



REMARKS OF  
J. CARTER BEESE, JR., COMMISSIONER\*  
U.S. SECURITIES AND EXCHANGE COMMISSION

TEACH ME NOW, OR PAY ME LATER

BEFORE THE  
CALLAN INVESTMENTS INSTITUTE  
THIRTEENTH ANNUAL NATIONAL CONFERENCE

SAN FRANCISCO, CALIFORNIA  
FEBRUARY 3, 1993

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

*U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549*

## TEACH ME NOW, OR PAY ME LATER

### INTRODUCTION

During the presidential campaign, James Carville, President Clinton's chief strategist, kept a sign on the wall behind his desk. That now-famous sign read "IT'S THE ECONOMY, STUPID!" This slogan was designed, of course, to keep the campaign focused on the number one concern of Americans -- the economy. Indeed, the economy was on the top of voters' minds. But I believe that the election was influenced not so much by the economic indicators of September, October, and November, or even the cyclical ups and downs of the past four years. I believe that the final vote reflects a much deeper concern -- a fear over long-term economic prospects.

Many Americans are getting a sinking feeling -- the feeling that they will not live as well as their parents. Many fear that their standard of living is declining, and maybe declining permanently. Certainly the focus on ever higher health care costs and the now omnipresent deficit are part of these longer term fears. The traditional path to the American Dream -- working hard, earning, and saving -- a path taken by our parents and their parents before them, no longer seems enough. The Dream -- to give our children a better life, and in our golden years, live on the fruits of our hard work -- seems at times, indeed, just a dream.

This theme -- that the American Dream is crumbling -- has been echoed by hundreds of headlines in newspapers across the country. The huge and structural federal deficit continues to cast doubts on the federal government's ability to keep its many future promises -- be they direct promises or contingent "safety-net" promises. During the past few days, Washington has been buzzing over proposals to reduce the deficit. One suggested measure is limiting cost-of-living increases for Social Security recipients and retired government workers. There is talk of new taxes on pension and health care benefits. There is also talk of raising the retirement age for social security from 65 to 67 this year. 1/ This, of course, would mean that anyone retiring before age 67 would receive reduced monthly income.

Speaking on a talk show this past weekend, Senator Daniel Patrick Moynihan reminded us that future retirees will face a new world even without any further Congressional action to change the current social security scheme. According to Senator Moynihan, starting this year, social security recipients will receive less

---

1/ This proposal would accelerate the change passed by Congress in 1983 that raised the retirement age from 65 to 67 beginning early next century.

in benefits than they pay in contributions. This compares with ten years ago when social security recipients could expect to receive roughly two and a half times what they paid in. As Senator Moynihan noted, sooner or later, people are going to start catching on to this.

But if social security won't pay our bills during our golden years, we still have our pension funds -- don't we? Well, maybe. Congressional hearings began yesterday concerning the widely publicized problems at the Pension Benefit Guarantee Corporation ("PBGC"), the government agency that's responsible for insuring the retirement benefits of 40 million Americans. Several weeks ago the PBGC announced that it may face serious financial problems in the future. Representative J.J. Pickle, who will chair one of the hearings, has warned: "Unless Congress and the Administration act now, these problems will worsen, and this country's pension-guarantee program will become the next savings and loan bailout." 2/

The reason for this alarmist rhetoric? In 1991, the PBGC's projected shortfall to cover currently underfunded pension plans increased to more than \$50 billion, a jump of over 70 percent in the past two years. 3/

So who will finance the baby boomers' retirement? We can't, and shouldn't, rely solely on the government. After all, social security was created as a safety net -- not as the sole source of people's retirement income. Perhaps we can count on the private sector. Unfortunately, yesterday's paternalistic corporate employer is running headlong into the reality of today's economy. Two days ago GM announced it was taking a \$20.8 billion accounting charge to meet new accounting standards requiring corporations to take current charges for the future financial promises that they make to their employees. And companies such as Chrysler, Westinghouse, Bethlehem Steel, and Uniroyal-Goodrich are the ones reported by the PBGC to have the largest underfunded pension plans.

