provide cost incentives for corporations to downsize their workforce and encourage early retirement in order to shift health costs to the goverment's balance sheet, a recent study concludes that 60 percent of all older American workers offered early retirement turn it down. As you might expect, this study also found that the individuals most likely to accept offers for early retirement are those who are in good health and better-off financially.

If the trends in participation rates and investment strategies are allowed to continue unabated, the public outcry for a national pension plan will not be far behind. Congress is already paying increased attention to this area, and over a two week period earlier this month, the editors of the Washington Post wrote on two separate occasions that after health care, American pension protection should be considered next. Yes, the volume is increasing.

THE CBO STUDY

For those of you thinking that the recently issued Congressional Budget Office report on baby boomers and retirement may head off these calls for action, I say think again. First, let's consider the source. This report was written by the same outfit that in 1986 forecast that as a result of the Graham-Rudman bill, the federal budget would be balanced by 1990. Although the CBO report did find that baby-boomers are living better than their parents, this conclusion is not too surprising. One would hope that every twenty-five years or so our capitalistic system would enable us to enjoy an increased standard of living, particularly with the use of leverage, some from 401(k) plans.

But more to the point, the CBO's findings could be the harbinger of bad news rather than good news. Baby boomers may be living better now than their parents did at their age, but the real question is whether this will be still be true when these same baby boomers reach their parents current age.

In 1962, most employees could look forward to receiving an endless supply of monthly pension checks at retirement, complete with COLA's. With more and more baby boomers now responsible for funding their own retirement, I have to wonder if their reported increase in wealth has been obtained at the expense of inadequate contributions to retirement funding. As

I've said before, favoring current consumption over saving for retirement is little more than leasing a lifestyle from the last third of your life.

The CBO highlights greater wealth through increased home values, and this is heartening. But unless home appreciation rates continue to grow faster than other more traditional retirement investments, future retirees may be losing ground by making excessive mortgage payments instead of contributions to a retirement plan. Home equity may look good on paper to the CBO, but when it comes time to fund a retirement, many baby boomers may find that their future financial security has been built on a house of cards.

For me, the future of defined-contribution pension plans seems fairly clear. Plan sponsors must convince employees to participate sooner, save more, and invest better, or alternatively, they better contact their lobbyists to see how best to shape the coming legislation requiring mandatory pension rights for all employees. And if there is any doubt about which fate is worse, just keep watching the health care debate and see who's ox is getting gored.

LABOR'S SOLUTION: 404(c)

So far, government attempts to help defined-contribution plan participants have focused primarily on efforts to help employees invest better. Because employers fear lawsuits if they go too far with their educational efforts, the Labor Department finally enacted their new 404(c) regulations last fall. By granting employers limited immunity from lawsuits if they comply with these new rules, Labor hopes to coax more employers into providing more information about the investment options offered under their plans.

I applaud Labor's efforts to help employers help their employees to take full advantage of their defined-contribution pension plans. However, while these new regulations are a good first step, some very practical concerns may limit their effectiveness.

First, the safe harbor plan sponsors were hoping for from 404(c) is not so wide, and may not even be so safe. The protection provided is limited - a good faith compliance effort is not enough, and employers remain liable for the fiduciary duties of providing a choice of prudent investment options and monitoring their performance over time. Given this circumstance, I can see why many companies have questioned whether the costs incurred to comply with the new rules are worth the added protection gained.

This issue may be particularly acute for the smaller businesses that lack the resources to mount full-scale compliance efforts. Yet these are the very companies that are more likely to use defined-contribution plans as their primary pension plan, rather than as a supplemental plan like the larger businesses. Balancing the costs involved and the protection obtained, the net effect may be that many companies will be dissuaded from offering assistance to the primary employees that 404(c) is seeking to help.

I also agree that some of the technical aspects of the regulations, such as the General Volatility Rule, may lead to contrary results. If providing the "appropriate" ability to transfer among core options evolves into a practice where employees can transfer among investment alternatives on a daily basis, I wonder if plan participants may forget that the idea behind retirement planning is to be a long-term investor, not a short-term trader who tries to beat the market daily.

Finally, I question whether under 404(c) employees will receive enough information to not only make informed investment decisions initially, but also to effectively monitor the portfolios they have built. The new regulations are an improvement, but still lack any requirement to place certain important investment information directly in the hands of plan participants. Unless the investment alternative is registered under the '33 Act, employees are left to their own devices to request information that they may not even know exists.

EFFORTS BY THE SEC

That is why I support efforts by the SEC to introduce legislation that would require banks and insurance companies to register with the Commission interests in investment vehicles they offer in connection with defined-contribution plans. These requirements would also entail delivery of current prospectuses and shareholder reports to plan participants who select these investment alternatives, and require mutual funds to deliver shareholder reports directly to plan participants.

This approach is designed simply to treat plan participants just like any other investor who makes investments to plan for retirement. Employees need and deserve access to more and better information when they are facing perhaps the single most important financial decision of their lives.

I agree, however, that when putting these requirements in place, the SEC must be mindful of the costs involved, and exactly how much bang each buck can be expected to bring. After all, defined-contribution plans gained some degree of popularity because many companies felt overburdened by the costs and regulations imposed in connection with defined-benefit plans. We will have done a great disservice to all employees if the advantages provided by defined-contribution plans are lost because, once again, government regulation makes their use seem like more trouble than they are worth.

