Opening Statement of Senator Herb Kohl
Special Committee on Aging Hearing – March 16, 2011
Securities Lending in Retirement Plans: Why the Banks Win, Even When You Lose

Good Afternoon. I would like to thank our witnesses and welcome everyone attending today's hearing.

In recent years, most workers have seen their savings take a hit, leaving many to wonder if they will ever be able to retire. The gap between what Americans will need in retirement and what they will actually have saved is estimated to be a staggering 6.6 trillion dollars. Now more than ever, we need to strengthen and protect our pension and 401(k) systems.

That is why we are examining securities lending within retirement plans. In simple terms, securities lending is when a plan lends some of its stocks and bonds to a third party in exchange for cash as collateral that is then reinvested. Many plans participate in securities lending to generate a little extra revenue. For many years it seemed that there were only benefits to these arrangements for all sides.

The economic downturn showed that securities lending is not a free lunch. It was upsetting to hear reports about some 401(k) participants actually losing money within their 401(k) accounts due to these practices. Some employers were restricted from accessing their workers retirement savings in investments that lent securities. This is troubling because employers are required by law to be able to change the investment options offered in their 401(k) plans.

Securities lending is a complex financial transaction that goes on every day, often without employers and employees even knowing it is going on within their plans. And if they are aware, many do not understand the added risk. And ultimately that risk lies with 401(k) participants because banks share the cash collateral profits but not the losses – so the banks always win.

Last November, this Committee began an investigation of the securities lending market which is being released today. We surveyed employers that sponsored the 30 largest 401(k) plans and found that all had at least one investment option that engaged in securities lending at some time in the previous five years. However, after the downturn, five of these employers stopped participating in securities lending. The Committee also surveyed the seven largest banks in the securities lending market. In 2010, these seven banks provided services to 570 different employer-sponsored plans with a total, of roughly $1.3 trillion in assets.

I hope today's hearing and our Committee report will shed some light on securities lending within retirement plans and the benefits and risks associated with it.

We will start our hearing with a review of the findings of a new GAO report showing that securities lending is not widely understood by employers or workers. We'll then hear experts on securities lending and the reason why employers are reconsidering their participation in securities lending within their 401(k) plan. Finally, we will hear from one of the major providers of securities lending services.

Thank you again to our witnesses for joining us this morning. I look forward to your testimony and a productive dialogue.

With that, I'll turn to my colleague Senator Corker for his opening remarks.