What's more, dozens of companies have trimmed or terminated the health benefits of thousands of their retired employees. Last Sunday, the business section of the New York Times had a front-page chart entitled "Goodbye to Benefits." The chart illustrated the dwindling number of medium-to-large size companies that still offer pension and health benefits to

---

2/ David A. Vise, In Pursuit of Pension Solutions, The Washington Post, February 2, 1993, at D1.

3/ Jeff Gerth, U.S. Pension Agency in Deep Trouble, Economists Warn, N.Y. Times, December 20, 1992, at A1.

employees. <sup>4/</sup> This trend is bound to continue with the implementation of FAS 106, the new accounting rule that forced GM and many more companies to decrease their earnings by an amount equal to the estimated future cost of providing health benefits to their retirees.

Most baby boomers have grown-up in a world where they assumed that their promised benefits and adequate retirement funds would be waiting for them at the end of their working years. Now, many of them are beginning to realize that the scene of an idyllic afternoon spent fishing, confident knowing that an ample retirement check is in the mail, might be a thing of the past.

And unfortunately, the sad truth is, that for many baby boomers, it is.

That's because for a growing number of American workers, their golden years are no longer going to be characterized by a gold watch and a monthly pension check drawn from a corporate pension plan. Instead of enrolling employees automatically in defined-benefit plans, many corporations are switching to voluntary, defined-contribution plans -- such as profit sharing or 401(k) plans -- which can be cheaper to operate and help employees fund their own retirement by building and managing their own investment portfolios.

Regrettably, many employees covered by these defined-contribution plans are not earning passing grades in planning for their retirement. They either begin participating too late, or even worse, not at all. And those that do participate too often tend to pick investments destined to fund their retirement needs inadequately. Their choice of investments is not terribly surprising. When you shift from defined-benefit to defined-contribution plans, you shift the responsibility for making investment decisions from seasoned professionals to individuals who often are ill-equipped to make these decisions. In fact, if we take a look at how the assets of defined-contribution plans are invested, you start to wonder if, for the next generation of Americans, the sequel to the movie "On Golden Pond," might well be called "On Shallow Pond."

But while the plot to this gloomy story is currently being written, we do have time to re-write the ending. The story of the next decade need not be written as a time when the reservoir of America's retirement savings were depleted by broken promises, wasted opportunities and poor investment decisions. Instead, if employers and plan sponsors take up the responsibility to provide

---

<sup>4/</sup> Louis Uchitelle, Stanching the Loss of Good Jobs, N.Y. Times, January 31, 1993, at F1.

to employees the information and education they need to plan their retirement suitably, the final installment of the American dream -- a leisurely and financially secure retirement -- will still be within the grasp of all working Americans.

#### DEFINED-CONTRIBUTION PLANS

For a growing number of American workers, the key to a financially secure retirement will be the successful management of their defined-contribution plan. According to statistics provided by the Employee Benefit Research Institute, as little as 10 years ago, there were only 12 million American workers participating in defined-contribution plans. Today, there are in excess of 40 million employees using them. And, according to the Callan Investment Institute, 84 percent of all employers now offer an employee-directed 401(k) plan.

Defined-contribution plans do offer both employees and employers tremendous advantages. For employees, the portability of these plans fits the changing demographics of today's workforce, where the average employee is expected to hold four to six jobs during a career. Moreover, because the employee bears the entire investment risk of his retirement portfolio, any excessive returns generated go to his pocket, not the corporate treasury. Hostile takeover bids using overfunded corporate pension plans may have been common in the 1980's, but for employees, there is no such thing as an overfunded individual retirement plan.

The lure of defined-contribution plans for many corporations is that they remove the uncertainties and headaches associated with funding a long-term retirement plan. They also can be cheaper to operate if costs are passed on to employees. Finally, they allow executives to be more realistic in terms of the benefits they can afford to provide.