THE SHORT FORM APPROACH

I believe that the SEC should not push for any new registration or disclosure requirements unless they can be satisfied for this segment of the market by using standardized, short-form, summary prospectuses and reports. In this way, we can insure that employees receive the most important information in a user-friendly format designed for easy comparability.

For example, the SEC could provide that the delivery requirements are met by providing the same or similar information mandated by a one-page advertising prospectus, but in a uniform format. With some plans now offering multiple numbers of investment alternatives, this refinement could greatly reduce compliance costs and vastly improve the quality of the disclosure.

For those participants wishing to see more detailed disclosures, full prospectuses and periodic reports would always just be a phone call away.

Of course, unless we also tame the logistical problems of physically delivering prospectuses and annual reports, these efforts would be for naught. In fact, the 404(c) requirement for limited prospectus delivery is already being questioned, for same reasons that lead me to favor using what I call the short form approach.

First, insuring that all employees have up-to-date, long-form prospectus either immediately before or immediately after they decide to invest is a daunting problem for plans of any size. Imagine the costs of sending long-form prospectuses to a plan with 50,000 participants who can chose from over 14 different options.

Second, trying to find the motivation to solve this problem is difficult when almost everyone involved in this process knows that most employees are not going to read a bulky prospectus anyway. By distilling the prospectus and reports to one page, we can solve many of these logistical problems, and employees may even use the information they receive. This framework would also make it much easier to provide performance information about investment alternatives on an on-going basis.

Another logistical problem must also be addressed. Nobody wins and everyone losses if employees ultimately have to foot the bill for employers to comply with two sets of regulations: one from the Labor department and another from the SEC. I am confident, however, that if the we go ahead with these proposals, that there is more than enough common ground for the SEC and Labor to work together to eliminate any potential burdens imposed.

In fact, as it becomes more and more apparent that plan participants represent an important new class of investors whose interests need protection, I believe there will be more securities issues arising in connection with company plans.

For example, I have asked the SEC's Division of Market Regulation to look into whether plan participants are paying higher prices for company stock because, in the exercise of caution, a company may be unnecessarily complying with rule 10b-18. Compliance with this rule may be signaling the market in advance of company purchases on behalf on their pension plans, which may be resulting in higher prices, especially for thinly-traded stocks. Once again, employees lose if litigation fears result in them paying more for company stock just because they purchase it through their retirement plan.

MOTIVATING EMPLOYEES

I firmly believe that by providing more usable information to employees, we can vastly improve their opportunity to make informed investment decisions. At the same time, however, I also realize that until plan participants can be educated to understand the precise nature of the endeavor they are expected to undertake, all the investment information in the world will not help them achieve their ultimate goal of a fully-funded retirement. We have moved employees from the passenger's seat to the pilot's seat, but we have not given them a manual on how to fly the plane.

Many employers have started offering classes and newsletters to educate employees about retirement planning and the fundamentals of investing. Workbooks and software also are now available to help employees work through "what-if" scenarios with alternative savings and investment strategies to consider how best to reach their funding goal.

These efforts have been invaluable in helping motivated employees plan and fund their retirement, and expanding these efforts must be encouraged. But I fear these efforts, as well as those by the government, will be of limited success unless the larger group of unmotivated employees can be made to understand the gravity of the problem they face.

The simple fact is that many employees, from hourly workers to salaried professionals, are unaware of what must be done now to live well later in retirement.

So how do we alert employees to the full extent of the problem that they are responsible for solving?

One possible solution is for employers to provide this type of information directly to defined-contribution plan participants with their account statements. A line item could be added comparing an employee's current account balance to a computer generated balance that estimates what should have been saved to date to generate income equal to 60% or 70% of their expected salary when they retire at age 65.

This periodic reminder could detail the exact dimensions of the gap in employees' savings, providing an up-to-date snap-shot of where they stand in their efforts to finance retirement. Employees hopefully would be motivated to seek help, and the account statement could conveniently list those resources available to them.

CONCLUSION

For defined-contribution plans to have a real chance of successfully providing millions of Americans the financial security in retirement that they have come to expect, all eligible employees must be made aware of the consequences that their decisions today are having on their lives for tomorrow. When deciding whether to participate, or how much to save, or how conservatively to invest, employees need to know that their decisions will directly affect how well they live when they retire. Ultimately, the government safety net may prevent wholesale poverty, but we all face a reduced standard of living if the government balance sheet is forced to handle ever increasing loads.

It is now up to the marketplace to make the efforts to show that defined-contribution plans are viable, and that we should not give up the benefits that they provide without first giving them a chance to work. Defined-contribution plans, properly utilized, provide employees the freedom, flexibility, and control to insure that their retirement needs are met whether they have one, two or six different employers in a lifetime, and even if one of these employers fails.

But access to these advantages will be nothing more than wishful thinking unless employees are given the education, information and motivation that they need. Instead of further adding to the entitlement crisis currently plaguing our nation, let's help employees help themselves control their own destiny and financial independence in retirement. Only genuine action now can stop the inevitable effort to have guaranteed pensions follow health care on the list of employee benefits turned into employee rights.