Still, for both employees and employers, all of these potential gains will prove illusory unless employees are able to utilize defined-contribution plans to their maximum advantage. Unfortunately, when facing what perhaps is the single most important financial decision of their lives, many employees are ill-equipped to take on the new responsibilities of these plans. 5/

Most employees already know how to save, but they need to be taught how to invest. Simply providing information about the

---

5/ See, Ellen E. Schultz, In New Pension Plans, Companies Are Putting the Onus on Workers, The Wall Street Journal, July 7, 1992, at A1.

company's retirement plan and the available investment alternatives is not enough. Let's face it, without guidance, the fundamentals of retirement planning escape most employees. Determining realistic retirement goals, selecting an investment portfolio designed to achieve those goals, and continuously assessing the portfolio's performance in a volatile investment environment is well beyond the expertise of most American workers.

Indeed, numerous studies show that American workers do not always understand the challenges that retirement planning presents. A recent survey by Hewitt Associates revealed that on average, 28 percent of all eligible employees do not participate in their company plans. 6/ Some simply do not realize that the burden of retirement planning now falls on their shoulders. Others recognize the need to take some action, but find their company plans confusing and the investment options perplexing. Finally, even for those that realize the advantages of a defined-contribution plan, they simply do not have the skills or the training to structure a retirement portfolio that will eventually meet their needs.

This last point is best illustrated by comparing asset allocation strategies used by defined-benefit plans to those employed by individuals in defined-contribution plans. According to a study by Greenwich Associates, professionals who manage corporate pension funds have upwards of 55 percent of their assets in equities and just over 1 percent in Guaranteed Investment Contracts, or GICs. Employees, on the other hand, invest almost 37 percent of their funds in GICS, and less than 18% of their assets consist of equities other than their own company's stock. Of course, equities aren't always going to perform like they did in the 1980's. But just imagine how much money was left on the table during the past ten years by participants in defined-contribution plans.

For some employees, a portfolio dominated by income-producing securities may indeed be perfect to fund their expected future needs. But I fear that most employees choose among investment alternatives without any in-depth retirement planning: they simply pick what looks the safest, with little thought to the ultimate goals that they are trying to achieve.

---

6/ Not surprisingly, participation rates increase when an employer matches some portion of its employees' contributions. According to a study recently completed by the Wyatt Co., when an employer matched 25% of an employee's contribution, employee participation rates increased from 51% to 66%; and when a 100% match was used, participation increased to 74%.

Whether through a lack of education, insufficient communication, inadequate services, or just plain inertia, employees are losing the opportunity to provide for their own future standard of living. If this opportunity is lost, we the people -- or more accurately, we the taxpayers, whether individuals or corporations -- will once again be stuck with the bill. And that assumes that the government balance sheet can still handle the load. Perhaps, in future presidential campaigns, the phrase: "Ask not what your Country can do for you..." will take on a whole new meaning. Indeed, I think we're getting a dose of that reality right now.

How did we get to this point? How is it that we have the best investment expertise in the world, but have managed to create a tremendous gap between that expertise and the individuals that so desperately need it? Once again the litigious nature of our society is partly to blame. Many employers and plan sponsors see the need to improve communications and provide employees with the information and education that they need. Many, however, appear to be hesitant to voluntarily take on these efforts for fear of incurring legal liability for poor investment decisions made by their employees. In fact, many companies administer their defined-contribution plans through their human resources departments, rather than through the more specialized department responsible for their defined-benefit plans.

Ironically, for employers and plan sponsors, the inaction caused by this fear of litigation may eventually mean more litigation. If plan fiduciaries employed the same asset allocation strategies as those currently used by the majority of defined-contribution plan participants, the plan fiduciaries probably would be sued for professional negligence. But if employees continue to make these same mistakes and wind up with inadequate retirement assets, it will not be too long before class-action lawyers start laying the blame at the foot of every person who possibly could have taken steps to save these employees from themselves.

THE GOVERNMENT RESPONSE:  
MORE DISCLOSURE AND ATTEMPTS TO LIMIT LIABILITY

The Department of Labor and the SEC, two of the federal regulators with an interest in this area, are taking steps to address some of the concerns I've just outlined. By its authority under ERISA, the Department of Labor, of course, oversees the regulations governing all retirement plans, including defined-contribution plans. At the SEC, we have approached this problem from the viewpoint of the plan participant, who, like any other individual purchasing investments, is entitled to the full protection that federal securities laws are designed to afford.

Since its creation, the SEC has been committed to empowering Americans to handle their own investment decisions. But for the many employees participating in defined-contribution plans, this principle has little meaning, because they are simply not receiving enough information about their investment choices. That's because most plans typically offer a choice between investment vehicles offered by mutual funds, banks or insurance companies, and the investment vehicles offered by banks and insurance companies are generally exempt from most provisions of the federal securities laws. Still, certain banks and insurance companies voluntarily provide information about their investment vehicles directly to plan participants. By law, however, they are not required to do so. And while some mutual funds also provide prospectuses directly to plan participants, as regulated entities under the federal securities laws they are only required to provide prospectuses to plan sponsors.

The end result is that under current regulations, a plan participant receives plenty of information about the mechanics of his defined-contribution plan, but not nearly enough about the investment alternatives offered under the plan. And even more disturbing, there is no obligation for anyone to provide participants even the most rudimentary education concerning the need for early participation and effective portfolio asset allocation. Yet these are perhaps the two most critical elements of retirement planning.

#### THE APPROACH OF THE SEC'S DIVISION OF INVESTMENT MANAGEMENT

The SEC's Division of Investment Management ("the Division") recognized some of these deficiencies in its recently released study titled *Protecting Investors: A Half Century of Investment Company Regulation*. To address these concerns, the report recommended that the Commission propose legislation to amend the securities laws in several respects. The suggested amendments would require banks and insurance companies to register the interests in the investment vehicles they offer in connection with defined-contribution plans. The amendments also would require delivery of current prospectuses and shareholder reports to plan participants who select these investment alternatives. Additionally, the report recommended that the Commission amend the rules under the Investment Company Act of 1940 to require mutual funds to deliver shareholder reports directly to plan participants.

According to our Division of Investment Management, if adopted by the SEC and approved by Congress, these changes will go a long way towards helping plan participants make informed investment decisions.



## THE APPROACH OF THE DEPARTMENT OF LABOR

The Department of Labor has chosen a slightly different tack to address the concern that plan participants need enhanced disclosures when choosing among investment alternatives. Last October, after a five-year process, Labor adopted Regulation 404c-1, a new regulation under ERISA. This new rule is designed to encourage plan sponsors to provide more information to participants by directly addressing the liability concerns of employers. Compliance is not mandatory, but if the requirements of the rule are met, defined-contribution plan sponsors will supposedly enjoy relative immunity from lawsuits over fiduciary responsibility if employee investments don't live up to expectations.

The rules mandate that plan sponsors must provide a minimum of three investment alternatives, and furnish a general description of each alternative. For those alternatives registered under the federal securities laws, a prospectus must be provided to the participant immediately before or after the initial investment in that alternative. Additionally, upon request, plan sponsors must furnish to plan participants updated prospectuses, shareholder reports and any other materials provided to the plan sponsor about an investment alternative.

While the Division's recommendations go farther than Labor's new disclosure requirements, they actually dovetail quite well in certain respects. The Division's recommendations would require that interests in the investment vehicles offered by banks and insurance companies be registered under the securities laws, which, under Labor's new rules, would then obligate employers to provide plan participants more information about these particular investment vehicles. The Division's recommendations also would make available to plan fiduciaries updated prospectuses and shareholder reports for distribution to employees.

Labor's new regulations and the Division's recommendations are both steps in the right direction. However, some practical problems do remain. First, the Division's recommendations will ultimately require legislative action by Congress, and how soon that could be accomplished remains to be seen. I do hope that in this current session, Congress will take a hard look not just at the problems at the PBGC, but also at the issues raised by America's growing reliance on defined-contribution plans to fund the next generation's retirement.

Second, compliance with Labor's new regulations is not mandatory, and according to a survey by Hewitt Associates, as of last year, fewer than 35% of all plans could meet these minimum requirements as proposed. Despite the new regulations, some employers are bound to remain unsure about their potential

liability exposure. In a somewhat analogous situation, many employers waited several years after ERISA was first enacted before they were comfortable enough to take strong positions on the investment policy of their defined-benefit plans. 7/

Third, although a large number of defined-contribution plans hope to comply or are considering complying with the new 404c-1 regulations, I am not sure that employers relying on this regulation will be able to avoid future lawsuits altogether. Many have complained that the guidelines are too general to guarantee adequate protection. Still, employers and plan sponsors that have been hesitant to provide additional information to employees will now be able to act with a greater degree of confidence.

But 20 or 30 years from now, if millions of retirees are having trouble making ends meet, you can bet that plaintiffs' lawyers across the country will be looking for someone to sue. The new regulations might ultimately provide an adequate defense, but this may be an instance where tomorrow's lawsuits can best be avoided by taking steps today to help employees build sufficient retirement assets. That would be a better ending, wouldn't it?

Now, all this leads me to my main concern. Even assuming that the Division's recommendations are implemented and that the majority of all plans voluntarily comply with the new 404(c) regulations, the improved disclosure that results will not address the most pressing problem facing employees: most lack the education and experience, and in some instances, the investment alternatives, to plan their retirement effectively. You can not empower without enlightenment.

#### THE MARKET RESPONDS TO THE CHALLENGE

Any government solution to the problems facing participants in defined-contribution plans can only go so far. All the economic headlines coming out of Washington today clearly illustrate that there is no government pot of gold at the end of the rainbow. The real solution lies in the marketplace and depends on American competence and know-how. More and more employees have been empowered to plan their retirement, and it is up to the market players in this area -- the employers, the plan sponsors and those that provide the investment alternatives -- to step up to the plate and provide the education and investment vehicles that are needed.

---

7/ Strengthening Relationships, Improving Performance, Greenwich Associates (1992), at vii.

I'm encouraged to see that many employers are already beginning to respond to this challenge. For example, Alcoa recently re-designed its 401(k) plan to make it more responsive and give plan participants greater control over their accounts. The system includes touch-screen computer consoles that allow employees to work through "what if" scenarios to help them make better and more informed investment decisions. 8/ At the accounting firm of Deloitte & Touche, employees now receive monthly newsletters that discuss, among other things, the advantages of participating in the firm's 401(k) plan. These newsletters also explain how to read mutual fund price listings in the newspaper so that plan participants can follow their investments.

IBM hired an outside consultant to write and distribute a quarterly newsletter tailored specifically to IBM's plan. Within days of the appearance of the newsletter, calls to the plan's "800" number jumped almost 30 percent, with most of them coming from employees seeking to re-allocate their assets to increase the potential for greater long-term returns. 9/

Today's employees can no longer be satisfied by simply saving for their retirement -- they must also be investing for it. Plan participants must be taught the fundamentals of investing. They must be taught that retirement planning is a long-term endeavor. They must be taught how to avoid the classic pitfalls of inexperienced investors, such as chasing last quarter's hot sector fund rather than dollar-cost averaging into an asset class. Providing additional information is not all that is needed. Employees need to be taught to use what they are given.

A growing number of companies, both large and small, are offering quarterly investment seminars and videotapes to explain, among other things, goal-setting techniques, asset allocation principles, the theories of risk and reward, and how to read a prospectus. In addition to these services, some companies, such as Bechtel and Motorola, are making asset allocation decisions easy for some categories of employees by offering plan participants the option of a single ready-mixed diversified fund. 10/

---

8/ Julie Rohrer, Alcoa's Grand Design, Institutional Investor, November 1992, at 139.

9/ Julie Rohrer, Plan Participants as Consumers, Institutional Investor, January 1992, at 223.

10/ Hillary Durgin, Towers Perrin Joins Market Share Battle, Pensions & Investment, December 7, 1992, at 26.

Other companies are creating plans that meet the needs of the spectrum of ages present in their workforce. Winn-Dixie's new plan, developed in conjunction with T. Rowe Price, customizes investment alternatives depending on the demographics of the employee population. 11/ Perhaps the wave of the future is one service being offered where financial advisers armed with laptop computers sign up participants one at a time, using special software designed to create the best asset allocation for that individual.

Employers are not alone in their efforts. As I mentioned earlier, many banks and insurance companies have attempted to address the information gap by voluntarily providing information statements equivalent to prospectuses, or issuing quarterly statements that contain much of the same type of data. The mutual fund industry also has been trying to ensure that plan participants get the information they need. For example, for the past few years Vanguard and Putnam have voluntarily provided short form versions of their retail prospectuses directly to plan participants. 12/

Other mutual funds have gone a step further than simply providing more information. Fidelity Investments and T. Rowe Price both offer programs that educate employees about investment strategies so they can choose investment alternatives that best suit their individual needs. Because of liability concerns, these firms do not offer investment advice; instead they present models to help plan participants understand and appreciate the need for diversity in their retirement portfolios. 13/

Brokerage firms are also getting involved. Dean Witter has plans to introduce a bundled package of defined-contribution plan services, which will include participant education and investment management services. The Department of Labor recently granted to Shearson Lehman Brothers an exemption from ERISA's prohibited transactions provisions so that the firm can provide a retirement advisory service. As part of the service, defined-contribution plan participants receive advice on how to allocate their assets based on a variety of factors, and then are given a choice of mutual funds in which to invest. Shearson avoids any potential liability concerns caused by conflicts of interest by only

---

11/ Mary Rowland, A Model Flexible 401(k) Plan, N.Y. Times, January 3, 1993, at F14.

12/ Julie Rohrer, The SEC Means Well, But ..., Institutional Investor, August 1992, at 117.

13/ Hillary Durgin, Fidelity Takes Participation Education To Lirit, Pensions & Investment, December 7, 1992, at 24.

offering mutual funds managed by outside managers under contract with Shearson.

Of course, employers and plan sponsors should carefully select persons to provide investment advice to their employees. Investment advisers that provide asset allocation advice to plan participants generally must be registered under the Investment Advisers Act of 1940 and comply with the Act's disclosure and antifraud provisions. The disclosure provisions require that an investment adviser provide each client with a brochure describing the adviser's background, experience, fees and potential conflicts of interest. This brochure should be carefully reviewed before entering into an advisory contract to ensure that the adviser is qualified to advise their employees and to protect their plan from paying excessive fees, which cut into the employees' investment return.

The response of the marketplace so far to the problems facing participants in defined-contribution plans is to be applauded. But more needs to be done -- and quickly. The stakes are very high. If you simply take all that we know about retirement planning and extrapolate future retiree income based on the way defined-contribution plans are currently invested .... Would anyone like to bet on a future topic for Congressional hearings?

The amount of assets in self-directed pension plans currently exceeds \$1 trillion and can be expected to increase significantly in the future. <sup>14/</sup> These assets provide a huge pool of capital to finance future growth. Poor investment decisions by employees, however, will influence the size and depth of the pool of capital available. To protect the financial well-being of retirees and also encourage a plentiful supply of capital, it is critical that employees, employers and plan fiduciaries continue to educate themselves and others regarding the changing responsibilities that these plans engender.

Now there is much talk of using investments from large pension funds -- both public and private -- as a means of creating jobs, promoting growth and even curing the ills currently facing our society. Just last week, there were calls for pension funds to help pay to rebuild the nation's roads, bridges, and highways. <sup>15/</sup> Whether called "economically

---

<sup>14/</sup> Ellen E. Schultz, In New Pension Plans, Companies Are Putting the Onus on Workers, The Wall Street Journal, July 7, 1992, at A1.

<sup>15/</sup> David A. Vise, Panel Endorses Clinton's Vision Of Tapping Nation's Pension Funds, The Washington Post, January 29, 1993, at F1.

targeted" investing or "social" investing, the goal is the same: to tap pension fund assets to underwrite capital-intensive projects traditionally financed by the government. As the country's funding needs increase, so, too, will the demands on the available supply of capital. Perhaps some of you read last month about Los Angeles county's plan to address a projected shortfall in its **operating budget** by asking county employees to invest a portion of their retirement savings in an investment vehicle sponsored by the county.

Let's not forget that for any person managing retirement assets, be it a professional or a county employee, the primary goal is to maximize risk-adjusted returns for the portfolio. Attempting to maximize returns, while also achieving social goals, is in effect trying to serve two masters at once. It is complex and risky, if not impossible; and the end result is likely to be that neither master is particularly well-served. If employees are going to be asked to possibly sacrifice their own future financial security to help their employer or society as a whole, they must be fully educated to appreciate the true risks that this type of request entails.

I should add that the same goes for those plans that include company stock as an investment option. The option to invest in your employer's stock does have a place in a plan that has well-diversified investment alternatives. But employees choosing this alternative must clearly understand that they are depending on the same source for their current income and their retirement assets. As the workers at Carter Hawley Hale found out the hard way, if everything goes wrong for your employer, you could lose both your job and your retirement savings in one fell swoop. 16/

## CONCLUSION

The baby-boom population is moving through its peak earning years towards retirement, and time is on our side -- but not for very long. A serious possibility exists that the next generation of retirees will face an order of magnitude downgrade in their standard of living. To adequately provide for our futures takes more than simple earnest effort -- more than "saving our pennies." The ability to choose wise investments takes knowledge: a basic grasp of the markets; an understanding of the balance between risk and reward; the knowledge that time is money, and that money saved at age 25 is more valuable than money saved at age 35, and as much as ten times more valuable than money saved at age 45.

---

16/ Francine Schwadel, Carter Hawley 401(k)'s Yield Falls Short, The Wall Street Journal, June 18, 1992, at C1.

Employees who bear the risk of making investment decisions about their retirement plan assets need to be better educated about all aspects of retirement planning to enable them to make effective investment decisions. They need to know more about the available options offered by their pension plans so that they can decide how best to allocate and diversify the investment of their retirement assets. They also need improved ongoing disclosure to keep this information up-to-date and to inform them as to the performance of their investments to enable them to decide whether and how to reallocate their investments.

America has the largest, most efficient, deepest, and fairest financial markets in the world. Our ability to raise enormous capital is second to none, and our ability to generate long-term investment returns is second to none. In the words of that great Baltimore philosopher, former Orioles' manager Earl Weaver, this country has "deep-depth" in this area. But we're not going to win the game if we continue to send our players onto the field without a coach or without any training.

When employees participated in defined-benefit plans, they had access to a large body of investment expertise. Now, a gap exists between this know-how and those employees participating in defined-contribution plans. If we can successfully close this gap, the standard of living of future retirees will be improved and future demands on America's balance sheet will be greatly reduced.

America looks to you to impart your expertise to your fellow citizens. We all know the Chinese proverb, "Give a man a fish and he eats for a day, but teach him how to fish and he eats for a lifetime." By educating Americans how to invest wisely now, you will be helping them to achieve a lifetime of security and prosperity.

Thank you.